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MONETARY AND CREDIT INFORMATION REVIEW

POLICY

Repo/Reverse Repo/Marginal Standing Facility Rates

Pursuant to the announcement made in the Monetary Policy Statement for 2013-14, the following rates have been changed from May 3, 2013:

Repo Rate

The repo rate under the liquidity adjustment facility (LAF) has been reduced by 25 basis points from 7.50 per cent to 7.25 per cent.

Reverse Repo Rate

The reverse repo rate stands automatically adjusted to 6.25 per cent.

Marginal Standing Facility

The marginal standing facility (MSF) rate stands automatically adjusted to 8.25 per cent.

Standing Liquidity Facilities to Banks/Primary Dealers

The standing liquidity facilities provided to banks under export credit refinance (ECR) and special export credit refinance (SECR) and to primary dealers (PDs) (collateralised liquidity support) from the Reserve Bank would be available at the revised repo rate, i.e., at 7.25 per cent from May 3, 2013.

Bank Rate

The Bank Rate stands adjusted by 25 basis points from 8.50 per cent to 8.25 per cent from May 3, 2013.

All penal interest rates on shortfall in reserve requirements, which are specifically linked to the Bank Rate, also stand revised as indicated below:

Penal Interest Rates which are linked to the Bank Rate

Item	Existing Rate	Revised Rate (Effective from May 3, 2013)
Penal interest rates on shortfalls in reserve requirements (depending on duration of shortfalls)	Bank Rate plus 3.0 percentage points (11.50 per cent) or Bank Rate plus 5.0 percentage points (13.50 per cent)	Bank Rate plus 3.0 percentage points (11.25 per cent) or Bank Rate plus 5.0 percentage points (13.25 per cent)

Priority Sector Lending - Limits Revised

The Reserve Bank has advised that the following limits under priority sector have been revised upward from April 1, 2013:

Agriculture

- The limit of loans to farmers against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months has been increased from ₹ 25 lakh to ₹ 50 lakh both under direct and indirect agriculture.
- The limit of loans to dealers/sellers of fertilisers, pesticides, seeds, cattle feed, poultry feed, agricultural implements and other inputs has been raised to ₹ 5 crore per borrower from ₹ 1 crore.

Micro and Small Enterprises

The limit of bank loans to micro and small service enterprises (MSEs) engaged in providing or rendering of services has been increased from ₹ 2 crore to ₹ 5 crore per borrower/unit, provided they satisfy the investment criteria for equipment as defined under the MSMED Act, 2006.

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SLR Holdings under Held to Maturity Category

Pursuant to the recommendations of the Working Group on Enhancing Liquidity in the Government Securities and Interest Rate Derivatives Markets (Chairman: Shri R. Gandhi), it has been decided that -

- Banks may be permitted to exceed the limit of 25 per cent of total investments under 'held to maturity' (HTM) category provided:
 - a) the excess comprises only of statutory liquidity ratio (SLR) securities; and
 - b) the total SLR securities held in the HTM category is not more than 24.50 per cent by end June 2013, 24.00 per cent by end September 2013, 23.50 per cent by end December 2013, and 23.00 per cent by end March 2014 of their demand and time liabilities (DTL) as on the last Friday of the second preceding fortnight.

As per extant instructions, banks may shift investments to/ from HTM with the approval of their Board of Directors once a year and such shifting will normally be allowed at the beginning of the accounting year. In order to enable banks to shift their SLR securities from the HTM category to AFS/HFT once in each quarter as indicated above, it has been decided to allow such shifting at the beginning of each quarter during 2013-14.

Clean Note Policy

Reiterating its earlier instructions on "Clean Note Policy" the Reserve Bank has advised banks to -

- * do away with stapling of note packets and instead secure note packets with paper bands;

- * sort notes into re-issuables and non-issuables, and issue only clean notes to the public; and
- * forthwith stop writing of any kind on the watermark window of bank notes.

PAYMENT SYSTEM

Re-presentation of Return Cheques

With a view to streamlining the procedure followed by banks regarding re-presentation of cheques and cheque return charges, the Reserve Bank has advised banks to adhere to the following instructions:

- Cheque return charges should be levied only in cases where the customer is at fault and is responsible for such returns. An illustrative list of returns where the customers are not at fault, is indicated in the box.
- Cheques that need to be re-presented without any recourse to the payee, should be made in the immediate next presentation clearing not later than 24 hours (excluding holidays) with due notification to the customers of such re-presentation through SMS alert, email, etc.

Banks have also been advised to reframe their cheque collection policy (CCP) to include the above indicated procedures and give publicity to their revised CCP for better customer service and dissemination of information.

Recently, instances have been brought to the Reserve Bank's notice where banks are (i) levying cheque return charges even in cases where customers have not been at fault in the return; and (ii) delaying the re-presentation of cheques which had been returned by paying banks due to technical reasons.

Illustrative but not Exhaustive List of objections where Customers are not at Fault

(Applicable for instrument and image-based cheque clearing as detailed in Annex D to Uniform Regulations and Rules for Bankers' Clearing Houses)

Code No.	Reason for Return	Code No.	Reason for Return
33	Instrument mutilated; requires bank's guarantee	70	Advice not received
35	Clearing house stamp/date required	71	Amount/name differs on advice
36	Wrongly delivered/not drawn on us	72	Drawee bank's fund with sponsor bank insufficient (applicable to sub-members)
37	Present in proper zone	73	Payee's separate discharge to bank required
38	Instrument contains extraneous matter	74	Not payable till 1st proximo
39	Image not clear; present again with paper	75	Pay order requires counter signature
40	Present with document	76	Required information not legible/correct
41	Item listed twice	80	Bank's certificate ambiguous/incomplete/required
42	Paper not received	81	Draft lost by issuing office; confirmation required from issuing office
60	Crossed to two banks	82	Bank/branch blocked
61	Crossing stamp not cancelled	83	Digital certificate validation failure
62	Clearing stamp not cancelled	84	Other reasons-connectivity failure
63	Instrument specially crossed to another bank	87	'Payee's a/c credited' - stamp required
67	Payee's endorsement irregular/requires collecting bank's confirmation	92	Bank excluded
68	Endorsement by mark/thumb impression requires attestation by Magistrate with seal		

BRANCH BANKING

Direct Benefit Transfer Scheme

With a view to facilitating direct benefit transfer (DBT) for the delivery of social welfare benefits by direct credit to the bank accounts of beneficiaries, the Reserve Bank has advised banks to:

- open accounts for all eligible individuals in camp mode with the support of local government authorities;
- seed the existing accounts or new accounts opened with Aadhaar numbers; and
- put in place an effective mechanism to monitor and review the progress in the implementation of DBT.

The state level bankers' committee (SLBC) convenor banks and lead banks should institute a monitoring and review mechanism to periodically assess and evaluate the progress made in the implementation of DBT by banks. The review of progress in the implementation of DBT should be included as a regular agenda for discussion in SLBC and district consultative committee (DCC) meetings.

DBT is being rolled out in a phased manner with 43 districts taken up in the first phase from January 1, 2013 and will be extended to 78 more districts from July 1, 2013. Eventually, all districts in the country would be covered under the DBT scheme.

FEMA

Import of Gold by Nominated Banks/Agencies

To moderate the demand for gold for domestic use, it has been decided to restrict the import of gold on consignment basis by banks, only to meet the genuine needs of exporters of gold jewellery.

The Working Group on Gold (Chairman: Shri K.U.B. Rao) had recommended aligning gold import regulations with rest of the imports for creating a level playing field between gold imports

and other imports. Bulk of the gold imported by nominated banks was on consignment basis whereby nominated banks did not have to fund these stocks.

Realisation and Repatriation of Export Proceeds

In consultation with the Government of India, it has been decided to bring down the period for realisation and repatriation to India, of the amount representing the full value of goods or software exported, from twelve months to nine months from the date of export. These instructions have come into effect from May 20, 2013 and are valid till September 30, 2013.

The provisions regarding period of realisation and repatriation to India of the full export value of goods or software exported by a unit situated in a special economic zone (SEZ) as well as exports made to warehouses established outside India remain unchanged.

NBFCs

Unique Customer Identification Code for Customers

A Working Group constituted by the Government of India has proposed the introduction of unique identifiers for customers across different financial institutions for setting up a centralised 'know your customer' (KYC) registry. While setting up such a system for the entire financial system is likely to take time, non-banking finance companies (NBFCs) have been advised to make an immediate beginning in this regard by putting in place such identification code for their own customers. The unique customer identification code (UCIC) will help NBFCs to identify customers, track the facilities availed, monitor financial transactions in a holistic manner and enable them to have a better approach for risk profiling of customers.

NBFCs have been advised to initiate steps for allotting UCIC to all their customers while entering into new relationships. Similarly, existing individual customers may also be allotted UCIC by end-June 2013.

Monetary Policy Statement 2013-14

Dr. D. Subbarao, Governor, Reserve Bank of India, in a meeting with chief executives of major commercial banks presented the Monetary Policy Statement for 2013-14 on May 3, 2013. The highlights are:

Projections

- Baseline GDP growth for 2013-14 projected at 5.7 per cent.
- To contain headline WPI inflation at around 5.0 per cent in the short-term and at 3.0 per cent over the medium term.
- M3 growth for 2013-14 projected at 13 per cent for policy purposes.

Stance

The stance of the monetary policy is intended to:

- continue to address the accentuated risks to growth;
- guard against the risks of inflation pressures re-emerging and adversely impacting inflation expectations, even as corrections in administered prices release suppressed inflation; and

- appropriately manage liquidity to ensure adequate credit flow to the productive sectors of the economy.

Monetary Measures

- Repo rate under the liquidity adjustment facility (LAF) reduced by 25 basis points from 7.50 per cent to 7.25 per cent.
- Reverse repo rate under the LAF, determined with a spread of 100 basis points below the repo rate, adjusted to 6.25 per cent.
- Marginal standing facility (MSF) rate, determined with a spread of 100 basis points above the repo rate, adjusted to 8.25 per cent.
- Bank rate adjusted to 8.25 per cent.
- Cash reserve ratio (CRR) of scheduled banks retained at 4.00 per cent of their NDTL.

CUSTOMER SERVICE

Review of ATM Operations of Banks

The Reserve Bank recently conducted a review of ATM operations of banks with a large ATM network. The review mainly aimed at identifying major complaint-prone operational areas and steps to overcome these. The review was based on the following grounds identified for rising trend in ATM complaints.

- (i) Frequent breakdowns
- (ii) Discrepancies in cash dispensation
- (iii) Cash-out (machines running out of cash)
- (iv) Quality of notes
- (v) Grievance redressal

Frequent Breakdowns

Power failure, network failure, cash handler faults, reject bin full, machine breakdowns are some of the major reasons for ATM breakdowns. To ensure that these breakdowns are kept to a minimum, some of the important measures initiated by banks are:

- Periodic visits by ATM channel managers/vendors to ATMs.
- Monitoring uptime of ATMs by vendors as well as by banks on a real time basis.
- Online system enabling immediate notification to vendors about 'down' ATMs for restoration on a priority basis.
- Top management's oversight on "down time" reports.
- Detailed servicing and replacement of system, if necessary, of ATMs with more than a fixed number of complaints in a month.
- Periodic preventive maintenance.
- Corrective action on the basis of root cause analysis.

Discrepancies in Cash Dispensation

For major ATM network banks the percentage of complaints on account of short/non-dispensation of cash was less than 0.15 per cent of total complaints. Regulatory prescription of resolution of such complaints within 7 days and penalty for failure to do so have ensured that most of these discrepancies are rectified immediately and not kept pending beyond 7 working days. Online monitoring of ATMs having high number of dispenser problems, follow up with manufacturers for periodical preventive maintenance, training of custodians to ensure proper cash loading and oversight of senior management on resolution and corrective action are some of the steps taken to address the discrepancies in cash dispensation.

Cash-out

Regular monitoring and forecasting cash requirements ensures that ATMs are loaded optimally to avoid cash-outs (running out of cash). ATMs are loaded with currency based on the frequency of cash dispensation to ensure that the ATMs do not run out of cash during peak period. Cash levels are set and monitored at intervals and when cash in the machine falls below a pre-determined level, the vendor is informed to replenish cash immediately.

Quality of Notes

Efforts are made to ensure that ATMs are loaded with either newly printed or ATM fit notes which are sorted and processed on hi-tech note sorting machines by agency custodians/vendors who are imparted regular training in this regard.

Access to Grievance Redressal Mechanism

Systems are in place to provide smooth access to grievance redressal mechanism for ATM related complaints. The grievance redressal procedure is displayed in the ATM premises. Banks have automated systems enabling registration of ATM related complaint at any branch/call centre by visit/call. Auto escalation of complaints is also enabled in these systems which facilitates speedy resolution of complaints.

Security Measures

With spread of ATM network, instances of frauds are also on the rise. Ensuring a secure environment is a must for building customer confidence in electronic banking. The measures initiated to strengthen security in ATM transactions are:

- Caretakers at off-site ATMs and sensitive locations to discourage attempts to tamper with the ATM.
- Arrangements with local police authorities for regular beats in case of ATMs located in sensitive areas.
- Disabling cash retraction facility at ATMs as per the Reserve Bank's guidelines in view of large number of frauds committed by fraudsters taking advantage of this facility.
- Security screen on the machine requiring the customer to confirm the digits entered.
- Reduction of per screen transaction time.
- Logging out of a customer in case of even a single invalid pin.
- Dip-card readers: Dip card readers (card is not swallowed by the machine) preempt capture of data through extraneous devices. Many banks are now using dip-card readers.
- Mystery shopping.
- Analysis of complaints to identify complaint prone ATMs and monitoring transactions at these ATMs.

Customer Awareness and Education Measures

Customer education and awareness is one of the important tools to ensure secured electronic banking. Some of the measures undertaken by banks in this regard are:

- Posters/notices containing safety tips on usage of card/ATM are prominently displayed at the ATM machines.
- Customers are provided with user manual/letter along with the card at the time of card issue which details the safety guidelines for operating ATMs.
- Customers are also imparted knowledge on safety measures/precautions on ATM transactions through print media and radio advertisements.
- Feedback is obtained from customers through surveys/ phone calls.