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MONETARY AND CREDIT INFORMATION REVIEW

Important Banking and Financial Developments in 2010

January

- Cash reserve ratio (CRR) of scheduled banks increased by 75 basis points from 5.0 per cent to 5.75 per cent of their net demand and time liabilities (NDTL) in two stages. The first stage of 50 basis points increased from the fortnight beginning February 13, 2010 followed by 25 basis points increase from the fortnight beginning February 27, 2010.
- Recognised stock exchanges permitted to offer currency futures contracts in the currency pairs of Euro-INR, Japanese Yen (JPY)-INR and Pound Sterling (GBP)-INR, in addition to the USD-INR contracts.
- Repo in corporate bonds introduced. The Reserve Bank issued detailed directions in this regard.
- Banks advised to disclose in the 'Notes to Accounts', from the year ending March 31, 2010, the details of fees/ remuneration received in respect of the bancassurance business undertaken by them.

February

- A new category of non-banking finance companies (NBFCs) known as infrastructure finance companies (IFCs) introduced. To be classified as an IFC, a non-deposit taking NBFC should have : (i) a minimum of 75 per cent of its total assets deployed in infrastructure loans as defined in Non-Banking Financial (Non-deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007; (ii) net owned funds of ₹ 300 crore or above; (iii) minimum credit rating of 'A' by an accredited rating agency; and (iv) capital to risk-weighted assets ratio (CRAR) of 15 per cent (with a minimum Tier I capital of 10 per cent).
- Risk weights and exposure norms laid down in respect of banks' exposure to NBFCs categorised as IFCs.
- All scheduled commercial banks (SCBs) directed to pay interest on savings bank accounts on a daily product basis from April 1, 2010.
- The ceiling rate on export credit in foreign currency by banks reduced to LIBOR plus 200 basis points from the earlier ceiling rate of LIBOR plus 350 basis points, subject to the condition that banks should not levy any other charges viz., service charge, management charge, etc., except for recovery towards out of pocket expenses.
- Any person resident in India going outside India or having gone out of India on a temporary visit, allowed to take/ bring from/into India (other than to and from Nepal and Bhutan) currency notes of Government of India and Reserve Bank of India notes up to ₹ 7,500 as against the earlier limit of ₹ 5,000.
- Detailed procedure for channelling transactions through Asian Clearing Union (ACU) to be followed by authorised dealer category- I (AD category-I) banks laid down.
- Regional rural banks (RRBs) (both amalgamated and stand alone) permitted to open one regional office for every 50 branches.

March

- The Reserve Bank prescribed certain benchmarks towards achieving standardisation of cheques issued by banks across the country. These include provision of mandatory minimum security features on cheque forms like quality of paper, watermark, bank's logo in invisible ink, void pantograph, etc., and standardisation of field placements on cheques.
- Definition of infrastructure sector expanded, for the purpose of availing ECB, to include "cold storage or cold room facility, including for farm level pre-cooling, for preservation or storage of agricultural and allied produce, marine products and meat".
- Bullet repayment of gold loans up to ₹ one lakh permitted as an additional option.

April

- SCBs directed to switch over to the new system of base rate in place of the earlier benchmark prime lending rate (BPLR) system from July 1, 2010.
- RRBs advised to call for and verify the following documents (any two) before opening an account in the name of a proprietary concern: (i) proof of the 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 shops and establishment act, sales and income tax returns, central sales tax/value added tax certificate, certificate/registration document issued by sales tax/service tax/professional tax authorities, licence issued by the registering authority like certificate of practice issued by 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.

- The exemption granted to RRBs from 'mark to market' norms in respect of their investments in SLR securities extended by one more year i.e. for the financial year 2009-10. Accordingly, RRBs have the freedom to classify their entire investment portfolio of SLR securities under 'held to maturity' (HTM) for the financial year 2009-10 with valuation on book value basis and amortisation of premium, if any, over the remaining life of securities.
- RRBs advised that their cheque collection policy should include instructions on immediate credit for local/outstation cheques in addition to the time frame for collection of local/ outstation instruments and interest payment on delayed collection.
- Repo rate under the LAF increased by 25 basis points from 5.0 per cent to 5.25 per cent from April 20, 2010.
- Reverse repo rate under the LAF increased by 25 basis points from 3.5 per cent to 3.75 per cent from April 20, 2010.
- CRR of scheduled banks increased by 25 basis points from 5.75 per cent to 6.0 per cent of their NDTL from the fortnight beginning April 24, 2010.
- Standalone primary dealers (PDs) permitted to hold government securities in the held-to maturity (HTM) category to the extent of their audited net owned funds (NOFs) as at the end March of the preceding financial year.
- All SCBs directed to ensure meticulous compliance of the Reserve Bank's directives regarding educational loan scheme which requires that no security to be insisted upon for loans up to ₹ 4 lakh.
- Banks permitted to engage any individual, including those operating common service centres as business correspondents (BCs), subject to banks' comfort level and their carrying out suitable due diligence as also instituting additional safeguards as may be considered appropriate to minimise the agency risks.

May

- Separate trading of registered interest and principal of securities (STRIPS) in government securities introduced as part of the efforts to develop the government securities market. Detailed guidelines outlining the process of stripping/reconstitution and other operational procedures regarding transactions in STRIPS issued.
- All SCBs including RRBs and local area banks advised not to accept collateral security in the case of loans up to ₹10 lakh extended to units in the medium and small enterprises (MSE) sector.
- The Reserve Bank clarified that loans granted by banks for agricultural and allied activities would be eligible for classification under priority sector, irrespective of whether borrowing entity is engaged in export or otherwise.
- AD Category-I banks allowed to permit drawal of foreign exchange by persons for payment of royalty and lump-sum payment under technical collaboration agreements without the approval of the Ministry of Commerce and Industry, Government of India.
- IFCs permitted to avail of ECBs, including the outstanding ECBs, up to 50 per cent of their owned funds under the automatic route, subject to their complying with the prudential guidelines already in place. ECBs by IFCs above 50 per cent of their owned funds to require the approval of the Reserve Bank and would, therefore, be considered under the approval route.
- The Reserve Bank directed that while granting finance to housing/development projects, NBFCs should stipulate as a part of the terms and conditions that: (i) the builder/ developer/owner/company should disclose in the pamphlets/brochures/advertisements etc., the name(s) of the entity to which the property is mortgaged; and (ii) the builder/developer/owner/company should indicate in the pamphlets/brochures, that they would provide no objection certificate/permission of the mortgagee entity for sale of flats/property, if required.
- NBFCs desirous of making any overseas investment advised to obtain the Reserve Bank's 'no objection certificate' (NoC) before making such investment. Applications in this regard should clearly state the activities intended to be undertaken by the overseas entity.
- Well managed urban co-operative banks (UCBs) allowed to set up off-site ATMs without seeking approval through the annual business plans provided : (i) they maintain a minimum CRAR of 10 per cent on a continuous basis with minimum owned funds commensurate with entry point capital norms for the centre where the off-site ATM is proposed/where the bank is registered; (ii) their net NPAs are less than 5 per cent; (iii) they have not defaulted in the maintenance of CRR/SLR during the preceding financial year; (iv) they have posted continuous net profit for the last three years; (v) they have sound internal control system with at least two professional directors on the board; and (vi) regulatory comfort based on inter-alia, track record of compliance.
- Guidelines on ''Note Authentication and Fitness Sorting Parameters'' laid down. The guidelines prescribe the standards/parameters to be followed by banks while processing banknotes.
- Purely as a temporary measure, SCBs permitted to avail additional liquidity support under the LAF to the extent of up to 0.5 per cent of their NDTL. The additional liquidity support to be available from the LAF auctions of May 28, 2010 to July 2, 2010.

June

- Details of the penalty levied on a PD to be placed in public domain. The Reserve Bank to issue a press release giving details of the circumstances under which the penalty is imposed on the PD along with the communication on the imposition of penalty being placed in the public domain. The penalty also to be disclosed in the "Notes on Accounts" to the balance sheet of the PD in the next annual report.
- Banks permitted to waive margin/security requirements for agricultural loans up to ₹ 1 lakh. The earlier level was ₹ 50,000.
- Non-scheduled UCBs, which have exposures to other non-scheduled UCBs on account of clearing arrangements advised to review their exposures to such banks periodically based on their published balance sheet and profit and loss account statements. UCBs further advised to formulate a policy taking into account their funds position, liquidity and other needs for placement of deposits with other banks, the cost of funds, expected rate of return and interest margin on such deposits, the counter party risk, etc., and place it before their board of directors which should review the position at least at half yearly intervals.

- The Reserve Bank issued directions to agencies dealing in securities and money market instruments, on the issuance of non-convertible debentures (NCDs) of original or initial maturity up to one year.

July

- Repo rate increased by 25 basis points from 5.25 per cent to 5.50 per cent from July 2, 2010.
- Reverse repo rate increased by 25 basis points from 3.75 per cent to 4.00 per cent from July 2, 2010.
- The standing liquidity facilities provided to banks (export credit refinance) and PDs (collateralised liquidity support) from the Reserve Bank to be available at the revised repo rate, i.e., at 5.50 per cent from July 3, 2010.
- With the introduction of the base rate system, the interest rate applicable to all tenors of rupee export credit advances from July 1, 2010 to be at or above the base rate for all fresh/renewed advances. Banks advised to reduce the interest rates chargeable to exporters under these sectors by the amount of subvention under the scheme, subject to a floor rate of 7 per cent.
- The Reserve Bank advised that if the subsidiary general ledger (SGL) transfer form bounces and the account holder concerned fails to offer satisfactory explanation for such bouncing, the account holder would be liable to pay monetary penalty subject to a maximum penalty of ₹5 lakh per instance.
- Repo rate further increased by 25 basis points from 5.50 per cent to 5.75 per cent from July 27, 2010.
- Reverse repo rate further increased by 50 basis points from 4.00 per cent to 4.50 per cent from July 27, 2010.
- Take-out financing arrangement through external commercial borrowing (ECB) permitted under the approval route for refinancing of rupee loans availed of from domestic banks by eligible borrowers in the sea port and airport, roads including bridges and power sectors for the development of new projects.

August

- General permission granted to domestic scheduled commercial banks {other than regional rural banks (RRBs)} to operationalise mobile branches in Tier 3 to Tier 6 centres (with population up to 49,999 as per Census 2001) and in rural, semi-urban and urban centres in the North-Eastern States and Sikkim.
- The coverage of the interest subvention scheme of 2 per cent on rupee export credit for the period April 1, 2010 to March 31, 2011 extended to certain additional secto₹ The sectors (earlier and additional ones) now falling under the interest subvention scheme are: (i) handicrafts; (ii) carpets; (iii) handlooms; (iv) small and medium enterprises; (v) leather and leather manufactures; (vi) jute manufacturing including floor covering; (vii) engineering goods; and (viii) textiles.
- The Reserve Bank to consider applications from corporates in the hotel, hospital and software sectors to avail of ECB beyond USD 100 million under the approval route, for foreign currency and/or rupee capital expenditure for permissible end-uses. The proceeds of the ECB, however, not to be used for acquisition of land.
- NBFCs {excluding residuary non- banking companies (RNBCs)} permitted to participate in the designated currency futures exchanges recognised by the Securities and Exchange Board of India (SEBI) as clients, subject to the guidelines issued by the Reserve Bank's Foreign Exchange Department in this regard. Such permission granted to them only for the purpose of hedging their underlying forex exposures.

September

- Repo rate increased by 25 basis points from 5.75 per cent to 6.00 per cent from September 16, 2010.
- Reverse repo rate increased by 50 basis points from 4.50 per cent to 5.00 per cent from September 16, 2010.
- The standing liquidity facilities provided to banks (export credit refinance) and PDs (collateralised liquidity support) from the Reserve Bank to be available at the revised repo rate, i.e., at 6.0 per cent from September 16, 2010.
- RRBs permitted to lay down policies with their Board's approval for sanction of gold loan with bullet repayment option, subject to conditions.
- The date of providing banking services through a banking outlet in every village having a population of over 2000 revised to March 2012. March 2011 could, however, be considered as an intermediate target.
- Banks advised to open no-frills accounts or other accounts for students from minority communities or other disadvantaged groups, who wish to avail of the scholarships being awarded by the Ministry through the state/UT governments.
- The Reserve Bank reiterated its earlier instructions on the procedure to be followed for national electronic funds transfer (NEFT)/national electronic clearing service (NECS)/ electronic clearing service (ECS) transactions and advised banks to afford credits to beneficiary accounts or return transactions (uncredited for whatever reason) to the originating/sponsor bank within the prescribed timeline. Any delays in doing so to attract penal provisions.
- SCBs including RRBs and local area banks (LABs) permitted to engage companies registered under the Indian Companies Act, 1956, excluding NBFCs, as business correspondents in addition to individuals/ entities permitted earlier.

October

- Banks and select all-india financial institutions (AIFIs) advised that the promoter's sacrifice and additional funds required to be brought in by the promoters should be brought in upfront. If, however, they are convinced that the promoters face genuine difficulty in bringing their share of the sacrifice immediately and need some extension of time to fulfil their commitments, the promoters to be allowed to bring in 50 per cent of their sacrifice, i.e. 50 per cent of 15 per cent, upfront and the balance within a period of one year.
- AD Category - I UCBs fulfilling the norms for AD - I license allowed to participate in the exchange traded currency option market of a designated exchange recognised by the Securities and Exchange Board of India (SEBI), only as clients. Participation allowed only for hedging underlying forex exposure arising from customer transactions.

November

- Additional guidelines for the issuance and operation of pre-paid payment instruments in India issued. The additional guidelines pertain to (i) gift cards issued by banks, NBFCs

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and other persons; (ii) prepaid instruments issued to government organisations and other financial institutions (FIs) for onward issuance to beneficiaries/customers; and (iii) prepaid instruments issued to beneficiaries under the money transfer service scheme (MTSS) for loading of cross border inward remittances received by them.

- RRBs permitted to open branches in Tier 3 to Tier 6 centres (with population up to 49,999 as per Census 2001) without the Reserve Bank's prior authorisation provided (i) their CRAR is at least 9 per cent; (ii) their NPAs are less than 5 per cent; (iii) they have not defaulted in the maintenance of CRR/SLR during the last year; and (iv) they have earned a net profit in the last financial year.
- Repo rate increased by 25 basis points from 6.00 per cent to 6.25 per cent from November 2, 2010.
- Reverse repo rate increased by 25 basis points from 5.00 per cent to 5.25 per cent from November 2, 2010.
- The standing liquidity facilities provided to banks (export credit refinance) and PDs (collateralised liquidity support) from the Reserve Bank to be available at the revised repo rate, i.e., at 6.25 per cent from November 2, 2010.
- Well managed and financially sound UCBs allowed to open branches/extension counters in their approved area of operation beyond the current annual ceiling of 10 per cent and upgrade extension counters which are in operation for more than three years provided (a) they maintain a minimum CRAR of 10 per cent on a continuous basis with minimum owned funds commensurate with the prevalent entry point capital norms for the centre where the branch is proposed/ where it is to be registered; (b) their net NPA is less than 5 per cent; (c) they have not defaulted in the maintenance of CRR/SLR during the preceding financial year; (d) they have earned continuous net profit for the last three years; (e) they have a sound internal control system with at least two professional directors on their Board; and (f) regulatory comfort based on inter alia, record of compliance with the provisions of the Banking Regulation Act, 1949 (AACS), RBI Act, 1934 and the instructions/directions issued by the Reserve Bank from time to time.
- Real estate and commercial real estate loans of UCBs to be linked to their total assets instead of their deposits. Accordingly, the exposure of UCBs to housing, real estate and commercial real estate loans to be limited to 10 per cent of their total assets, instead of 15 per cent of their deposits. The total assets to be reckoned based on the audited balance sheet as on March 31 of the preceding financial year. The ceiling of 10 per cent of total assets could be exceeded by an additional limit of 5 per cent of total assets for granting housing loans to individuals for purchase or construction of dwelling units costing up to ₹10 lakh.
- UCBs which maintain CRAR of 12 per cent or above on a continuous basis, exempted from the mandatory share linking norms from November 15, 2010. Earlier, it was mandatory for borrowers of UCBs to subscribe to the shares of the bank to the extent of 2.5 - 5.0 per cent of their borrowings.
- AD Category-I banks permitted to offer the facility of repatriation of export related remittances by entering into standing arrangements with online payment gateway service providers, subject to conditions.
- Well managed and financially sound UCBs that have a minimum assessed net worth of ₹ 50 crore, allowed to extend their area of operation beyond the state of registration as also to any other state/s of their choice, subject to conditions.

December

- SLR for SCBs reduced from 25 per cent of their NDTL to 24 per cent from December 18, 2010.
- The additional liquidity support under LAF announced by the Reserve Bank on November 29, 2010 to be available up to the extent of 1.0 per cent (instead of 2.0 per cent) of the NDTL of SCBs from December 18, 2010 to January 28, 2011. For any shortfall in SLR maintenance up to January 28, 2011 arising out of availment of this facility, banks to seek waiver of penal interest on a fortnightly basis purely as an ad hoc, temporary measure.
- Well managed and financially sound UCBs allowed to engage business correspondents (BCs)/ business facilitators (BFs) using information and communications technology (ICT) solutions.
- Banks advised that the 'loan to value' (LTV) ratio in respect of housing loans should not exceed 80 per cent. For small value housing loans, i.e. housing loans up to ₹ 20 lakh (which get categorised as priority sector advances), the LTV ratio should not exceed 90 per cent.
- The risk weight for residential housing loans of ₹ 75 lakh and above, irrespective of the LTV ratio, to be 125 per cent.
- In view of the higher risk associated with housing loans sanctioned at teaser rates, the standard asset provisioning on the outstanding amount, in respect of such loans, increased from 0.40 per cent to 2.0 per cent. The provisioning on these assets to revert to 0.40 per cent after 1 year from the date on which the rates are reset at higher rates if the accounts remain 'standard'.

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Wishes its Readers

A Happy and Prosperous New Year

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