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POLICY

Branch Authorisation Policy relaxed

Based on the recommendations of the Working Group to review the extant Branch Authorisation Policy (Chairman : Shri P.Vijaya Bhaskar), the Reserve Bank of India has liberalised the Branch Authorisation Policy. Domestic scheduled commercial banks (other than RRBs) can now, without obtaining the Reserve Bank's prior permission in each case, open branches in -

(i) tier 3 to Tier 6 centres (with population up to 49,999 as per Census 2001); and

(ii) rural, semi-urban and urban centres in North Eastern States and Sikkim.

Domestic scheduled commercial banks (other than RRBs) in Tier 1 and Tier 2 centres (centres with population of 50,000 and above as per 2001 Census) would continue to require the Reserve Bank's prior permission, except in the case of North Eastern States and Sikkim, where the general permission would cover semi-urban and urban centres also. The number of branches which would be authorised by the Reserve Bank, based on such applications would inter alia, depend upon (i) the bank planning its annual branch expansion in such a manner, that at least one-third of the total number of branches opened in a financial year in Tier 3 to Tier 6 centres are in underbanked districts of underbanked states; and (ii) a critical assessment of the bank's performance in financial inclusion, priority sector lending, customer service, etc.

Banks are also free to convert their general banking branches into specialised branches provided, they continue to serve the existing customers of their general banking branches, which are being converted into specialised branches.

These general permissions would be subject to regulatory/ supervisory comfort in respect of the bank concerned and the Reserve Bank would have the option to withhold the general permissions now being granted, on a case-to-case basis, taking into account all relevant factors.

Banks should report to the Reserve Bank, details of branches opened by them under general/specific permission and general banking branches converted into specialised branches.

Mobile Banking Transactions in India

The Reserve Bank has modified the guidelines on mobile banking transactions in India. The revised guidelines are -

Transaction Limit : Banks are now permitted to offer mobile banking service to their customers subject to a daily cap of Rs 50,000 per customer for both, funds transfer and transactions involving purchase of goods/services. Earlier, such transactions were subject to separate caps of Rs 5,000 and Rs 10,000, respectively.

Technology and Security Standard : Banks may facilitate transactions up to Rs 1,000 without end-to-end encryption. Banks should address the risk aspects involved in such transactions through adequate security measures.

Remittance of Funds for Disbursement in Cash: To facilitate the use of mobile phones for remittance of cash, banks have been permitted to provide fund transfer services which facilitate transfer of funds from the accounts of their customers for delivery in cash to the recipients. The disbursal of funds to recipients of such services can be facilitated at automated teller machines (ATMs) or through any agent(s) appointed by the bank as business correspondents. Such fund transfer service can be provided by banks subject to the conditions that -

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(i) The maximum value of such transfers does not exceed Rs 5000 per transaction.

(ii) A suitable cap is placed on the velocity of such transactions, subject to a maximum value of Rs 25,000 per month, per customer.

(iii) Disbursal of funds at the agent/ATM is permitted only after identification of the recipient.

(iv) Before appointing authorised agents for such services, due diligence of such persons is carried out.

(v) Banks would be responsible as principals for all acts of omission or commission of their agents.

Electronic Payment Transactions - Directions

With a view to safeguarding the interests of customers and to ensure that the payments made by them using electronic/online payment modes are duly accounted for by the intermediaries receiving such payments and remitted to the accounts of the merchants who have supplied the goods and services without undue delay, the Reserve Bank has framed suitable directions for the safe and orderly conduct of these transactions. The directions are -

Definitions

Intermediaries: Intermediaries include all entities that collect monies received from customers for payment to merchants using any electronic/online payment mode, for goods and services availed by them and subsequently facilitate the transfer of these monies to the merchants in final settlement of the obligations of the paying customers.

Explanation: For the purpose of these directions, all intermediaries who facilitate delivery of goods/services immediately/simultaneously (e.g. travel tickets/movie tickets, etc.) on completion of payment by the customer, shall not fall within the definition of the expression “intermediaries”. These transactions which are akin to a delivery versus payment (DvP) arrangement would continue to be facilitated as per the contracts between the merchants and the intermediaries as hitherto, and banks should satisfy themselves that such intermediaries do not fall within the definition of “intermediaries” when they open accounts other than internal accounts.

Merchants: Merchants include all electronic commerce/mobile commerce service providers and other persons (including but not limited to utility service providers) who accept payments for goods and service provided by them, through electronic/online payment modes.

Maintaining Accounts for Collection of Payments

All accounts opened and maintained by banks for facilitating collection of payments by intermediaries from customers of merchants, would be treated as banks’ internal accounts. While banks may decide on the exact nomenclature of such accounts, it should be ensured that such accounts are not maintained or operated by the intermediaries.

Banks should ensure that the process of converting all the existing accounts maintained and operated by intermediaries, for the purpose covered in these directions, should be completed within three months from November 24, 2009.

The permitted credits/debits in these accounts are:

Credits

- Payments from various persons towards purchase of goods/services.
- Transfers from other banks as per pre-determined agreement into the account, if this account is the nodal bank account for the intermediary.
- Transfers representing refunds for failed/disputed transactions.

Debits

- Payments to various merchants/service providers.
- Transfers to other banks as per pre-determined agreement into the account, if that account is the nodal bank account for the intermediary.
- Transfers representing refunds for failed/disputed transactions.
- Commissions to the intermediaries. These amounts should be at pre-determined rates/frequency.

No payment other than commissions, at pre-determined rates/frequency, shall be payable to the intermediaries. Such transfers should only be effected to a bank account intimated to the bank by the intermediary during the agreement.

Settlement

Banks should implement the following settlement cycle for all final settlements to merchants, within three months from November 24, 2009.

- All payments to merchants which do not involve transfer of funds to nodal banks should be effected within a maximum of T+2 settlement cycle (where T is defined as the day of intimation regarding the completion of transaction).
- All payments to merchants involving nodal banks should be effected within a maximum of T+3 settlement cycle.

Treatment of Balances

As the funds held in the banks’ internal accounts would be in the nature of outside liability of the bank, the balances in these accounts should be reckoned as 'outside liability' for the purpose of computation of NDTL.

Concurrent Audit

Banks should subject these accounts to concurrent audit and a certificate stating that these accounts are operated in accordance with the Reserve Bank’s directions should be submitted on a quarterly basis, to the Reserve Bank’s Department of Payment and Settlement Systems.

Additional Business Correspondents

Pursuant to the recommendation of the Working Group constituted to review the business correspondent (BC) model and suggest measures to enlarge the category of persons that can act as BCs, banks have now been permitted to appoint the following entities as BCs, in addition to the entities already permitted:

(i) individual kirana/medical/fair price shop owners;

(ii) individual public call office (PCO) operators;

(iii) agents of small savings schemes of Government of India/ insurance companies;

(iv) individuals who own petrol pumps;

(v) retired teachers; and

(vi) authorised functionaries of well run self help groups (SHGs) linked to banks.

The Reserve Bank has advised that with a view to ensuring the viability of the BC model, banks (and not BCs) may collect reasonable service charges from customers, in a transparent manner, under a Board-approved policy. Considering the profile of the clientele to whom banking services are being delivered through the BC model, banks should ensure that the service charges/fees collected from the customer for delivery of banking services through the BC model is not only fair and reasonable but also seen to be so. Banks should in particular ensure that, there are no complaints from customers about the charges being non-transparent/not reasonable. Any unfair practices adopted by banks in this regard would be viewed seriously by the Reserve Bank.

Keeping in view the operational and other risks implied, banks have been further advised to ensure that they carry out suitable due diligence in respect of the entities proposed to be appointed as BCs and also institute additional safeguards as may be considered appropriate, to minimise the agency risks. ICT solutions that ensure proper authentication and other security measures may be adopted to minimise the risk while upscaling the model. Further, while appointing these entities as BCs, banks should ensure that the individuals are residents of the area in which they propose to operate as BCs.

As regards the North Eastern Region, where a local organisation/association not falling under any of the forms of organisations listed in the Reserve Bank's guidelines, is proposed to be appointed by a bank as a BC after due diligence and is also recommended by the district consultative committee (DCC), the regional office of the Reserve Bank would consider proposals for appointing such entities as BCs. In such cases, banks should approach the Reserve Bank's Guwahati regional office.

Further, banks have also been permitted to allow, with suitable and adequate safeguards, BCs in the North Eastern Region to account for the transactions in the bank's books latest by the end of the second working day from the date of the transaction.

Regarding cases referred to DCCs for relaxation of criteria in respect of the maximum distance between the place of business of the BC and the base branch, the DCCs may give their decision at the earliest and in any case, within a period of three months from the date of reference to them. In case no decision is conveyed by DCCs within this period, banks may treat it as a 'no objection' for relaxation of the distance criterion.

Priority Sector Lending – Loans to HFCs

Banks have been advised to link the tenor of loans granted by them to housing finance companies (HFCs) in line with the average portfolio maturity of housing loans, up to Rs. 20 lakh, granted by the HFCs to individual borrowers. Banks have also been advised that if the tenor of such loans granted by them to HFCs is not co-terminus with the on-lending of HFCs, they would not be eligible for classification under priority sector. Banks should also ensure that the end use of the funds is strictly as per the guidelines on lending to priority sector.

It had been brought to the notice of the Reserve Bank that certain scheduled commercial banks are extending short-term loans of tenure ranging from six months to one year to HFCs and classifying them as priority sector advances. Since housing loans are generally medium to long-term loans taken by individuals, short- term loans with tenor of six months to one year granted by banks to HFCs for on-lending purposes would not be co-terminus with the loans taken by individuals.

Timings for RTGS Transactions extended

The real time gross settlement (RTGS) timings for customer and inter-bank transactions on Saturdays have been extended. The revised timings 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 13:30 hours	9:00 hours to 15:00 hours

All RTGS member banks have been advised to extend the benefits of the extension of RTGS time window to their customers.

FEMA

ECB Policy modified

On a review of the prevailing macroeconomic conditions and developments in the international financial markets, some aspects of the external commercial borrowings (ECB) policy have been modified as below:

All-in-cost Ceilings

As per the extant policy, the all-in-cost ceilings were dispensed with, under the approval route, until December 31, 2009. In view of the improvement in the credit market conditions and narrowing credit spreads in the international markets, the existing relaxation in the all-in-cost ceilings, under the approval route, is withdrawn from January 1, 2010. Accordingly, the all-in-cost ceilings under the approval route for ECBs, where loan agreements have been signed on or after January 1, 2010 will be:

Average Maturity Period	All-in-cost Ceilings over Six Month Libor*
Three years and up to five years	300 basis points
More than five years	500 basis points

* for the respective currency of borrowing or applicable benchmark

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Eligible borrowers proposing to avail of ECB after December 31, 2009, where the loan agreement has been signed on or before December 31, 2009 and where the all-in-cost exceed the above ceilings, should furnish a copy of the loan agreement. Such proposals would continue to be considered under the approval route.

Integrated Township

The extant policy permitting corporates engaged in the development of integrated township, to avail of ECB under the approval route, has been extended up to December 31, 2010.

Buyback of FCCBs

The facility allowing Indian companies to buyback their foreign currency convertible bonds (FCCBs) both under the automatic route and approval route, has been discontinued from January 1, 2010.

NBFC Sector

Non-banking finance companies (NBFCs) exclusively involved in financing infrastructure projects, can now avail of ECB from the recognised lender category, including international banks, under the approval route, provided they comply with the prudential standards prescribed by the Reserve Bank and the borrowing entities fully hedge their currency risk. The AD Category-I bank should certify that the borrowing NBFC has complied with the prudential norms.

A stamp commemorating the Reserve Bank of India's Platinum Jubilee was released by the President of India, Her Excellency Smt. Pratibha Devisingh Patil on January 16, 2010 at a function held in the New Delhi office of the Reserve Bank. The Reserve Bank of India started functioning on April 1, 1935, making April 1, 2009 to March 31, 2010 its 75th year.

As per the earlier ECB norms, NBFCs which are exclusively involved in financing of the infrastructure sector, could avail of ECBs from multilateral/ regional financial institutions and government owned development financial institutions for on-lending to borrowers in the infrastructure sector under the approval route.

Spectrum in the Telecommunication Sector

Eligible borrowers in the telecommunication sector have been permitted to avail of ECB for the purpose of payment for Spectrum allocation. Earlier, in October 2008, payment for obtaining license/permit for 3G Spectrum was considered an eligible end - use for the purpose of ECB under the automatic route.

All other aspects of the ECB policy, such as, USD 500 million limit per company per financial year under the automatic route, eligible borrower, recognised lender, end-use, average maturity period, prepayment, refinancing of existing ECB, reporting arrangements and other terms and conditions remain unchanged.

RRBs

Computation of NDTL for Maintenance of CRR/SLR

The Reserve Bank has advised RRBs that their liability in respect of arrangements with correspondent banks (mainly sponsor banks) for remittance facilities should be reckoned in the following manner:

* When an RRB accepts funds from a client under its remittance facility scheme, it becomes a liability (Liabilities to Others) in its books. The liability of the RRB accepting funds will extinguish only when the correspondent bank honours the drafts issued by the accepting bank to its customers. As such, the balance amount in respect of the drafts issued by the RRB on its correspondent bank under the remittance facility scheme and remaining unpaid should be reflected in the RRB's books as an outside liability and it should also be taken into account for computation of net demand and time liabilities (NDTL) for CRR/SLR purpose.

• The amount received by correspondent banks has to be shown as ' Liabilities to the Banking System ' by them and not as ' Liabilities to Others ' and this liability could be netted off by the correspondent banks against their inter-bank assets. Likewise, sums placed by banks issuing drafts/interest/duplicate warrants are to be treated as 'Assets within the Banking System' in their books and can be netted off from their inter-bank liabilities.

CUSTOMER SERVICE

Display of information for lodging ATM related Complaints

The Reserve Bank has advised banks to display prominently at their ATM locations the following information:

(a) A notice that complaints should be lodged at the branches where customers maintain account to which the ATM card is linked.

(b) Telephone numbers of help desk/contact persons of the ATM owning bank to lodge complaint/seek assistance.

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