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POLICY

Interest Subvention Scheme for Short-term Crop Loans

Pursuant to the Hon'ble Finance Minister's announcement in his Budget Speech for 2009-10, the government will provide interest subvention of 2 per cent per annum to public sector banks for short-term production credit up to Rs.3 lakh given to farmers. The amount of subvention will be calculated on the crop loan amount from the date of its disbursement/drawal up to the date of repayment or up to the date beyond which the outstanding loan becomes overdue i.e., March 31, 2010 for kharif and June 30, 2010 for rabi, respectively, 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 credit at ground level at 7 per cent per annum.

All public sector banks have been advised to immediately submit their estimates of short-term production credit of up to Rs.3 lakh to farmers, for kharif and rabi 2009-10 (separately) to the Reserve Bank, to enable it to provide the government with an estimate of the likely amount of subvention. The estimates should be realistic in nature.

The Reserve Bank has further advised that -

i) To enable the government to provide subvention, banks are required to submit their claims on a half-yearly basis as at September 30, 2009 and March 31, 2010, and for the quarter ending June 30, 2010 (for rabi), within one month from the respective dates.

ii) The claims for the half-year ending March 31, 2010 and quarter ending June 30, 2010 (for rabi) should be accompanied by a statutory auditor's certificate stating that the claims for subvention for the entire year ended March 31, 2010 and quarter ending June 30, 2010 (as the case may be) are true and correct. Final settlement of the claims will be done only on receipt of this certificate.

Further, the government will provide additional interest subvention of 1 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 of the loan. The additional subvention will be available to the prompt paying farmers on the short-term production credit availed by them during the year for a maximum amount of Rs.3 lakh. The amount of subvention will be calculated from the date of disbursement/drawal up to the date of repayment subject to a maximum period of up to one year per farmer account. This subvention will be available to public sector banks on the condition that the effective interest rate charged to the prompt paying farmers is 6 per cent per annum up to Rs. 3 lakh.

Accordingly, it is advised that -

i) To enable the government to provide subvention, banks should credit the additional 1 per cent subvention to the farmer's account only after the farmer promptly repays the short term production credit and seek reimbursement subsequently. Banks may submit their one-time consolidated claims for the entire year**,** incorporating the claims pertaining to both kharif and rabi disbursements for the year 2009-10, latest by July 31, 2010.

ii) The claims should be accompanied by a statutory auditor's certificate stating that the claims for subvention for the entire year ended March 31, 2010 are true and correct.

In case of RRBs and co-operatives, a separate circular will be issued by the National Bank for Agriculture and Rural Development (NABARD).

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Rupee Export Credit Interest Rates

The Reserve Bank has advised banks to include readymade garments along with textiles under the rupee export credit interest rates subvention scheme from December 1, 2008 to March 31, 2010. Banks should pass on the benefit to all eligible exporters and submit their revised claims in the format prescribed in the Reserve Bank's circular of December 16, 2008.

Computation of NPA Levels

In consultation with the Indian Banks' Association, the Reserve Bank has advised banks that:

(a) On an account turning into a non-performing asset (NPA), the interest already charged and not collected should be reversed by debiting the profit and loss account and further application of interest should be stopped. Banks may, however, continue to record such accrued interest in a memorandum account in their books, as is the practice currently followed by some banks.

(b) For the purpose of computing gross advances, interest recorded in the memorandum account should not be taken into account.

FEMA

Issue of Bank Guarantee on behalf of Service Importers

Banks are allowed to issue guarantees in favour of a non-resident service provider, on behalf of a resident customer who is a service importer, for an amount up to USD 100,000 or its equivalent. With a view to further liberalising the procedure (other than in respect of a public sector company or a department/ undertaking of the Government of India/state governments) for import of services, the limit for issue of guarantee by AD Category-I banks has been increased from USD 100,000 to USD 500,000. Accordingly, AD Category-I banks can now issue guarantee for an amount not exceeding USD 500,000 or its equivalent, in favour of a non-resident service provider, on behalf of a resident customer who is a service importer, provided:

- the AD Category-I bank is satisfied about the bonafides of the transaction;
- the AD Category-I bank ensures submission of documentary evidence for import of services in the normal course; and
- the guarantee is to secure a direct contractual liability arising out of a contract between a resident and a non-resident.

In the case of a public sector company or a department/ undertaking of the Government of India/state governments, for issuing guarantee for an amount exceeding USD 100,000 or its equivalent, approval from the Ministry of Finance, Government of India is required.

UCBs

Accounts of Proprietary Concerns - KYC Procedure

The Reserve Bank has advised primary (urban) co-operative banks (UCBs) that before opening an account in the name of a proprietary concern, they should call for and verify the documents indicated below:

(i) Identity/address proof of the proprietor, such as, passport, PAN card, voter ID card, driving licence, ration card with photo, etc. (any one of these documents may be obtained).

(ii) Proof of name, address and activity of the concern, like registration certificate (in the case of a registered concern), certificate/licence issued by the municipal authorities under the Shop & Establishment Act, sales and income tax returns, CST/VAT certificate, licence issued by the registering authority like, Certificate of Practice issued by the Institute of Chartered Accountants of India, Institute of Cost Accountants of India, Institute of Company Secretaries of India, Indian Medical Council, Food and Drug Control Authorities, etc. (any two of these documents may be obtained). These documents should be in the name of the proprietary concern.

These documents should be verified with the originals and certified copies should be retained by the bank. These guidelines are applicable to all new customers. In respect of existing customer accounts, the procedure of obtaining and verifying the documents should be completed before December 31, 2009.

UCBs are further advised that other precautions prescribed, viz., exercising caution while collecting high value cheques through newly opened accounts followed by large cash withdrawals, monitoring of transactions, risk management, reporting procedure to FIU-IND, etc., would continue as per the extant procedure.

In the recent past, a number of frauds had been reported by UCBs in the accounts of proprietary concerns. The modus operandi followed was to open current accounts of certain proprietary concerns in names which were similar to those of other established firms/companies. Cheques issued in the name of the established firms/companies were pilfered and collected through the accounts of the proprietary concerns having similar names. It was observed that in such cases, at the time of opening the accounts, the concerned banks had verified the identity of the individual proprietor/s but not that of the proprietary concern.

Multi Level Marketing Firm Accounts

The Reserve Bank has advised UCBs to exercise caution while opening accounts of marketing/trading agencies and strictly comply with the know your customer (KYC) and anti-money laundering (AML) guidelines contained in the Reserve Bank's circulars of July 2, 2008 and December 15, 2004.

In cases where accounts have already been opened in the names of marketing agencies, retail traders, investment firms, UCBs should undertake quick reviews. Wherever a large number of cheque books has been issued to such firms, the decision may be reviewed on the basis of :

- Whether the cheque books have been issued to customers pursuant to their express request and after following the internal processes laid down in the matter.
- Whether the number of cheque books is consistent with/ matching the profile of the customers as also their nature of business operations.

Even where the volume of transactions/profile of the customers apparently justify the number of cheque books issued, special ongoing monitoring of the operations in the accounts of firms should be made especially if, large volumes of small cash deposits are being made in those accounts and withdrawals are being made from the accounts through cheques written for small amounts, either across the counters or through clearing. In specific cases, banks should, call from such account holders, data on the number and aggregate amount of post dated cheques issued. This data/information should be analysed in select cases to rule out the possibility of the firms being engaged in deposit taking activities. Certain indicative parameters for selecting accounts for further scrutiny and action are the bunching of dates of post dated cheques, uniformity in the amounts of cheques, etc. The data should be analysed together with data on cash deposits of small amounts on previous distant dates resembling the deposit contracting/mobilisation dates in terms of similar bunching and uniformity of amounts.

Unusual operations noticed during the review should be immediately reported to the Reserve Bank and other appropriate authorities, such as, the Financial Intelligence Unit (FIU-IND), Department of Revenue, Ministry of Finance, New Delhi.

It has come to the notice of the Reserve Bank that certain firms posing as multi-level marketing (MLM) agencies for consumer goods and services have been actually mobilising large amounts of deposits from the public with promise of high returns.

The representatives of some of the firms had opened accounts at various bank branches at different locations in the country and numerous small cash deposits were being made in those accounts. The firms and their agents had reportedly promised very high returns on deposits and lured common people to part with funds in the name of investment/deposit schemes. These funds, running into crores of rupees, were being pooled at the Principal Accounts of the MLM firms and the funds were eventually flowing out of those Principal Accounts for purposes apparently illegal or highly risky.

These firms had managed to get a very large number of cheque books issued from the banks and they have, in turn, issued to the depositors, post dated cheques for small amounts representing future interest dues and deposit payments. The small depositors were depositing the money in the accounts of MLMs at places far away from the places where the accounts were actually opened which was facilitated by the core banking solution offered by banks. Since the operations of the firms are essentially deposit taking activities involving unusually high returns, the ongoing repayments of interest and deposit amounts in respect of existing deposits would depend on continuous and uninterrupted flow of fresh deposits with increasing volumes. Therefore, at some stage, the flow of deposits is bound to be stifled and post dated cheques tendered thereafter would bounce, due to inadequate funds available in the accounts.

RRBs

Credit Information

The Reserve Bank has advised regional rural banks (RRBs) that they are required to take membership of at least one credit information company and provide credit data (positive as well as negative) to the credit information company in the format prescribed by it. The success of credit information collection and dissemination system depends on the data supplied by banks to the credit information companies. In view of this, RRBs have been advised to urgently initiate steps to build up database and be in readiness for effective exchange of credit information without any loss of time.

The attention of RRBs is also invited to the provisions of the following sub-sections of the Credit Information Companies (Regulation) Act, 2005:

- sub section (1) of Section 21 of the Credit Information Companies (Regulation) Act, 2005, provides "any person, who applies for grant or sanction of credit facility, from any credit institution, may request such institution to furnish him a copy of the credit information obtained by such institution from the credit information company.
- sub-section (2) of Section 21 also specifies that every credit institution shall on receipt of request, as indicated in sub-section (1), furnish to such person a copy of the credit information subject to payment of charges specified by the Reserve Bank under the Regulations.

RRBs are further advised that the Reserve Bank, in the Credit Information Companies Regulations, 2006, framed under the Act, has already prescribed in Regulation 12(3) a maximum fee of Rs. 50 for furnishing a copy of the credit information.

RRBs should ensure strict compliance with the provisions of the Credit Information Companies (Regulation) Act, 2005 as well as the rules and regulations framed thereunder.

It may be recalled that the Credit Information Companies (Regulation) Act, 2005 was operationalised from December 14, 2006. In terms of Section 15(1) of the Act, every credit institution has to become member of at least one credit information company within a period of three months from commencement of the Act or any extended time allowed by the Reserve Bank on application.

INFORMATION

RBI provides XBRL enabled filing of Online Returns

The Reserve Bank has implemented Online Returns Filing System (ORFS) for banks to submit information electronically. Keeping in line with the emerging global standards in the area of financial reporting, the Reserve Bank has adopted eXtensible Business Reporting Language (XBRL) taxonomies for reporting the regulatory returns (RCA2) developed as per Basel II guidelines.

In addition to the facility to submit the ORFS/XBRL returns through hyperlinks for banks, the ORFS page has also the taxonomies with useful information on the current developments in the area of XBRL for banks and other stakeholders. At present, banks can file returns in electronic form as well through the Reserve Bank's secured website and now they will also be able to file the returns through XBRL enabled return filing system. The returns can be filed online through a link provided under the 'For Bankers' link on the Reserve Bank's website (www.rbi.org.in). From the 'For Bankers' link, a new page called "Online Reporting" has been made available.

The Reserve Bank is in the process of adopting taxonomies for several other returns, including annual and quarterly financial statements.

RBI Inter-Bank Hindi Essay Competition 2009-10

With a view to encouraging original writing in Hindi on banking subjects, the Reserve Bank conducts an inter-bank Hindi essay competition every year. Topics announced for the competition for the year 2009-10 are:

	Linguistic Group	Topic
Group 'A'	Mother tongue - Hindi	Risk and Banking Business
Group 'B'	Mother tongue - Marathi, Punjabi and Gujarati	Financial Globalisation : Positive and Negative Aspects
Group 'C'	Mother tongue - Other than those included in Groups 'A' and 'B'	Human Resources Management : Critical Pillar of an Organisation

Banks are requested to give wide publicity to the essay competition amongst their employees by publishing the related information in their internal publications as also on their websites. The last date for receiving the entries is November 30, 2009. Details of the competition are available in the Hindi version of the Reserve Bank's website www.rbi.org.in.

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Report of the Working Group on BPLR

The Reserve Bank released the Report of the Working Group on Benchmark Prime Lending Rate (BPLR) on October 20, 2009. The Working Group (Chairman: Shri Deepak Mohanty) was constituted in pursuance of the announcement made in the Annual Policy Statement of 2009-10 to review the BPLR system and suggest changes to make credit pricing more transparent.

The main recommendations of the Working Group are:

- Over a period of time, several concerns have been raised about the way the BPLR system has evolved. These relate to large quantum of sub-BPLR lending, lack of transparency, downward stickiness of BPLRs and perception of cross-subsidisation in lending. The Working Group was of the opinion that until the system was modified and/or replaced with some other system, the tendency to extend loans at sub-BPLR rates on a large scale in the market would continue raising concerns on transparency. The Working Group also noted that on account of competitive pressures, banks were lending a part of their portfolio at rates which did not make much commercial sense.
- Having carefully examined the various possible options, the views of various stakeholders from industry associations and the public, and international best practices, the Working Group concluded that there was merit in introducing a system of Base Rate to replace the existing BPLR system.
- The proposed Base Rate will include all those cost elements which can be clearly identified and are common across borrowers. The constituents of the Base Rate would include (i) the card interest rate on retail deposits (deposits below Rs. 15 lakh) with one year maturity (adjusted for current account and savings account deposits); (ii) adjustment for the negative carry in respect of cash reserve ratio (CRR) and statutory liquidity ratio (SLR); (iii) unallocatable overhead cost for banks which would comprise a minimum set of overhead cost elements; and (iv) average return on net worth.
- The actual lending rates charged to borrowers would be the Base Rate plus borrower-specific charges, which will include product-specific operating costs, credit risk premium and tenor premium.
- In order to make the lending rates responsive to the Reserve Bank's policy rates, the Working Group has recommended that banks may review and announce their Base Rate at least once in a calendar quarter with their Board's approval. The Base Rate alongside actual minimum and maximum lending rates may be placed in public domain.
- With the proposed system of Base Rate there will not be a need for banks to lend below the Base Rate as it represents the bare minimum rate below which it will not be viable for banks to lend. The Working Group, however, also recognises certain situations when lending below the Base Rate may be necessitated by market conditions. The Working Group is of the view that the need for such lending may arise as an exception only for very short-term periods. Accordingly, the Base Rate system recommended by the Working Group will be applicable for loans with maturity of one year and above (including all working capital loans).
- Banks may give loans below one year at fixed or floating rates without reference to the Base Rate. In order to ensure that sub-Base Rate lending does not proliferate, the Working Group recommends that such sub-Base Rate lending in both the priority and non-priority sectors in any financial year should not exceed 15 per cent of the incremental lending during the financial year. Of this, non-priority sector sub-Base Rate lending should not exceed 5 per cent. That is, the overall sub-Base Rate lending during a financial year should not exceed 15 per cent of their incremental lending, and banks will be free to extend entire sub-Base Rate lending of up to 15 per cent to the priority sector.
- At present, at least ten categories of loans can be priced without reference to BPLR. The Group recommends that such categories of loans may be linked to the Base Rate except interest rates on (a) loans relating to selective credit control; (b) credit card receivables; (c) loans to banks' own employees; and (d) loans under differential rate of interest (DRI) scheme.
- The Working Group suggests that the proposed system would be applicable for all new loans and for those old loans that come up for renewal. If the existing borrowers want to switch to the new system before the expiry of the existing contracts, in such cases, the new/revised rate structure should be mutually agreed upon by the bank and the borrower.
- The Base Rate could also serve as the reference benchmark rate for floating rate loan products, apart from the other external market-based benchmark rates.
- In order to increase the flow of credit to small borrowers, administered lending rate for loans up to Rs. 2 lakh may be deregulated. Banks should be free to lend to small borrowers at fixed or floating rates, which would include the Base Rate and sector-specific operating cost, credit risk premium and tenor premium as in the case of other borrowers.
- At present, the ceiling on interest rates on pre-shipment rupee export credit up to 270 days and post-shipment rupee export credit up to 180 days has been stipulated at BPLR *minus* 2.5 percentage points. The Working Group recommends that the interest rate on rupee export credit should not exceed the Base Rate of individual banks.

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