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MONETARY AND CREDIT
INFORMATION REVIEW

POLICY

Financial Literacy and Credit Counselling Centres

The Reserve Bank had placed a concept paper on Financial Literacy and Credit Counselling Centres (FLCCs) on its website for obtaining feedback from the public as also from banks. Based on the feedback received, the Reserve Bank has formulated a Model Scheme for Financial Literacy and Credit Counselling Centres. The salient features of the Scheme are-

Objectives

The broad objective of the FLCCs will be to provide free financial literacy/education and credit counselling. The specific objectives of the FLCCs would be to:

- (i) provide financial counselling services through face-to-face interaction as well as through other available media like e-mail, fax, mobile, etc., education on responsible borrowing, proactive and early savings, and offer debt counselling to individuals who are indebted to formal and/or informal financial sectors;
- (ii) educate people in rural and urban areas regarding the various financial products and services available from the formal financial sector;
- (iii) make people aware of the advantages of being connected with the formal financial sector;
- (iv) formulate debt restructuring plans for borrowers in distress and recommend them to formal financial institutions, including cooperatives, for consideration; and
- (v) take up any such activity that promotes financial literacy, awareness of banking services, financial planning and amelioration of debt-related distress of individuals.

FLCCs should not, however, act as investment advice centres/marketing centres for products of any particular bank/banks. Counsellors should refrain from marketing/providing advice regarding investment in insurance policies/securities, value of securities, purchase/sale of securities, etc., or promoting investments only in bank's own products.

Organisational/Administrative Set-up/Infrastructure

To start with, banks may set up trusts/societies for running the FLCCs, singly or jointly with other banks. A bank may induct respected local citizens on the Board of such a trust/society.

Serving bankers should not be included in the Board. To begin with, FLCCs may be fully funded by bank/s.

The counselling centres should maintain arm's length relationship with the parent bank and, preferably should not be located in the bank's premises to avoid any impression that such centres are a part of the bank itself. The centres should not promote the products of their parent banks. Initially, if the parent bank's branch premises are used to minimize cost, the FLCC should be kept completely separated with a separate entrance and a different look and feel from that of the bank's branch so as to maintain a distinct identity from the parent bank. Banks' officers may make dummy calls or incognito visits for effective supervision and monitoring of the activities of such trusts/societies.

Banks should put in place proper infrastructure with adequate communication and networking facilities. They should have a toll free line, e-mail and fax facilities for easy contact. Separate cubicles could be set up to maintain privacy/confidentiality of the discussions with clients.

To maximise the outreach of the counselling centre, mobile units should also be set up to service all the blocks in the districts.

Types of Credit Counselling

Debt counselling/credit counselling can be both preventive

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and curative. In case of preventive counselling, the centres could provide awareness regarding cost of credit, availability of backward and forward linkages, where warranted, etc. The clients could be encouraged to avail of credit on the basis of their repaying capacity. Preventive counselling can be through the media, workshops and seminars.

FLCCs may consider introducing a generic financial education module in vernacular language. Broadly, the module content can include the need for savings, budgeting, advantages of banking with formal financial institutions, concept of risk and rewards and time value of money, various products offered by banks, insurance companies, etc. The module may also cover aspects relating to deposits and various other financial products, the method of calculation of interest on savings bank accounts, fixed deposits, etc., and the method of compounding.

FLCCs should also give due emphasis to customers' rights under the fair practices code, benefits of nomination facilities, operation of accounts, etc.

Preventive counselling may be made mandatory for individual borrowers based on their income level or size of loan. Such mandatory credit counselling could be made a part of the fair lending practice of banks.

In the case of curative counselling, clients may approach the counselling centres to work out individual debt management plans for resolving their unmanageable debt portfolio. Here, the centres could work out effective debt restructuring plans that could include repayment of debt to informal sources, if necessary, in consultation with the bank branch.

Mechanism for Credit Counselling/Debt Settlement

Banks may encourage their own customers in distress or customers of any bank to approach the FLCCs set up by them. Information about such FLCCs can be provided through the various fora available under the Lead Bank Scheme. Banks may evolve trigger points to refer cases, where there are early warning signals, to the counselling centres before taking measures for recovery. Timely intervention would help to arrest any further financial deterioration of the borrower.

For single-creditor-debts, the FLCCs could assist the borrower in negotiating with the bank concerned. In case of multiple credits availed of by individuals, FLCCs may negotiate with the bank/s having the largest exposure to restructure the debt and the recoveries to be shared on a pro-rata basis. The bank/s, on review of the recommendations/proposal made by the FLCC, may make their independent and informed decision to accept the proposal in its original form or in such other modified form as deemed fit. The choice of finally accepting or rejecting a debt restructuring proposal suggested by a FLCC may be left to the bank/banks concerned. If the restructuring proposals forwarded by FLCCs to banks are not accepted/rejected, banks should give the reasons in writing to the FLCCs in the interests of transparency.

Qualification/Training of Counsellors

- Only well qualified/trained counsellors should be selected to man the centre on a full time basis.

- FLCCs could consider appointing people with domain knowledge in agriculture for counselling related to agriculture and allied activities.
- Individuals, such as, retired bank officers, ex-servicemen, etc., could be appointed, among others, as credit counsellors.
- Credit counsellors should have sound knowledge of banking, law, finance, requisite communication and team building skills, etc.

To ensure that there is no conflict of interest, persons managing the FLCC should not be staff of the bank.

Proper training and skill upgradation is essential for the counsellors to keep themselves abreast of the latest developments in the banking industry. Training should also be provided to the counsellors on an on going basis to constantly upgrade their skills.

Transparency/Disclosure of Information/Publicity

To help the customers in making informed decisions, all banks should display on their websites necessary information regarding fees, charges, etc., as prescribed in the Reserve Bank's circular of November 3, 2008. Banks should also place on their websites, details of the services offered by the FLCCs opened by them.

All forms of publicity, viz., press conferences, workshops, publications, websites, road shows, mobile units, village fairs, etc., should be actively explored. Banks should provide a suitable budget for the purpose.

Security of On-line Credit/Debit Card Transactions

With a view to enhancing the security of online credit/debit card transactions, the Reserve Bank has advised banks to mandatorily put in place from August 1, 2009 -

- a system of providing for additional authentication/validation based on information not visible on the cards for all on-line 'card not present' transactions except interactive voice recognition (IVR) transactions; and
- a system of "Online Alerts" to the cardholder for all 'card not present' transactions of the value of Rs. 5,000 and above.

BRANCH BANKING

RTGS Transaction Timings extended

The real time gross settlement (RTGS) system timings have been extended from 12.00 noon to 12.30 hours for customer transactions and from 14.00 to 14.30 hours for inter-bank transactions on Saturdays. The new RTGS cut off timings for customer and inter-bank transactions are:

Days	Customer Transactions	Inter-bank Transactions
Monday - Friday	9.00 hours to 16.30 hours	9.00 hours to 18.00 hours
Saturday	9.00 hours to 12.30 hours	9.00 hours to 14.30 hours

The new timings have become effective from January 10, 2009.

In order to bring RTGS usage to the desired level, RTGS member banks have been advised to:

- Extend their customer windows commensurate with the Reserve Bank's business sessions.
- Popularise the products by educating customers/ advertisements, etc.
- Create a user friendly atmosphere at the branch level.
- Identify branches which have the potential but are not using the system.
- Incentivise the branches for extensive use of RTGS.
- Make their entire branch network RTGS enabled.
- Expedite providing RTGS facility to the customers of RRBs sponsored by respective banks.

ATM Transactions - Reimbursement of Wrongful Debits

Pursuant to receiving a number of complaints from bank customers regarding debit of accounts even though the automated teller machines (ATMs) have not disbursed cash for various reasons, the Reserve Bank has advised banks to reimburse to customers the amount wrongfully debited within a maximum period of 12 days from the date of receipt of customer complaints.

Indo - Nepal Remittance Scheme - Service Charges Revised

The service charges to be levied to customers for funds transfer from India to Nepal through the Indo-Nepal remittance scheme have been revised. The revised charges are -

- (a) Originating bank - maximum Rs 5 per transaction - aligned with NEFT.
- (b) State Bank of India (SBI) - Rs 20 per transaction. SBI would share the Rs.20 with Nepal State Bank Ltd. (NSBL) at Rs.10 each. NSBL would not charge any additional amount for crediting the beneficiary, if he maintains an account with it.
- (c) In case the beneficiary does not maintain an account with NSBL then, an additional amount would be charged - Rs 50 for remittances up to Rs. 5,000 and Rs. 75 for remittances above Rs. 5,000.

Originating branches of participating banks should recover the entire charges and pass on the appropriate amount to SBI after retaining their share.

UCBs

Placement of Deposits with other Banks

On the basis of representations received from banks and their federations, the guidelines on placement of deposits by non-scheduled UCBs with scheduled UCBs were reviewed by the Reserve Bank and revised guidelines were issued. The revised guidelines are :

Prudential Inter-bank (gross) Exposure Limit

The total amount of deposits placed by an UCB with other banks (inter-bank) for all purposes including call money/notice money, and deposits, if any, placed for availing clearing facility, constituent subsidiary general ledger (CSGL) facility, currency chest facility, remittance facility and non-fund based facilities like bank guarantee, letter of credit, etc., should not exceed 20 per

cent of its total deposit liabilities as on March 31 of the previous year. The balances held in deposit accounts with commercial banks and in permitted scheduled UCBs and investments in certificates of deposit issued by commercial banks, being inter bank exposures, would be included in this 20 per cent limit.

Prudential Inter-bank Counter Party Limit

Within the prudential inter-bank (gross) exposure limit, deposits with any single bank should not exceed 5 per cent of the depositing bank's total deposit liabilities as on March 31, of the previous year.

Exemptions from the Prudential Limit

Non-scheduled UCBs in Tier I are presently exempted from maintaining statutory liquidity ratio (SLR) in government and other approved securities up to 15 per cent of their net demand and time liabilities (NDTL) provided the amount is held in interest bearing deposits with public sector banks and IDBI Bank Ltd. These deposits are exempted from the prudential limit on inter-bank exposure limits indicated above.

Balances maintained by UCBs with the central cooperative bank of the district concerned or with the state cooperative bank of the state concerned are treated as SLR under the provisions of Section 24 of the Banking Regulation Act, 1949 (AACs). These deposits are exempted from the prudential limit on inter-bank exposure limits indicated above.

The placement of deposits by non-scheduled UCBs with scheduled UCBs would continue to be as per the guidelines issued by the Reserve Bank on May 17, 2003. The amount of deposits placed by a non-scheduled UCB with any scheduled UCB should not, however, exceed 5 per cent of the depositing bank's total deposit liabilities as on March 31 of the previous year. The total inter-UCB deposits accepted by a scheduled UCB should not exceed 10 per cent of its total deposit liabilities as on March 31 of the previous financial year.

Keeping in view the above prudential limits, UCBs should 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, counter party risk, etc, and place it before their Board of Directors. The Board should review the position at least at half yearly intervals.

Investments in Non-SLR Securities

The Reserve Bank has revised its guidelines on investments in non-SLR securities by UCBs. The revised instructions are :

Prudential Limit

Non-SLR investments would continue to be limited to 10 per cent of a UCB's total deposits as on March 31 of the previous year.

Instruments

UCBs may invest in -

- (a) "A" or equivalent and higher rated commercial papers (CPs), debentures and bonds.
- (b) Units of debt mutual funds and money market mutual funds (MMMFs).

Restrictions

- (i) Investment in perpetual debt instruments is not permitted.
- (ii) Investment in unlisted securities would be subject to a minimum rating prescribed at (a) above and should not exceed 10 per cent of the total non-SLR investments at any time. Where banks have already exceeded the prescribed limit, no further investment in such securities would be permitted.
- (iii) Investment in deep discount/zero coupon bonds would be subject to the minimum rating as stated above and comparable market yields for the residual duration.
- (iv) Investment in units of mutual funds, other than units of debt mutual funds and MMMFs, are not permitted. The existing holding in units of mutual funds other than debt mutual funds and MMMFs, including those in Unit Trust of India (UTI), should be disinvested. Till such time that they are held in the books of the UCB they would be treated as non-SLR investments for reckoning the 10 per cent limit. UCBs should, however, review their risk management policy so as to ensure that they do not have disproportionate exposure in any one scheme of a mutual fund.
- (v) Non-SLR investment, other than in units of debt mutual funds and MMMFs, and CPs, should be in instruments with an original maturity of over one year.
- (vi) Fresh investments in shares of All India Financial Institutions (AIFIs) are not permitted. The existing share holding in these institutions should be phased out and till such time that they are held in the books of the UCB, they will be treated as non-SLR investments for reckoning the 10 per cent limit.
- (vii) All fresh investments under the non-SLR category should be classified under 'held for trading' (HFT)/'available for sale' (AFS) categories only and 'marked to market' as applicable to these categories of investments.
- (viii) All non-SLR investments would be subject to the prescribed prudential single/group counter party exposure limits.
- (ix) All transactions for acquisition/sale of non-SLR investments in secondary market should be undertaken only with commercial banks/primary dealers as counterparties.

FEMA**Opening of Diamond Dollar Accounts Liberalised**

AD Category – I banks can now permit firms and companies dealing in purchase/sale of rough or cut and polished diamonds/precious metal jewellery plain, minakari and/or studded with/without diamond and/or other stones, with a track record of at least 3 years in import/export of diamonds/coloured gemstones/diamond and coloured gemstones

studded jewellery/plain gold jewellery, and having an average annual turnover of Rs 5 crore or above during preceding three licensing years to open and maintain Diamond Dollar Accounts (DDA) with them, subject to the terms and conditions as follows:

- (b) The exporter should comply with the eligibility criteria stipulated in the Foreign Trade Policy of the Government of India, issued from time to time.
- (c) The DDA should be opened in the name of the exporter and maintained in US Dollars only.
- (d) The account should only be in the form of current account and no interest should be paid on the balance held in the account.
- (e) No intra-account transfer should be allowed between the DDAs maintained by the account holder.
- (f) An exporter firm/company should not be permitted to open and maintain more than 5 DDAs.
- (g) The balances held in the accounts would be subject to cash reserve ratio (CRR) and statutory liquidity ratio (SLR) requirements.
- (h) Exporter firms and companies maintaining foreign currency accounts, excluding exchange earners' foreign currency (EEFC) accounts, with banks in India or abroad, are not eligible to open Diamond Dollar Accounts.
- (i) The transactions in the DDA would be as under:

Permissible Credits

- Amount of pre-shipment and post-shipment finance availed in US Dollars.
- Realisation of export proceeds from shipments of rough, cut, polished diamonds and diamond studded jewellery.
- Realisation in US Dollars from local sale of rough, cut and polished diamonds.

Permissible Debits

- Payment for import/purchase of rough diamonds from overseas/local sources.
- Payment for purchase of cut and polished diamonds, coloured gemstones and plain gold jewellery from local sources.
- Payment for import/purchase of gold from overseas/nominated agencies and repayment of USD loans availed from the bank.
- Transfer to rupee account of the exporter.

The exporter firm/company should make an application in the prescribed format to the AD Category – I bank for opening the DDA. AD Category - I banks should assess the track record of the firm/company at the end of every licensing year (April-March). In case any firm/company fails to meet the eligibility criteria, the account should be closed immediately.

Earlier, requests for opening DDAs were considered by the Reserve Bank on a case-to-case basis.