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MONETARY AND CREDIT INFORMATION REVIEW

Regulation

Structuring of Existing Long Term Project Loans

The Reserve Bank, on December 15, 2014, 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. Some of these norms are:

- Only term loans to projects, in which the aggregate exposure of all institutional lenders exceeds ₹ 500 crore, in the infrastructure sector and in the core industries sector will qualify for such flexible structuring and refinancing;
- Banks may fix a fresh loan amortisation schedule for the existing project loans once during the life time of the project, after the date of commencement of commercial operations (DCCO), based on the reassessment of the project cash flows, without this being treated as 'restructuring' subject to prescribed conditions;
- Banks may refinance the project term loan periodically (say five to seven years) after the project has commenced commercial operations;
- If the project term loan or refinancing debt facility becomes a non-performing asset (NPA) at any stage, further refinancing should stop and the bank which holds the loan when it becomes NPA would be required to recognise the loan as such and make necessary provisions as required under the extant regulations. Once the account comes out of NPA status, it will be eligible for refinancing in terms of these instructions;
- Banks may determine the pricing of the loans at each stage of the project term loan or refinancing debt facility, commensurate with the risk at each phase of the loan, and such pricing should not be below the Base Rate of the bank;
- Banks should secure their interest by way of proper documentation and security creation;
- Banks should recognise from a risk management perspective that there will be a probability that the loan will not be refinanced by other banks, and should take this into account when estimating liquidity needs as well as stress scenarios; and
- Banks should have a Board approved policy for such financing.

The Reserve Bank further clarified that banks may also provide longer loan amortisation as per the above framework of flexible structuring of project loans to existing project loans to infrastructure and core industries projects which are classified as 'non-performing assets'. However, such an exercise would be treated as 'restructuring' and the assets would continue to be treated as 'non-performing asset'. Such accounts may be upgraded only when all the outstanding loan/facilities in the account perform satisfactorily during the 'specified period' (as defined in the extant prudential guidelines on restructuring of accounts), that is, principle and interest on all facilities in the account are serviced as per terms of payment during that period. However, periodic refinance facility would be permitted only when the account is classified as 'standard' as prescribed.

Following banks' representations, the Reserve Bank took this decision of providing flexibility in structuring of existing long term loans in addition to the new loans (as notified in July 2014) with the option of periodic refinancing, as it would ensure long term viability of existing infrastructure/core industries sector projects by aligning the debt repayment obligations with cash flows generated during their economic life.

Detailed guidelines at http://www.rbi.org.in/scripts/NotificationUser.aspx?Id=9406&Mode=0

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Guidelines for Licensing of Payments Banks

The Reserve Bank of India, on November 27, 2014, released the "Guidelines for Licensing of Payments Banks'' on its website.

Key Features

i) Objectives: To further 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.

ii) Eligible Promoters:

a) Existing non-bank pre-paid payment instrument (PPI) issuers; and other entities, such as, individuals/professionals; non-banking finance companies (NBFCs), corporate business correspondents (BCs), mobile telephone companies, super-market chains, companies, real sector co-operatives; that are owned and controlled by residents; and public sector entities;

b) A promoter/promoter group in a joint venture with an existing scheduled commercial bank to set up a payments bank. However, scheduled commercial bank can take equity stake in a payments bank to the extent permitted under Section 19 (2) of the Banking Regulation Act, 1949;

c) Promoter/promoter groups should be 'fit and proper' with a sound track record of professional experience or running their businesses for at least a period of five years in order to be eligible to promote payments banks.

iii) Scope of Activities:

a) Acceptance of demand deposits. Payments bank will initially be restricted to holding a maximum balance of ₹ 100,000 per individual customer.

b) Issuance of ATM/debit cards. Payments banks, however, cannot issue credit cards.

c) Payments and remittance services through various channels.

d) Business Correspondents of another bank, subject to the Reserve Bank guidelines on BCs.

e) Distribution of non-risk sharing simple financial products like mutual fund units and insurance products.

iv) Deployment of Funds:

a) The payments bank cannot undertake lending activities.

b) Apart from amounts maintained as cash reserve ratio (CRR) with the Reserve Bank on its outside demand and time liabilities, it will be required to invest minimum 75 per cent of its "demand deposit balances" in statutory liquidity ratio (SLR) eligible Government securities/treasury bills with maturity upto one year and hold maximum 25 percent in current and time/fixed deposits with other scheduled commercial banks for operational purposes and liquidity management.

v) Capital Requirement:

The minimum paid-up equity capital for payments banks shall be ₹ 100 crore. The payments bank should have a leverage ratio of not less than 3 per cent, i.e., its outside liabilities should not exceed 33.33 times its net worth (paid-up capital and reserves).

Apart from issuing guidelines on promoter's contribution and foreign shareholding for payment banks, the Reserve Bank has also set certain conditions like:

a) The operations of the bank should be fully networked and technology driven from the beginning, conforming to generally accepted standards and norms.

b) The bank should have a high powered Customer Grievances Cell to handle customer complaints.

Detailed guidelines at http://www.rbi.org.in/scripts/bs_viewcontent.aspx?Id=2900

Guidelines for Licensing of Small Finance Banks

The Reserve Bank, on November 27, 2014, released the Guidelines for Licensing of Small Finance Banks in the Private Sector.

Key Features

- *Objectives:* The objectives of setting up of small finance banks will be to further financial inclusion by (a) provision of savings vehicles, and (b) supply of credit to small business units; small and marginal farmers; micro and small industries; and other unorganised sector entities, through high technology-low cost operations.
- *Eligible Promoters:* Resident individuals/professionals with 10 years of experience in banking and finance; and companies and societies owned and controlled by residents.
- Existing non-banking finance companies (NBFCs), micro finance institutions (MFIs), and local area banks (LABs) that are owned and controlled by residents can also opt for conversion into small finance banks.
- Promoter/promoter groups should be 'fit and proper' with a sound track record of professional experience or of running their businesses for at least a period of five years in order to be eligible to promote small finance banks.

iii) Scope of Activities:

a) The small finance bank shall primarily undertake basic banking activities of acceptance of deposits and lending to unserved and underserved sections including small business units, small and marginal farmers, micro and small industries and unorganised sector entities.

b) There will not be any restriction in the area of operations of small finance banks.

iv) Capital Requirement: The minimum paid-up equity capital for small finance banks shall be ₹ 100 crore.

Apart from issuing guidelines on promoter's contribution, foreign shareholding and prudential norms for small finance banks in the private sector, the Reserve Bank has also outlined the transition path as given below:

Transition Path: If the small finance bank aspires to transit into a universal bank, such transition will not be automatic, but would be subject to fulfilling minimum paid-up capital / net worth requirement as applicable to universal banks; its satisfactory track record of performance as a small finance bank and the outcome of the Reserve Bank's due diligence exercise.

Background

Earlier on July 17, 2014, the Reserve Bank formulated the draft guidelines for licensing of small banks in the private sector and released for public comments. Several comments and suggestions were received from interested parties and public on the draft guidelines. Considering the feedback received, the guidelines have been finalised.

Detailed Guidelines at http://www.rbi.org.in/scripts/bs_viewcontent.aspx?Id=2901

Payment Systems

Extension of RTGS Time Window

The Reserve Bank, on December 15, 2014, has advanced business hours under Real Time Gross Settlement (RTGS) system to 8:00 hours from the earlier 9.00 hours and has extended the closing time to 20.00 hours on week days. RTGS business window will be open from 8.00 hours to 15.30 hours on Saturdays. The change will be effective from December 29, 2014.

Guidelines on White Label ATMs

White label ATM (WLA) operators are now allowed to accept international credit/debit/prepaid cards issued under authorised card payment network schemes. WLAs are permitted the facility of dynamic currency conversion (DCC) for the use of international cards. WLA operators (WLAO) may now tie up with other commercial banks for cash supply at WLAs. While the cash would be owned by the WLAO, the responsibility of ensuring the quality and genuineness of cash loaded at such WLAs would be that of the cash supplier bank. The Reserve Bank has, on December 5, 2014, suitably informed scheduled commercial banks including regional rural banks / urban co-operative banks / state co-operative banks / district central co-operative banks, authorised ATM network operators / card payment network operators, and WLAs. It has further advised them to draw up a suitable Service Level Agreement (SLA) between the WLAO and the cash supplier bank for adequate supply of genuine and good quality notes. WLAOs who have been authorised and have commenced operations are required to intimate the Reserve Bank regarding commencement of the services.

Customer Education to popularise Mobile Banking

The Reserve Bank, on December 4, 2014, advised scheduled commercial banks including RRBs / urban co-operative banks / state co-operative banks / district central co-operative banks to undertake customer education and awareness programme in multiple languages through different channels of communication to popularise the process of mobile banking registration/activation and its usage.

As there is a need for greater degree of standardisation in procedures relating to on-boarding of customers for mobile banking (new customers, existing account holders whose mobile numbers are available with the bank but not registered for mobile banking, and existing account holders where mobile number is not available with the bank), the Reserve Bank has advised banks to adopt best practices for increasing the penetration (customer registration / on-boarding) of mobile banking as also the subsequent processes for authentication, including accessible options for generation of MPIN (a four-digit code used for mobile banking) by customers.

Final Guidelines on Bharat Bill Payment System

The Reserve Bank, on November 28, 2014 released the final Guidelines for implementation of Bharat Bill Payment System (BBPS). In terms of the guidelines, the National Payments Corporation of India (NPCI) will function as the authorised Bharat Bill Payment Central Unit (BBPCU) to set the standards for BBPS processes which need to be adhered to by all operating units (Bharat Bill Payment Operating Units - BBPOUs) under the system.

NPCI, as the BBPCU, will also undertake clearing and settlement activities related to the BBPS as outlined in the guidelines. The prospective participants of the BBPS system are advised to interact with the NPCI to work out the modalities. The prospective BBPOUs may submit applications for authorisation under Payment and Settlement Systems Act, 2007 to the Reserve Bank from the first quarter of 2015. The exact date from which/format in which such applications for authorisation/approval can be submitted, will be notified in due course.

Guidelines for TReDS

The Reserve Bank, on December 3, 2014, released the guidelines for setting up and operating the Trade Receivables Discounting System (TReDS). The guidelines outline the requirements and the basic tenets of operating the TReDS, including the system participants, their roles, transaction process flow, settlement process, besides indicating the eligibility criteria for entities desirous of setting up and operating such a system. The activities of the system will have to adhere to the prevailing legal and regulatory requirements.

Entities meeting the eligibility criteria as outlined in the Guidelines and desirous of setting up the TReDS, may apply in the prescribed format to the Chief General Manager, Department of Payment and Settlement Systems, Reserve Bank of India, Mumbai–400001. Applications will be accepted till the close of business on February 13, 2015.

The TReDS will be an authorised payment system and will also be subject to the oversight of the Reserve Bank under the Payment and Settlement Systems (PSS) Act, 2007.

Background

TReDs is a scheme for setting up and operating the institutional mechanism to facilitate the financing of trade receivables of micro, small and medium enterprises (MSMEs) from corporate and other buyers, including government departments and public sector undertakings (PSUs) through multiple financiers. MSME sector faces the problem of delayed payment mainly due to their dependency on their buyers within corporate and other sectors, including government departments/undertakings. They are often unable to take up the problem of delayed payments through appropriate institutional setup created for the purpose.

Detailed guidelines and application form at: http:// rbidocs.rbi.org.in/ rdocs/ Publications/ PDFs/ 86707.pdf

Case Writing Competition

The College of Agricultural Banking, Pune has announced a case writing competition for staff / officers of urban co-operative banks, co-operative bank training institutions and the Reserve Bank. The aim of the competition is to encourage and promote the development of high quality case study material relevant to the co-operative banking industry. Participants desirous of sending entries for the competition are required to write an original case study/ caselets, with an accompanying teaching note. The case-study / caselets should provide a detailed narrative account of real life example(s) in any of the following areas:

i) General operations of the bank, including risk management

ii) Human Resource Management

iii) Corporate Governance

iv) Strategy

Entries should be submitted by email to – mramakumari@rbi.org.in and trajagopal@rbi.org.in followed by two hardcopies along with the 'consent to publish' form and prescribed documents. Last date for submission is January 31, 2015.

Digital Life Certificates to Pensioners

The Reserve Bank, on December 9, 2014, advised all agency banks disbursing government pension, to take necessary action to implement and benefit from the "Jeevan Pramaan", a digital life certificate based on Aadhaar Biometric Authentication. The initiative is aimed at simplifying the process of submission of life certificate and facilitating accuracy and timeliness in disbursal of pensions. In order to facilitate implementation of Jeevan Pramaan, a web portal (jeevanpramaan.gov.in) was launched on November 10, 2014. Once fully implemented, this would enable the agency bank branches to obtain information about the digital life certificate of their pensioner customers by logging on to the website of Jeevan Pramaan and searching for the certificate or by downloading through their core banking systems (CBS). Pensioners would also be able to forward to their bank branches the relative link to their digital life certificate by email/sms.

The Reserve Bank has further advised commercial banks to work towards creating awareness about this facility among their pensioner customers through their branches, websites and other means. Banks may also suitably amend the frequently asked questions on pension payments posted on their websites, and provide a link to the website of Jeevan Pramaan.

Financial Markets

Decrease in HTM Limits

The Reserve Bank on December 15, 2014, advised all standalone primary dealers about the reduction in the quantum of securities that can be classified as Held to Maturity (HTM) - from 200 percent to 100 percent of the audited net owned fund (NOF) of the primary dealers (PD) as at the end of the preceding financial year. The change was brought about keeping in view the prevailing market conditions. The new limits will come into effect from December 31, 2014. However, PDs are allowed to effect one additional transfer from HTM for the current quarter ending December 31, 2014 to enable them to comply with the new norms.

Currency Management

Pre-2005 Currency Notes

Soliciting cooperation from the public in withdrawing Pre-2005 Currency Notes from circulation, the Reserve Bank, on December 23, 2014, urged public to deposit the old design notes (Mahatma Gandhi series) in their bank accounts or exchange them at a bank branch convenient to them by June 30, 2015. Earlier, Reserve Bank had set the last date for public to exchange these notes as January 1, 2015. The Reserve Bank has stated that the notes can be exchanged for their full value. It has also clarified that all such notes continue to remain legal tender. The Reserve Bank will continue to monitor and review the process so that the public is not inconvenienced in any manner.

WISH YOU A HAPPY AND PROSPEROUS 2015

Foreign Exchange Management

Import of Gold Under 20:80 Scheme

The Reserve Bank, on November 28, 2014, advised category-I authorised dealer banks that all instructions issued about the "Import of Gold (under 20: 80 Scheme)" by nominated banks / agencies / entities have been withdrawn as the Government of India has decided to withdraw the 20:80 scheme and restrictions placed on import of gold.

Parking of ECB Proceeds with AD Banks

With a view to providing greater flexibility to the External Commercial Borrowings (ECB) borrowers in structuring draw down of ECB proceeds and their utilisation for permitted end uses, the Reserve Bank, on November 21, 2014, permitted authorised dealer category - I banks to allow eligible ECB borrowers to park ECB proceeds (both under the automatic and approval routes) in term deposits with AD Category- I banks in India for a maximum period of six months pending utilisation for permitted end uses subject to certain conditions.

Routing of Funds Raised Abroad to India

The Reserve Bank, on November 25, 2014, clarified to authorised dealer banks (category – I) that: (i) Indian companies or their AD Category – I banks are not allowed to issue any direct or indirect guarantee or create any contingent liability or offer any security in any form for such borrowings by their overseas holding / associate / subsidiary / group companies except for the purposes explicitly permitted in the relevant Regulations; (ii) Further, funds raised abroad by overseas holding / associate / subsidiary / group companies of Indian companies with support of the Indian companies or their AD Category – I banks as mentioned at (i) above cannot be used in India unless it conforms to the general or specific permission granted under the relevant regulations.

RDA and MTSS Statements

The Reserve Bank, on December 16, 2014, clarified that subsequent to delegation of work relating to Rupee Drawing Arrangement (RDA) and Money Transfer Service Scheme (MTSS) to regional office, all authorised dealer category I banks and authorised persons, who are Indian agents under MTSS, are required to make all their correspondence with the Reserve Bank including submission of prescribed statements to the regional office of the Foreign Exchange Department, under whose jurisdiction their registered offices function.

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