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POLICY

Branch Authorisation Policy Relaxed

The Reserve Bank had, on September 19, 2013, permitted domestic scheduled commercial banks (other than RRBs) to open branches in Tier 1 to Tier 6 centres without needing to take the Reserve Bank's permission in each case, subject to reporting. The Reserve Bank has now issued detailed guidelines in this regard, as indicated below:

Opening of new branches and shifting of existing branches by banks is governed by the provisions of Section 23 of the Banking Regulation Act, 1949. In terms of these provisions, banks cannot, without the Reserve Bank's prior approval, open a new place of business in India or outside India or change, otherwise than within the same city, town or village, the location of the existing place of business. Before granting permission, the Reserve Bank may require to be satisfied, by an inspection or otherwise, regarding the financial condition and history of the banking company, the general character of its management, the adequacy of its capital structure and earning prospects and that public interest would be served by the opening/change of location of the existing place of business.

For the purpose of branch authorisation policy, a "branch" would include all branches, i.e., full-fledged branches, specialised branches, satellite offices, mobile branches, extension counters, off-site ATMs (automated teller machines), administrative offices, controlling offices, service branches (back office or processing centres), etc.

The branch authorisation policy covers the opening of branches in all Tiers (Tier 1 to 6) of the country. Tier 1 comprises metropolitan and urban centres, Tiers 2, 3, and 4 comprise semi-urban centres and Tiers 5 and 6 comprise rural centres.

For increasing banking penetration and financial inclusion, there is a need to open branches in centres that are unbanked. Unbanked centres are those which do not have any brick and mortar structure of a scheduled commercial bank for customer based banking transactions. The current branch authorisation policy, therefore, mandates that banks have to open at least 25 per cent of all branches opened in a year in unbanked rural centres.

The general permission available to domestic scheduled commercial banks for opening branches in Tier 1 to Tier 6 centres across the country will encompass specialised branches, extension counters, satellite offices, service branches, central processing centres (CPCs) and all other offices/branches of the bank. Thus, banks are not required to approach the Reserve Bank for authorisation for opening branches or any other places of business or administrative offices in any centre.

Banks may formulate an annual plan for the financial year, approved by their Board as part of their annual strategy for branch expansion. While formulating this plan, they may keep various factors in mind, such as, setting up of low cost branches, innovative use of technology, including internet banking and virtual banking to reduce physical footfalls, improving customer service, etc.

Opening of branches during a financial year will be subject to the following conditions:

* At least 25 per cent of the total number of branches opened during a financial year (excluding entitlement for branches in Tier 1 centres given by way of incentive), must be opened in

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unbanked rural (Tier 5 and Tier 6) centres, i.e., centres which do not have a brick and mortar structure of any scheduled commercial bank for customer based banking transactions.

* The total number of branches opened in Tier 1 centres during the financial year (excluding entitlement for branches in Tier 1 centres given by way of incentive) cannot exceed the total number of branches opened in Tier 2 to Tier 6 centres and all centres in the North Eastern States and Sikkim.

Extension counters, satellite offices, mobile branches, CPCs, service branches and administrative offices can be freely opened in any centre and will not be reckoned for the purposes indicated above.

Banks would be provided incentive for opening branches in underbanked districts of underbanked states. Accordingly, banks may open branches in Tier 1 centres, (over and above their eligibility), equal to the number of branches opened in Tier 2 to Tier 6 centres of underbanked districts of underbanked states, excluding branches opened in unbanked rural centres that are located in underbanked districts of underbanked states.

In case a bank is unable to open all the branches it is eligible for in Tier 1 centres, it may carry-over (open) these branches during subsequent two years. If for some reason banks are unable to meet their obligations of opening branches in Tier 2 to 6 centres in aggregate, or in unbanked rural centres (Tiers 5 to 6 centres) during the financial year, the shortfall must necessarily be rectified in the next financial year.

In May 2013, banks were advised to consider front-loading (prioritising) the opening of branches in unbanked rural centres over a 3 year cycle co-terminus with their Financial Inclusion Plan (FIP 2013-16). Credit will, therefore, continue to be given for the branches opened in unbanked rural centres in excess of the required 25 per cent of the total branches opened during the year which will be carried forward for achieving the criteria in the subsequent year of the FIP.

Banks should place before their Board an annual report of branches actually opened during the year, for the year ending March 31. Compliance regarding opening of branches in accordance with the above stipulations would be examined during the bank's annual financial inspection and discussion of the Financial Inclusion Plans.

Bank Rate

The Bank Rate has been adjusted by 50 basis points from 9.5 per cent to 9.0 per cent from October 7, 2013.

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

Item	Existing Rate	Revised Rate (effective from October 7, 2013)
Penal interest rates on shortfalls in reserve requirements (depending on duration of shortfalls)	Bank Rate plus 3.0 percentage points (12.50 per cent) or Bank Rate plus 5.0 percentage points (14.50 per cent)	Bank Rate plus 3.0 percentage points (12.00 per cent) or Bank Rate plus 5.0 percentage points (14.00 per cent)

Marginal Standing Facility

The marginal standing facility (MSF) rate has been reduced by 50 basis points from 9.50 per cent to 9.00 per cent from October 7, 2013.

BRANCH BANKING

Settlement of Claims - Missing Persons in Uttarakhand

In the aftermath of the Uttarakhand natural disaster during June 14-20, 2013 the office of the Registrar General of India, Ministry of Home Affairs, Government of India had issued a circular on August 16, 2013, devising a procedure for registration of death of missing persons in natural calamities affected areas in Uttarakhand. The circular details the procedure for registration and issue of 'death certificate' of a person reportedly missing since his/her visit to the site of disaster in Uttarakhand in June 2013.

The Reserve Bank has advised banks to settle claims in respect of missing persons, covered by the Ministry of Home Affairs' circular, without insisting on production of any documentation other than (i) 'death certificate' issued by the designated officer as per the Ministry's circular and (ii) letter of indemnity.

UCBs

Financially Sound and Well Managed UCBs

The Reserve Bank has advised that primary (urban) co-operative banks (UCBs) fulfilling the following criteria would now be termed as financially sound and well managed UCBs:

(a) Maintenance of a minimum capital to risk weighted assets ratio (CRAR) of 10 per cent on a continuous basis.

(b) Gross non-performing assets (NPAs) of less than 7 per cent and net NPAs of not more than 3 per cent.

(c) No default in maintenance of cash reserve ratio (CRR)/ statutory liquidity ratio (SLR) during the preceding financial year.

(d) Continuous net profit for last three years.

(e) Sound internal control system with at least two professional directors on the Board.

(f) Regulatory comfort based on *inter alia*, record of compliance to the provisions of the Banking Regulation Act, 1949 (AACS), RBI Act, 1934 and the Reserve Bank's instructions/directions issued from time to time.

The new criteria would, henceforth be considered for processing applications received from UCBs for branch authorisations, opening of on-site and off-site ATMs, extension of area of operation, shifting of premises and other permissions from the Reserve Bank.

Inclusion in Second Schedule to RBI Act, 1934

It has now been decided to consider applications from UCBs for inclusion in the Second Schedule to the Reserve Bank of India Act, 1934. The Government of India has, on May 4, 2013, notified that with effect from April 1, 2013, only licensed UCBs whose demand and time liabilities (DTL) are not less than Rs. 750 crore would be treated as a 'financial institution' for the purpose of sub-clause (iii) of clause (a) of Sub-Section (6) of Section 42 of the Reserve Bank of India Act, 1934, i.e., for the purpose of inclusion in the Second Schedule to the Reserve Bank of India Act, 1934.

UCBs desirous of seeking inclusion in the Second Schedule to the RBI Act, 1934 and fulfilling the following financial criteria, based on assessed financials as per inspection reports, may submit their application along with relevant documents, to the regional office concerned of the Reserve Bank's Urban Banks Department:

- DTL of not less than Rs.750 crore on a continuous basis for one year;
- CRAR of minimum 12 per cent;
- Continuous net profit for the previous three years;
- Gross NPAs of 5 per cent or less;
- Compliance with CRR/SLR requirements; and
- No major regulatory and supervisory concerns

Unsecured Exposure Norms

On a review, it has been decided to exempt unsecured loans up to Rs.10,000 sanctioned by UCBs from the aggregate ceiling on unsecured exposure of 10 per cent of total assets as per audited balance sheet as on March 31 of the previous financial year, subject to the conditions that -

(a) the individual amount sanctioned should not exceed Rs.10,000;

(b) the loan should be for productive purpose and banks should ensure end-use of funds lent;

(c) the bank should have CRAR of 9 per cent; and

(d) the UCB's gross NPAs should be less than 10 per cent of the gross advances.

Unsecured loans, so extended by an UCB, should not exceed 15 per cent of its total assets.

UCBs which do not meet the above criteria would continue to be governed by the extant guidelines limiting the ceiling on unsecured loans (with or without surety or for cheque purchase) to 10 per cent of total assets as per audited balance sheet as on March 31 of the previous financial year, with individual and group borrower limits ranging from Rs. 25,000 to Rs. 5 lakh, depending on the size of DTL and compliance with CRAR.

At par Cheque Facility

The Reserve Bank had advised UCBs to utilise the 'at par' cheque facility extended by scheduled commercial banks only for the following purposes:

(i) their own use;

(ii) their account holders who are 'know your customer' (KYC) compliant provided, all transactions of Rs. 50,000 or more are strictly by debit to the customer's account; and

(iii) walk-in customers against cash of less than Rs. 50,000 per individual.

In order to utilise the 'at par' cheque facility in the above manner, UCBs should maintain -

(a) records pertaining to issuance of 'at par' cheques covering *inter alia* applicant's name and account number, beneficiary's details and date of issuance of the 'at par' cheque.

(b) sufficient balances/drawing arrangements with the commercial bank extending such facility for the purpose of honouring such instruments.

UCBs have also been advised to ensure that all 'at par' cheques issued by them are crossed 'account payee' irrespective of the amount involved.

UCBs are further advised to make use of more efficient means of remittances for their customers like NEFT or RTGS by providing such services directly or by becoming sub-members of banks providing such services.

FEMA

Overseas Foreign Currency Borrowings by AD Banks

With a view to providing greater flexibility to AD category - I banks in seeking access to overseas funds, the Reserve Bank has advised that henceforth, authorised dealers may borrow from their head office or overseas branches or correspondents outside India or any other entity, as permitted by the Reserve Bank, up to hundred per cent of their unimpaired Tier I capital or USD 10 million, whichever is higher, subject to conditions.

Accordingly, permission is now granted to AD category - I banks to borrow from international/multilateral financial institutions for a limited period up to November 30, 2013. Such borrowings should be for the purpose of general banking business and not for capital augmentation and would be subject to conditions.

PAYMENT SYSTEM

Card Present Transactions

The Reserve Bank has reiterated that no further extension of time would be granted to banks in the stipulated deadline of September 30, 2013 for complying with the task of securing the technology infrastructure (Unique Key Per Terminal - UKPT or Derived Unique Key Per Transaction - DUKPT/Terminal Line Encryption - TLE) as stated in its circular of September 22, 2011.

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In its circular of June 24, 2013, the Reserve Bank had indicated that in the event of a customer complaining of misuse of card after the stipulated date, the issuer or the acquirer who has not adhered to the timelines should bear the loss. Accordingly, banks not complying with the requirements shall compensate loss, if any, incurred by the card holder using card at POS terminals not adhering to the mandated standards.

The Reserve Bank has advised that in case a card holder approaches his/her card issuing bank for any fraudulent POS transaction/s in India (which have occurred after September 30, 2013), the following course of action is mandated:

(i) The issuing bank would ascertain, within 3 working days from the date of the cardholder approaching the bank, whether the respective POS terminal/s where the said transaction/s occurred is/are compliant with TLE and UKPT/DUKPT.

(ii) If it is found that the POS terminals are non-compliant as mandated, the issuing bank shall pay the disputed amount to the customer within 7 working days, failing which, a compensation of Rs.100 per day will be payable to the customer from the 8th working day.

(iii) The issuing bank shall claim the amount paid by it to the customer from the respective bank/s which have acquired the POS transaction/s in question.

(iv) The acquiring banks have to pay the amount paid by the issuing bank without demur within 3 working days of the issuing bank raising the claim, failing which the Reserve Bank would be constrained to compensate the issuing bank by debiting the account of the acquiring bank maintained with the Reserve Bank.

Acquiring banks have been advised to send a status report of compliance with respect to TLE and UKPT/DUKPT as on September 30, 2013, duly signed/approved by their chairman and managing director/chief operating officer on or before October 7, 2013. The position in this regard should also be put up to their Board in its next meeting, and a duly approved copy should be sent to the Reserve Bank.

The Reserve Bank has further advised that it would also consider invoking the penal provisions under the Payment and Settlement Systems Act, 2007 against banks that have failed to adhere to the timeline of September 30, 2013.

Mid-Quarter Review of Monetary Policy 2013-14

The Reserve Bank of India announced the Mid-Quarter Review of the Monetary Policy Statement 2013-14 on September 20, 2013. On the basis of an assessment of the current and evolving macroeconomic situation, the following monetary and liquidity measures were announced -

- reduction in the MSF rate by 75 basis points from 10.25 per cent to 9.5 per cent from September 20, 2013.
- reduction in the minimum daily maintenance of cash reserve ratio (CRR) from 99 per cent of the requirement to 95 per cent effective from the fortnight beginning September 21, 2013, while keeping the CRR unchanged at 4.0 per cent; and
- increase in the policy repo rate under the liquidity adjustment facility (LAF) by 25 basis points from 7.25 per cent to 7.5 per cent from September 20, 2013.

Consequently, the reverse repo rate under the LAF was adjusted to 6.5 per cent and the Bank Rate reduced to 9.5 per cent from September 20, 2013.

INFORMATION

Launch of new RTGS System

Dr. Raghuram Rajan, Governor, Reserve Bank of India, launched the new Real Time Gross Settlement (RTGS) system of the Reserve Bank of India on October 19, 2013.

Reportedly the first in the world to be built on ISO 20022 messaging standards, the new RTGS system is highly scalable and will have several new functionalities. These include, advance liquidity features, including gridlock resolution mechanism and hybrid settlement facility, facility to accept future value dated transactions, options to process multi-currency transactions, etc. These functionalities, as and when made available for use, will be notified to the participants.

The new ISO 20022 compliant RTGS system provides three access options to participants – thick-client, Web-API (through INFINET or any other approved network) and Payment Originator module. The participants can decide the mode of participation in the system based on the volume of transactions and the cost of setting up the infrastructure.

With implementation of the new RTGS system, the earlier RTGS system has ceased to be operational. Further, the "RTGS System Regulations 2013" have replaced the RTGS (Membership) Business Operating Guidelines, 2004 and RTGS (Membership) Regulations, 2004.

The RTGS system is a large-value funds transfer system which banks use to settle inter-bank transfers for their own account as well as for their customers. It was first implemented in India in March 2004 as a major technology based electronic funds transfer system across the country. The system facilitates customer, inter-bank payment on a 'real' time and on gross basis. The system also facilitates settlement of Multilateral Net Settlement Batch files emanating from other ancillary payment systems. The RTGS infrastructure is critical in facilitating the orderly settlement of payment obligations.

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