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MONETARY AND CREDIT INFORMATION REVIEW

POLICY

Opening of Branches in Unbanked Rural Centres

With a view to taking financial inclusion to the next stage of providing universal coverage and facilitating electronic benefit transfer (EBT), domestic scheduled commercial banks (SCBs) have been advised to draw up the next financial inclusion plan (FIP) for the period 2013-16. To facilitate speedier branch expansion in unbanked rural centres for ensuring seamless roll out of the direct benefit transfer (DBT)/EBT scheme of the Government of India, banks have been advised to consider front-loading (prioritising) opening of branches in unbanked rural centres over a 3 year cycle co-terminus with their FIP (2013-16). While the requirement of allocating at least 25 per cent of total number of branches proposed to be opened during the annual branch expansion plan (ABEP) in unbanked rural (Tier 5 and Tier 6) centres would continue, credit will be given for branches opened in unbanked rural centres in excess of the required 25 per cent of the ABEP for the year, which will be carried forward for achieving the criteria in the subsequent ABEP/year of the FIP.

SCBs are required to allocate at least 25 per cent of the total number of branches proposed to be opened during a year in unbanked rural (Tier 5 and Tier 6) centres while preparing their ABEP. An unbanked rural centre would mean a rural (Tier 5 and Tier 6) centre that does not have a brick and mortar structure of any SCB for customer based banking transactions.

Off-balance Sheet Exposures - Deferment of Premium

Banks are permitted to defer, at their discretion, the premium on plain vanilla options sold by them to users subject to certain conditions. It has now been decided to extend this facility to cost reduction forex option structures in which the liability of the users never exceeds the net premium payable to the bank under any scenario. This facility would be subject to the following conditions:

(i) Before extending this facility to users, banks should carry out necessary due diligence regarding the ability of users to adhere to the premium payment schedule, in accordance with their Board approved policy.

(ii) Payment of premium for option structure with maturity of more than 1 year may be deferred, provided the premium payment period does not extend beyond the maturity date of the contract.

(iii) The premium should be received uniformly over the maturity of the contract and the periodicity of such payment should be at least once in a quarter.

(iv) This facility should not be allowed for contracts which are on past performance basis.

Such option structures would continue to be governed by instructions on -

- suitability and appropriateness as regards structured derivative products laid down in the 'Comprehensive Guidelines on Derivatives: Modifications' issued by the Reserve Bank on November 2, 2011; and
- cost reduction structures as laid down in the Master Circular on 'Risk Management and Inter-Bank Dealings' dated July 2, 2012.

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Large Value Accounts - Legal Audit of Documents

The Reserve Bank has advised banks and all-India select financial institutions to subject the title deeds and other documents in respect of all credit exposures of Rs. 5 crore and above to periodic legal audit and re-verification of title deeds with relevant authorities as part of regular audit exercise till the loan stands fully repaid.

Further, banks should furnish a review note to its Board/ Audit Committee of the Board at quarterly intervals on an ongoing basis giving therein information in respect of such legal audits which should cover aspects like, number of loan accounts due for legal audit for the quarter, how many accounts covered, list of deficiencies observed by the auditors, steps taken to rectify the deficiencies, number of accounts in which the rectification could not take place, course of action to safeguard the bank's interest in such cases, action taken on issues pending from earlier quarters.

Lending against Gold

As per extant instructions, banks are currently permitted to grant advances against gold ornaments and other jewellery and against specially minted gold coins sold by banks. Banks cannot, however, grant advances for purchase of gold in any form, including primary gold, gold bullion, gold jewellery, gold coins, units of gold exchange traded funds and units of gold mutual funds. While there may not be any objection to grant of advances against specially minted gold coins sold by banks, there is a risk that some of these coins would be weighing much more, thereby circumventing the Reserve Bank's guidelines of July 1978 regarding restrictions on grant of advance against gold bullion.

Accordingly, it is advised that while granting advance against the security of specially minted gold coins sold by them, banks should ensure that the weight of the coin(s) does not exceed 50 grams per customer and the amount of loan to any customer against gold ornaments, gold jewellery and gold coins (weighing up to 50 grams) should be within the Board approved limit.

Commercial Real Estate - Residential Housing

As loans to residential housing projects under the commercial real estate (CRE) sector exhibit lesser risk and volatility than the CRE sector taken as a whole, it has been decided to carve out a separate sub-sector called 'commercial real estate – residential housing' (CRE-RH) from the CRE sector. CRE-RH would consist of loans to builders/developers for residential housing projects (except for captive consumption) under CRE segment. Such projects should ordinarily not include non-residential commercial real estate. Integrated housing projects comprising some commercial space (e.g. shopping complex, school, etc.) can also be classified under CRE-RH, provided the commercial area in the residential housing project does not exceed 10 per cent of the total floor space index (FSI) of the project. In case the FSI of the commercial area in the predominantly residential housing complex exceeds the ceiling of 10 per cent, the project loans should be classified as CRE and not CRE-RH.

The CRE-RH segment will attract a lower risk weight of 75 per cent and lower standard asset provisioning of 0.75 per cent as against 100 per cent and 1.00 per cent, respectively for the CRE segment.

It has been decided to rationalise the prudential norms on risk-weight, provisioning and loan to value (LTV) ratio for individual housing loans, CRE and CRE-RH exposures, as under:

Category of Loan	LTV Ratio (per cent)	Risk Weight (per cent)	Standard Asset Provisioning (per cent)
(a) Individual Housing Loans			
(i) Up to ₹ 20 lakh	90	50	0.40
(ii) Above ₹ 20 lakh and up to ₹ 75 lakh	80	50	0.40
(iii) Above ₹ 75 lakh	75	75	0.40
(b) CRE-RH	NA	75	0.75
(c) CRE	NA	100	1.00

Note:

(1) The LTV ratio should not exceed the prescribed ceiling in all fresh cases of sanction. In case the LTV ratio is currently above the ceiling prescribed for any reasons, efforts should be made to bring it within limits.

(2) Banks' exposures to third dwelling unit onwards to an individual will also be treated as CRE exposures.

It is further advised that the extant instructions requiring additional risk-weight of 25 percentage points for restructured housing loans and higher provisioning of 2 per cent for housing loans extended at teaser rates by banks will continue to remain in force.

UCBs

Ready Forward Contracts in Debt Securities

Scheduled (urban) co-operative banks (UCBs) with strong financials and sound risk management practices are now permitted to undertake ready forward contracts in corporate debt securities as eligible participants. Accordingly, UCBs fulfilling the following conditions would be permitted to undertake such transactions:

* CRAR of 10 per cent or more and gross non-performing asset (NPA) of less than 5 per cent and continuous record of profits during the previous three years.
* Sound risk management practices and mandatory concurrent audit of the investment portfolio.

Further, repo transactions in corporate bonds should be undertaken only with scheduled commercial banks/primary dealers (PDs) and not with other market participants. UCBs which are lenders of funds in a repo transaction may provide for counter-party credit risk corresponding to the risk weight for such exposure as applicable to the loan/investment exposure.

UCBs should ensure that securities acquired under repo along with other non-SLR investment already in the balance sheet should be within the stipulated ceiling of non-SLR investment (i.e., 10 per cent of a bank's total deposits as on March 31 of the previous year). Funds borrowed under repo should be within the limit prescribed for call money borrowing (i.e., 2 per cent of the previous year's deposits).

The amount borrowed by the bank through repo should be reckoned as part of its demand and time liability (DTL) and would attract cash reserve ratio (CRR)/statutory liquidity ratio (SLR).

FEMA

Export related receipts facilitated by OPGSPs

The Reserve Bank has advised all category - I authorised dealer banks that the per transaction limit for export related remittances received through online payment gateway service providers (OPGSPs) has been increased from USD 3000 to USD 10,000. The revised limit has come into force from June 11, 2013.

It may be recalled that in October 2011, AD Category I banks were permitted to offer the facility to repatriate export related remittances by entering into standing arrangements with OPGSPs for export of goods and services for value not exceeding USD 3000 per transaction.

Import of Gold by Nominated Banks/Agencies

The Reserve Bank has advised that, any import of gold on consignment basis by nominated banks/agencies/premier/star trading houses who have been permitted by the Government of India to import gold, would now be permissible only to meet the needs of exporters of gold jewellery.

Further, all letters of credit (LCs) to be opened by nominated banks/agencies for import of gold under all categories will be only on 100 per cent cash margin basis. All imports of gold will necessarily have to be on documents against payment (DP) basis. Accordingly, gold imports on documents against acceptance (DA) basis will not be permitted. These restrictions would, however, not apply to import of gold to meet the needs of exporters of gold jewellery.

Realisation and Repatriation Period for Units in SEZs

The Reserve Bank has advised that units located in special economic zones (SEZs) should realise and repatriate, full value of goods/software/services to India within a period of twelve months from the date of export. The Reserve Bank will grant, on a case to case basis, any extension of time beyond this stipulated period. These changes will be applicable from June 11, 2013 and would be valid for one year, subject to review.

NBFCs

Non-Partnership in Partnership Firms - Clarifications

In March 2011, non-banking finance companies (NBFCs) were prohibited from contributing capital to any partnership firm or to be partners in partnership firms. In cases of existing partnerships, NBFCs were advised to seek early retirement from the partnership firms. In this regard, the Reserve Bank has issued certain clarifications as indicated below:

- Partnership firms will also include limited liability partnerships (LLPs).
- The above prohibition is also applicable to association of persons; these being similar in nature to partnership firms.

NBFCs which had already contributed to the capital of a LLP/association of persons or were a partner of a LLP/association of persons have been advised to seek early retirement from the LLP/association of persons.

Finance for Purchase of Gold

The Reserve Bank has clarified that NBFCs should not grant advances for purchase of gold in any form, including primary gold, gold bullion, gold jewellery, gold coins, units of gold exchange traded funds (ETF) and units of gold mutual funds.

INFORMATION

Guidelines for Licensing of New Banks - Clarifications

The Reserve Bank, on June 3, 2013, released on its website, clarifications to queries on the Guidelines for Licensing of New Banks in the Private Sector.

The Reserve Bank had released the Guidelines for Licensing of New Banks in the Private Sector on its website on February 22, 2013. Following the issue of the guidelines, the Reserve Bank had issued a press release on March 7, 2013 inviting queries from intending applicants seeking clarifications on the guidelines and also stated that considering that the clarifications provided would be of wider interest and use for all intending applicants, the Reserve Bank would post the clarifications on its website.

In all, the Reserve Bank has received 443 queries from 34 individuals/organisations. The clarifications to all the queries have been provided. A few queries have been clubbed with other related queries for the sake of clarity and continuity.

A good number of queries have brought out issues relating to the provisions in the guidelines on the eligible promoters, 'fit and proper' criteria, corporate structure of the Non-Operative Financial Holding Company (NOFHC), foreign shareholding and transition time to the new structure.

RBI's Fraud Monitoring Cell to function from Bengaluru

The Reserve Bank of India's Fraud Monitoring Cell attached to the Department of Banking Supervision, Central Office has shifted from the present location at 2nd Floor, World Trade Centre-1, Cuffe Parade, Mumbai 400005 to the Reserve Bank's Bengaluru Regional Office. The Central Fraud Monitoring Cell will continue to be a part of Department of Banking Supervision, Central Office, Mumbai and will start functioning from July 1, 2013 from the new address which is - Central Fraud Monitoring Cell, Department of Banking Supervision, Reserve Bank of India, 10/3/8, Nruputhunga Road, Bengaluru 560001.

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CUSTOMER SERVICE

Operation of Accounts by Old and Incapacitated Persons

The Reserve Bank's instructions to banks regarding operation of bank accounts by old and incapacitated persons are-

Facility to sick/old/incapacitated non-pension account holders

The facilities offered to pension account holders should be extended to non-pension account holders also who are sick/old/incapacitated and are not willing to open and operate joint accounts.

Types of sick/old/incapacitated account holders

The cases of sick/old/incapacitated account holders fall into the following categories:

(a) An account holder who is too ill to sign a cheque/cannot be physically present in the bank to withdraw money from his bank account but can put his/her thumb impression on the cheque/withdrawal form.

(b) An account holder who is not only unable to be physically present in the bank but is also not even able to put his/her thumb impression on the cheque/withdrawal form due to certain physical incapacity.

Operational procedure

With a view to enabling old/sick account holders to operate their bank accounts, banks should follow the following procedure -

(a) Wherever thumb or toe impression of the sick/old/incapacitated account holder is obtained, it should be identified by two independent witnesses known to the bank, one of whom should be a responsible bank official.

(b) Where the customer cannot even put his/her thumb impression and also would not be able to be physically present in the bank, a mark can be obtained on the cheque/withdrawal form which should be identified by two independent witnesses, one of whom should be a responsible bank official.

(c) The customer may also be asked to indicate to the bank as to who would withdraw the amount from the bank on the basis of cheque/withdrawal form as obtained above and that person should be identified by two independent witnesses. The person who would be actually drawing the money from the bank should be asked to furnish his signature to the bank.

IBA's opinion in case of a person who cannot sign due to loss of both hands

Opinion obtained by the Indian Banks' Association from their consultant on the question of opening a bank account of a person who has lost both his hands and could not sign the cheque/withdrawal form is as under:

"In terms of the General Clauses Act, the term "sign" with its grammatical variations and cognate expressions, shall with reference to a person who is unable to write his name, include "mark" with its grammatical variations and cognate expressions. The Supreme Court has held in AIR 1950 – Supreme Court, 265 that there must be physical contact between the person who is to sign and the signature can be by means of a mark. This mark can be placed by the person in any manner. It could be the toe impression, as suggested. It can be by means of a mark which anybody can put on behalf of the person who has to sign, the mark being put by an instrument which has had a physical contact with the person who has to sign".

Bank branches/ATMs to be made accessible to persons with disabilities

Banks have been advised to take necessary steps to provide all existing ATMs/future ATMs with ramps so that wheel chair users/persons with disabilities can easily access them and also make arrangements in such a way that the height of the ATM does not create an impediment in its use by a wheelchair user. Banks should also take appropriate steps, including providing ramps at the entrance of their branches so that, persons with disabilities/wheel chair users can enter the bank branches and conduct business without much difficulty.

Providing banking facilities to visually impaired persons

In order to facilitate access to banking facilities by visually challenged persons, banks have been advised to offer banking facilities including, cheque book facility/operation of ATM/locker, net banking, retail loans, credit cards etc., to the visually challenged as they are legally competent to contract.

Talking ATMs with Braille keypads for use by persons with visual impairment

Banks have been advised to make at least one third of new ATMs installed as talking ATMs with Braille keypads and place them strategically in consultation with other banks to ensure that at least one talking ATM with Braille keypad is generally available in each locality for catering to the needs of the visually impaired persons. Banks should also bring the locations of such talking ATMs to the notice of their visually impaired customers.

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