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MONETARY AND CREDIT
INFORMATION REVIEW

PAYMENT SYSTEM

Online Alerts to Cardholders for usage of Credit/Debit Cards

Banks have been advised to take steps to put in place a system of online alerts for all types of transactions, irrespective of the amount, involving usage of debit/credit cards at various channels. Banks should implement this measure latest by June 30, 2011.

It may be recalled that in February 2009 banks were mandated to send online alerts to cardholders for all 'card not present' transactions of ₹ 5000 and above. This measure has enabled customers to take prompt action if the card is misused.

Pre-paid Payment Instruments – Identity Documents

The Reserve Bank has advised all payment system providers, system participants and any prospective prepaid payment instrument issuers that a job card issued by NREGA duly signed by an officer of the state government, and the letter issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number can be considered as an officially valid document for identity when issuing semi-closed prepaid cards up to ₹ 5000.

BRANCH BANKING

Nomination Rules - Clarifications

The Reserve Bank has issued clarifications on nominations as below -

Witness in Nomination Forms

Signatures of bank accountholders obtained on nomination forms (forms DA1, DA2 and DA3) need not be attested by witnesses.

In terms of the Banking Companies (Nomination) Rules, 1985 the thumb impression of the accountholder obtained on nomination forms DA1, DA2 and DA3 are required to be attested by two witnesses.

Joint Deposit Accounts - Nomination

Nomination facility is available for joint deposit accounts also. Banks are, therefore, advised to ensure that their branches offer nomination facility to all deposit accounts including, joint accounts with or without "either or survivor" mandate, opened by customers.

UCBs

Collection of Account Payee Cheques

With a view to mitigating the difficulties faced by the members of co-operative credit societies in collection of account payee cheques, the Reserve Bank has clarified that primary (urban) co-operative banks (UCBs) may consider collecting account payee cheques drawn for an amount not exceeding ₹ 50,000 to the account of their customers who are co-operative credit societies, if the payees of such cheques are the constituents of such co-operative credit societies. While collecting the cheques, banks should, however, obtain a clear undertaking in writing from the co-operative credit societies concerned that, upon realisation, the proceeds of the cheque would be credited only to the account of the member of the co-operative credit society who is the payee named in the cheque.

The collecting bank should subject the society to the usual 'know your customer' (KYC) norms and enter into an agreement with the society stating that the KYC documents of the society's

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customers are preserved in the society's records and are available to the bank for scrutiny. The collecting banks should, however, be aware that in the event of a claim by the true owner of the cheque, his/her rights are not affected in any manner by the above instructions and banks will have to establish that they acted in good faith and without negligence while collecting the cheque in question.

It had been brought to the notice of the Reserve Bank that since co-operative credit societies are not even sub-members of clearing houses, members of such co-operative credit societies who do not have bank accounts face difficulties in collection of account payee cheques drawn in their name.

RRBs

Investment in SLR Securities

The exemption granted to regional rural banks (RRBs) up to the financial year 2009-10 from 'mark to market' norms in respect of their investment in SLR securities has been extended by three years i.e. for the financial years 2010-11, 2011-12 and 2012-13. Accordingly, RRBs will have the freedom to classify their entire investment portfolio of SLR securities under 'held to maturity' for the financial years 2010-11, 2011-12 and 2012-13 with valuation on book value basis and amortisation of premium, if any, over the remaining life of the securities.

Relaxations in Branch Licensing Policy

The Reserve Bank has advised that RRBs eligible to open branches in Tier 3 to Tier 6 centres may do so without its prior approval and may approach the Reserve Bank's Regional Office for post-facto automatic issue of the licence/s. The licence should be displayed in the premise of the branch so opened for the information of its customers/public to instill confidence in them that the bank branch is authorised to conduct banking business.

Compounding of Interest on Agriculture Loans

The Reserve Bank has advised all sponsor banks/RRBs to develop/modify the software package to ensure that the process of compounding of interest on agricultural loans falls in line with the extant instructions in this regard. Also, RRBs should re-examine the relevant cases and arrange to re-credit the excess interest wrongly charged in the accounts, under advice to the Reserve Bank's respective Regional Offices and to the National Bank for Agriculture and Rural Development (NABARD).

A recent study undertaken by the Regional Offices of NABARD and the Reserve Bank in select states has revealed that compounding of interest on quarterly/half-yearly basis, and not as per cropping/harvesting cycle/s on agricultural loans, was prevalent in some RRBs. In certain cases, NABARD has also observed that RRBs have been using the software package developed by their sponsor banks, which has no provision for segregating interest from principal before applying the interest for the next period.

FEMA

Payment for Airline Tickets

It has come to the notice of the Reserve Bank that in certain cases where the payment for air tickets are made by residents using credit/debit card, card companies have been providing arrangements to the foreign airlines operating in India to select the country and currency of their choice, in respect of transactions arising from the sale of air tickets in India in Indian Rupees (INR). In such transactions the overseas bank, as the acquiring bank, receives the funds from the card issuing company in its vostro account maintained with an authorised dealer bank in India or in its foreign currency account maintained abroad and makes the payment in foreign currency overseas to the foreign airline.

The Reserve Bank has clarified that this practice adopted by foreign airlines is not in conformity with the extant provisions of the Foreign Exchange Management Act, 1999. AD Category-I banks may, therefore, advise the foreign airlines to immediately discontinue the practice of using overseas banks for settlement of INR transactions on account of sale of air tickets in India.

Liquidation of Post-Shipment Rupee Export Credit

In order to reduce the cost to exporters (interest cost on overdue export bills), exporters with overdue export bills have been permitted to extinguish their overdue post shipment rupee export credit from their rupee resources. The corresponding GR form, will however, remain outstanding and the amount will be shown outstanding in the XOS statement. The exporter's liability for realisation would continue till the export bill is realised.

It may be recalled that in its Master Circular on Rupee/ Foreign Currency Export Credit and Customer Service to Exporters of July 1, 2010, the Reserve Bank had advised banks that post-shipment credit is to be liquidated by the proceeds of export bills received from abroad in respect of goods exported/ services rendered. Further, subject to mutual agreement between the exporter and the banker it can also be repaid/prepaid out of balances in exchange earners' foreign currency (EEFC) account as also from the proceeds of any other unfinanced (collection) bills.

Overseas Forex Trading through Electronic/Internet Portals

The Reserve Bank has clarified that remittance in any form towards overseas foreign exchange trading through electronic/ internet trading portals is not permitted under the Foreign Exchange Management Act (FEMA), 1999. The Reserve Bank has also clarified that the existing regulations under FEMA, 1999 do not permit residents to trade in foreign exchange in domestic/overseas markets.

AD Category - I banks have been advised to exercise due caution and be extra vigilant in respect of such transactions. Any person resident in India collecting and effecting/remitting such payments directly/indirectly outside India would make

himself/herself liable to be proceeded against for contravention of FEMA, 1999 besides being liable for violation of regulations relating to KYC norms/anti money laundering standards.

The Reserve Bank had noticed advertisements issued by electronic/internet portals offering trading or investing in foreign exchange with guaranteed high returns. Many companies even engage agents who personally contact gullible people to undertake forex trading/investment schemes and entice them with promises of disproportionate/exorbitant returns.

Realisation/Repatriation of Export Proceeds

The enhanced period of 'from six months to twelve months from the date of export' granted for realising and repatriating to India the amount representing the full export value of goods or software exported, has now been extended up to September 30, 2011. Earlier the relaxation was up to March 31, 2011.

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

NBFCs advised not to be Partners in Partnership Firms

In view of the risks involved in non-banking finance companies (NBFCs) associating themselves with partnership firms, they have been prohibited from contributing capital to any partnership firm or to be partners in partnership firms. In cases of existing partnerships, NBFCs have been advised to seek early retirement from the partnership firms.

INFORMATION

Micro Finance

The poor in rural India are being provided microfinance mainly through the self help group (SHG) - Bank Linkage Model and the micro finance institution (MFI) - Bank Linkage Model.

SHG Bank Linkage Model

SHGs are economically homogeneous groups of 10-20 members belonging to poor families that have been formed to save small amounts of money on a regular basis. The savings of the SHGs are utilised by them for on lending to group members. SHGs are free to determine the rate of interest to be charged on the loans extended by them. The SHGs are financed directly by banks. As on March 31, 2010, 69.53 lakh SHGs have savings bank accounts with banks and the amount of savings with banks was ₹ 6,199 crore. Under the SHG - Bank Linkage model, thrift and savings precede credit. About 9.7 crore rural households have been covered under this scheme. As on March 31, 2010, 48.51 lakh SHGs had loans outstanding

with banks in the country with an average loan outstanding of ₹ 57,795 per SHG.

MFI - Bank Linkage Model

Under the MFI bank linkage model, banks lend to the MFIs for on lending to the poor. As on March 31, 2010 loans outstanding against 1513 MFIs in the books of banks amounted to ₹ 10,147.54 crore.

Steps taken to encourage SHGs

The Government of India and the Reserve Bank have taken the following steps to encourage SHGs:

- (i) To give an impetus to microfinance, the Reserve Bank has categorised microfinance under priority sector lending and lending to SHGs has been brought under advances to weaker sections in priority sector lending. Once SHGs attain maturity in handling their own resources, banks grade them and extend credit to the qualified groups in multiples of their savings.
- (ii) The Reserve Bank has permitted banks to use the services of non - governmental organisations (NGOs)/ SHGs, MFIs and other civil society organisations as intermediaries in providing financial and banking services through business facilitator (BF) and business correspondent (BC) models.
- (iii) The Reserve Bank has advised banks to provide adequate incentives to their branches for financing SHGs.
- (iv) NABARD extends refinance to banks for on lending to SHGs at a rate of 8.25 per cent per annum (7.15 per cent per annum for financing in the north-eastern region, including Sikkim) and at 7.75 per cent per annum to RRBs and co-operatives (subject to periodic revision).
- (v) NABARD has introduced training and capacity building of SHGs/grading of SHGs, etc.
- (vi) A Microfinance Development and Equity Fund has been set up in NABARD with a corpus of ₹ 200 crore. This corpus has been enhanced by another ₹ 200 crore in the financial year 2010-11.

Source : Parliament Questions

Centre for Advanced Financial Research and Learning

The Centre for Advanced Financial Research and Learning (CAFRAL) has been set up by the Reserve Bank of India as a Society and a Trust to develop into a global resource for research and capacity building in banking and finance for central bankers, regulators and senior management of banks, government and industry. Smt. Usha Thorat, former Deputy Governor, RBI is Director of CAFRAL.

Why CAFRAL?

CAFRAL was set up by RBI as per the recommendations of the Committee on Repositioning Bankers' Training College

(BTC). The Report of the Committee envisioned that CAFRAL should serve as a think tank of global standing on banking and finance. Given India's evolving position in various global fora it is considered timely to establish a world class centre in India to undertake research on banking and finance that will be of value to central banks, policy makers, regulators and practitioners.

Functions

CAFRAL will perform the following functions:

- Undertake research that will be useful to central banks and regulators and the financial sector.
- Conduct learning programmes for central banks, regulators, boards and senior management in the financial system, industry and government on matters related to banking and finance.
- Provide a platform for academics, researchers and practitioners to explore policy and regulatory issues in banking and finance.
- Disseminate the results of the research and learning activities.
- Collaborate with other institutions within the country and outside to promote research in areas of interest to the Centre.

Research

Research undertaken by CAFRAL will be largely demand driven and will also aim at bringing together cross country experiences. Initially, CAFRAL will give priority to research in financial sector regulation and supervision, financial markets and financial inclusion. Over time, other areas for research will be accounting and auditing standards, reserves management, debt management, payments and settlement systems, and consumer protection.

CAFRAL will invite researchers interested in either working with CAFRAL for short periods or others who may like to join on a longer term basis. CAFRAL will also welcome researchers who could come on deputation/sabbatical or as adjunct/visiting faculty. Research contribution from current locations would also be possible.

Learning Activities

CAFRAL will conduct learning activities in the form of conferences, seminars and e-learning programmes for central bankers, regulators, supervisors, boards and senior management of banks and financial institutions, government and industry to enable them to take more informed and effective decisions.

Learning activities would use as external resource persons, experts in the field from central banks, regulators, financial sector, industry and consultants and practitioners. CAFRAL will also have a limited number of core faculty with proven expertise, experience and flair for conducting learning activities.

Collaborations

The Bank for International Settlements has agreed to collaborate with CAFRAL in research, in sponsoring international conferences and in providing experts.

CAFRAL is also exploring possibilities of collaborating with universities, research institutions and financial sector in India and abroad for intellectual and technical support as also for providing or facilitating provision of resource persons.

Governing Council

CAFRAL has a Governing Council chaired by the Governor, RBI. The current members of the Governing Council are Dr. K.C. Chakrabarty, Deputy Governor, RBI, Dr. Subir Gokarn, Deputy Governor, RBI, Dr R. H. Patil, Shri Y. H. Malegam, Dr. Ashok Ganguly, Shri T.V. Mohandas Pai and Dr J.J. Irani.

Funding

CAFRAL is funded by the Reserve Bank of India. The arrangement will be reviewed after a period of five years.

Location

Currently, CAFRAL is operating from the Reserve Bank's Mumbai Regional Office but will operate out of the Reserve Bank's premises at the Bandra-Kurla Complex till infrastructure for CAFRAL is ready at the erstwhile BTC complex. The property will be developed into a world class facility providing a conducive environment for research and learning activities.

The CAFRAL website can be accessed at www.cafral.org.in

Exchange of Coins of 25 paise and below - Modification

In the March 2011 issue of the Monetary and Credit Information Review it was reported that coins of denomination of 25 paise and below would be exchanged at banks maintaining small coin depots and all the Issue Offices of the Reserve Bank till the close of business on June 30, 2011. It is clarified that the last date for exchanging the coins at the specified bank branches/offices of the Reserve Bank has been modified to till the close of business on June 29, 2011 (instead of June 30, 2011).