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MONETARY AND CREDIT INFORMATION REVIEW

POLICY

Maintenance of CRR on Exempted Categories

The Reserve Bank has announced that the liabilities of scheduled commercial banks (excluding regional rural banks) arising out of transactions in collaterised borrowing and lending obligations (CBLO) with the Clearing Corporation of India Ltd. (CCIL) would be subject to maintenance of cash reserve ratio (CRR) from the fortnight beginning November 21, 2009. Accordingly, the net demand and time liabilities (NDTL) reckoned for CRR shall include liabilities arising out of CBLO transactions for the reporting Friday of November 6, 2009 which forms the base for computation of CRR for the fortnight beginning November 21, 2009. For the subsequent fortnights, NDTL reckoned for CRR maintenance would continue to include liabilities arising out of CBLO transactions.

Accordingly, from the fortnight beginning November 21, 2009, the liabilities which would be exempted for computation of NDTL under section 42(1) of the Reserve Bank of India Act, 1934 are -

(i) Liabilities to the banking system in India under clause (d) of the explanation to Section 42(1) of the RBI Act, 1934.

(ii) Credit balances in ACU (US$) accounts.

(iii) Demand and time liabilities in respect of their offshore banking units (OBUs).

SLR increased

The statutory liquidity ratio (SLR) for scheduled commercial banks (excluding regional rural banks) has been increased to 25 per cent of their NDTL from the fortnight beginning November 7, 2009.

Special Term Repo Facility Discontinued

The special term repo facility for scheduled commercial banks (SCBs) for funding mutual funds, non-banking financial companies and housing finance companies has been discontinued from October 27, 2009.

The outstanding liabilities of SCBs under this facility shall not be rolled-over on maturity.

Special Refinance Facility Discontinued

The special refinance facility (SRF) under Section 17(3B) of the Reserve Bank of India Act, 1934 has been discontinued from October 27, 2009. Accordingly, banks cannot avail fresh refinance from the Reserve Bank under the facility. Banks should repay outstandings under this facility, if any, within the stipulated time of 90 days from the first day of utilisation.

It may be recalled that the SRF was introduced in November 2008. In terms of this facility, all SCBs (excluding RRBs) were provided refinance from the Reserve Bank equivalent to up to 1.0 per cent of their NDTL as on October 24, 2008 at the repo rate under the liquidity adjustment facility (LAF) up to a maximum period of 90 days during which, refinance could be flexibly drawn and repaid.

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Export Credit Refinance Facility

The eligible limit of export credit refinance (ECR) facility has been reduced from the level of 50 per cent of the outstanding rupee export credit eligible for refinance as at the end of the second preceding fortnight to 15 per cent from October 27, 2009.

Provisioning for Standard Assets

In view of the large increase in credit to the commercial real estate (CRE) sector over the last one year and the extent of restructured advances in this sector, the provisioning requirement for advances to the CRE sector classified as 'standard assets' has been increased from 0.40 per cent to 1.00 per cent.

The standard asset provisioning requirements for all categories, after this change are -

Category of Standard Asset	Rate of Provisioning *(in per cent)*
Direct advances to agriculture and SME sectors	0.25
Commercial real estate sector	1.00
All other loans and advances not included above	0.40

Appointment of Nodal Officer for Currency Management

With a view to ensuring adequate availability of genuine and clean notes to the members of public, banks maintaining currency chests have been advised to entrust the responsibility of currency management to a functionary not less than the level of General Manager. The official will be the nodal point of contact for the Reserve Bank and will be accountable for the obligations cast upon currency chests by the Reserve Bank. Other banks have also been advised to entrust the responsibility to a sufficiently senior functionary.

Banks have been further advised to inform the Reserve Bank, the names of such nodal officers, along with his/her office address, contact number (landline as well as mobile number, fax number) e-mail address, etc.

Marketing/Distribution of MF/Insurance Products

Banks marketing/referring mutual fund/insurance products have been advised to disclose to their customers, details of all the commissions/other fees (in any form) received, if any, from various mutual fund/insurance/other financial companies for marketing/referring their products.

It may be recalled that banks have been permitted to (i) enter into agreements with mutual funds for marketing mutual fund units; (ii) engage in insurance agency business or referral arrangement without any risk participation; (iii) offer purely referral services on a non-risk participation basis to their customers for financial products; and (iv) provide non-discretionary investment advisory services to their clients. Further, in some cases, banks have also been permitted to offer discretionary portfolio management services, through their subsidiaries, subject to certain conditions.

Frequent Dishonour of Cheques

The Reserve Bank has advised banks to have a policy approved by their Board for dealing with frequent dishonour of cheques of value of less than Rs. 1 crore. The policy should also deal with matters relating to frequent dishonour of electronic clearing system (ECS) mandates.

Installation of Note Sorting Machines

The Reserve Bank has advised banks to ensure that bank notes in denominations of Rs. 100 and above are processed through machines for checking their authenticity/genuineness and fitness before re-issuing them over their counters or through ATMs. Further, banks should use such machines in all their branches having average daily cash receipts -

(i) of Rs. 1 crore and above by March 2010.

(ii) between Rs. 50 lakh and Rs. 1 crore by March 2011.

Such machines should conform to the standards/ parameters prescribed by the Reserve Bank from time to time.

BRANCH BANKING

Inoperative Accounts

The Reserve Bank has clarified that interest on fixed deposit account credited to the savings bank account as per the mandate of the customer, should be treated as a customer induced transaction. As such, the account should be treated as an operative account as long as the interest on fixed deposit account is credited to the savings bank account. The savings bank account can be treated as an inoperative account only after two years from the date of the last credit entry of the interest on fixed deposit account.

It may be recalled that in its Master Circular on Customer Service of July 1, 2009 the Reserve Bank had advised that a savings as well as a current account should be treated as inoperative/dormant if there are no transactions in the account for a period over two years. Further, for the purpose of classifying an account as inoperative, both types of transactions i.e., debit as well as credit transactions induced at the instance of customers as well as third party should be considered.

CO-OPERATIVE BANKING

Safe Deposit Locker Keys

The Reserve Bank has reiterated to all primary (urban) co-operative banks (UCBs)/state and central co-operative banks to issue instructions to their branches to ensure that the identification code of the bank/branch is embossed on all the safe deposit locker keys. In the case of lockers already hired out, it is suggested that the locker keys could be embossed with the identification code when customers visit the branch for operating their lockers. The embossing on the locker key should be done in the presence of the locker holder only. Banks should inform all the locker-hirers, telephonically or through post, about the embossing of the locker keys by the concerned branch. Banks should also make necessary arrangements for installation of machinery at the bank/branch with the help of the locker cabinet vendor company. Banks should also ensure that the identification code is embossed on keys of new lockers to be installed in the future.

FEMA

Maldives Monetary Authority - New ACU Member

In the meeting of the Asian Clearing Union (ACU) Board of Directors held in Colombo, Sri Lanka on June 16, 2009, the Maldives Monetary Authority has been admitted in the ACU as a member. The Maldives Monetary Authority will commence ACU operations from January 1, 2010. All the provisions of ACU mechanism, as applicable to ACU member countries, unless otherwise specifically exempted, will be applicable to the Maldives Monetary Authority. In this regard, AD Category - I banks have been advised to follow the provisions contained in the Memorandum of Procedure for Channelling Transactions through Asian Clearing Union (ACU) [Memorandum ACM] and the regulations contained in FEMA Notification 14/2000-RB dated May 3, 2000.

INFORMATION

Report - Review of extant Branch Authorisation Policy

The Reserve Bank released the Report of the Group to review the extant Branch Authorisation Policy on October 27, 2009. The Group was constituted under the chairmanship of Shri P Vijaya Bhaskar, Chief General Manager-in-Charge, RBI pursuant to an announcement made in the Annual Policy Statement of 2009-10.

Terms of Reference

The Terms of Reference assigned to the Group were:

(i) Providing greater flexibility to banks to open branches/other offices by granting them general permission to open branches in underbanked districts and rural areas without the Reserve Bank's prior approval, subject to reporting.

(ii) Examining the criteria subject to which the proposed general permission for opening branches in underbanked districts/rural areas without the Reserve Bank's permission could be granted as to ensure competitive efficiency.

(iii) Suggesting additional measures to enhance penetration of branch network of banks in underbanked and rural areas of the country including by way of framing policy stipulations for linking the authorisations to be granted to banks for opening branches in metropolitan/urban/semi-urban areas in other than underbanked districts to the number of branches opened by them in underbanked districts/rural areas, with a view to increasing financial inclusion.

(iv) To examine any other matter relevant to the above.

Recommendations

The main recommendations of the Group are :

- Branch authorisations need to be effectively leveraged to achieve the goal of financial inclusion.
- Domestic scheduled commercial banks (other than RRBs) may be granted complete freedom to open branches in Tier 3 to Tier 6 centres (centres with population up to 49,999 as per 2001 census) of the country without the Reserve Bank's prior permission, subject to reporting.
- Even after granting the general permission as recommended by the Group, banks would continue to approach the Reserve Bank for prior permission for opening branches in Tier 1 and Tier 2 centres (centres with population of 50,000 and above as per 2001 census). The number of branches which would be authorised by the Reserve Bank based on such applications may depend, inter alia, upon various aspects including, a requirement that banks may plan their annual branch expansion in such a manner that at least one-third of the total number of branches opened in a financial year are in underbanked districts and financially excluded districts of underbanked states. The authorisation would also depend upon a critical assessment of the steps taken by the bank towards achieving the goal of financial inclusion, such as, the rate of credit growth in rural branches, growth in number of deposit accounts in rural areas and growth in credit accounts for less than Rs.25,000 etc.
- Considering the extent of financial exclusion in the North Eastern states, domestic SCBs (other than RRBs) may be given general permission to open branches in rural, semi-urban and urban centres in North Eastern states and Sikkim. Here again, the general permission would be subject to the requirement to open at least one third of the total number of branches opened in a financial year in underbanked districts and financially excluded districts, in underbanked states.
- Total deregulation of branch authorisation is not appropriate at present.
- The way forward for ensuring financial inclusion would to be to have an appropriate combination of the physical 'brick and mortar' branch model and the branchless models such as offsite ATMs/point of sale terminals, business correspondent model, etc. It would be basically left to the banks themselves to decide as to which model would be suitable for delivery of banking services in a particular area, depending on the special needs of that area.
- Domestic SCBs (other than RRBs) may be granted general permission for part shifting of their branches in metropolitan/urban centres, subject to conditions.
- Domestic SCBs (other than RRBs) may be granted general permission for converting their existing general banking branches into specialised branches, subject to the condition that the bank should continue to serve the existing customers of the general banking branch which is proposed to be converted into a specialised branch.
- In the case of all liberalisations/freedom recommended to be granted to banks, the relaxations/general permission should be subject to regulatory comfort.
- The branch authorisation policy in respect of foreign banks may remain unchanged until review of the roadmap for foreign banks.

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Second Quarter Review of Monetary Policy 2009-10

Dr. D. Subbarao, Governor, Reserve Bank of India, in a meeting with chief executives of major commercial banks presented the Second Quarter Review of the Monetary Policy Statement for 2009-10 on October 27, 2009. The highlights are:

Projections

- The growth projection for GDP for 2009-10 retained at 6.0 per cent with an upward bias.
- WPI inflation projected at 6.5 per cent with an upward bias by end-March 2010.
- Money supply (M_3) growth for 2009-10 placed at 17 per cent.

Stance

On the basis of the overall assessment, the stance of the monetary policy for the remaining period of 2009-10 will be to:

- Keep a vigil on the trends in inflation and be prepared to respond swiftly and effectively through policy adjustments to stabilise inflation expectations.
- Monitor the liquidity situation closely and manage it actively to ensure that credit demands of productive sectors are adequately met while also securing price stability and financial stability.
- Maintain a monetary and interest rate regime consistent with price stability and financial stability and supportive of the growth process.

Monetary Measures

- Repo rate kept unchanged at 4.75 per cent.
- Reverse repo rate retained at 3.25 per cent.
- Cash reserve ratio (CRR) of scheduled banks kept unchanged at 5.0 per cent of their net demand and time liabilities (NDTL).
- Statutory liquidity ratio (SLR) restored to 25 per cent of demand and time liabilities.
- The limit for export credit refinance facility reduced from 50 per cent of eligible outstanding export credit to 15 per cent.
- Special refinance facility for scheduled commercial banks discontinued.
- Special term repo facility for scheduled commercial banks (for funding mutual funds, non-banking financial companies and housing finance companies) discontinued.
- Liabilities of scheduled banks arising from transactions in collateralised borrowing and lending obligations (CBLO) with Clearing Corporation of India Ltd. (CCIL) to be subjected to maintenance of the CRR.

Financial Markets

- Proposed to introduce plain vanilla over-the-counter (OTC) single-name credit default swaps for corporate bonds for resident entities subject to appropriate safeguards.
- Recognised stock exchanges to be permitted to offer currency futures contracts in currency pairs of Rupee-Euro, Rupee-Pound Sterling and Rupee-Japanese Yen in addition to the existing Rupee-US dollar contracts.

Regulatory Measures

- The provisioning requirement for advances to the commercial real estate sector classified as ‘standard assets’ increased from 0.4 per cent to 1.0 per cent.
- Extant branch authorisation policy for domestic non-RRB scheduled commercial banks to be liberalised.
- Banks to be allowed to build up capital for take-out exposures in a phased manner.
- Banks to be advised to augment their provisioning cushions consisting of specific provisions against non-performing assets (NPAs) as well as floating provisions so that their total provisioning coverage ratio, including floating provisions, reaches 70 per cent by September 2010.
- Guidelines to be issued to private sector and foreign banks with regard to sound compensation policies.
- To introduce a category of NBFCs as ‘infrastructure NBFCs’, defined as entities which hold minimum of 75 per cent of their total assets for financing infrastructure projects.
- The risk weights of banks’ exposure to infrastructure NBFCs to be linked to the credit rating assigned to the NBFC by external credit assessment institutions.

Financial Inclusion

- Banks to be allowed to (i) appoint additional entities as business correspondents (BC); and (ii) collect reasonable service charges from the customer in a transparent manner for delivering the services through BC.
- To advise lead banks to take steps to draw up a road map by March 2010 to provide banking services through a banking outlet in every village having a population of over 2,000 by March 2011.
- To constitute a Working Group to examine the issues involved in the introduction of priority sector lending certificates (PSLCs).

Currency Management

- Banks mandated to install note sorting machines in all their branches in a phased manner in terms of a road map to be approved by the Reserve Bank.

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