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MONETARY AND CREDIT INFORMATION REVIEW

CUSTOMER SERVICE

Opening of Bank Accounts in the Names of Minors

To promote the objective of financial inclusion and also to bring uniformity among banks in opening and operating minors' accounts, the Reserve Bank on May 6, 2014, advised banks that -

- A minor of any age can open a savings/fixed/recurring bank deposit account through his/her natural or legally appointed guardian;
- Minors above the age of 10 years may be allowed to open and operate savings bank accounts independently, if they so desire. Keeping in view their risk management systems, banks may, however, fix limits in terms of age and amount up to which minors may be allowed to operate the deposit accounts independently. They can also decide, in their own discretion, as to what minimum documents are required for opening of accounts by minors.
- On attaining majority, the minor should confirm the balance in his/her account and if the account is operated by the

natural guardian/legal guardian, fresh operating instructions and specimen signature of the erstwhile minor should be obtained and kept on record for all operational purposes.

Banks are free to offer additional banking facilities, such as, internet banking, ATM/debit card, cheque book facility etc., subject to the safeguards that minor accounts are not allowed to be overdrawn and that these always remain in credit.

Earlier, minors' accounts (fixed, recurring and savings deposit accounts) with mothers as guardians were allowed to be opened subject to safeguards in allowing operations in such accounts by ensuring that the minors' accounts opened with guardian are not allowed to be overdrawn and that these always remain in credit.

Similar instructions to primary urban co-operative banks on opening of bank accounts in the names of minors were issued on May 12, 2014.

ATMs to be made more Disabled-friendly

The Reserve Bank, on May 21, 2014, advised banks to take necessary steps to provide all existing ATMs/future ATMs with ramps so that wheel chair users/persons with disabilities can easily access them. Care may also be taken to ensure that the height of the ATMs is not an impediment for wheelchair users. In cases where it is impracticable to provide such ramp facilities, whether permanently fixed to earth or otherwise, this requirement may be dispensed with, for reasons recorded and displayed in branches or ATMs concerned.

The Reserve Bank further advised the banks to take appropriate steps, including providing of ramps at the entrance of the bank branches, wherever feasible, so that the persons with disabilities/wheel chair users can enter bank branches and conduct business without difficulty. Banks are advised to report the progress made in this regard periodically to their respective Customer Service Committee of the Board and ensure compliance.

All New ATMs to talk from July 1

The Reserve Bank has also advised the banks to make all new ATMs installed from July 1, 2014 as talking ATMs with Braille keypads. Banks should lay down a road map for converting all existing ATMs as talking ATMs with Braille keypads. The status should be reviewed from time to time by the Customer Service Committee of the Board.

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The Reserve Bank has also advised banks to provide magnifying glasses in all bank branches for the use of persons with low vision, wherever they require, for carrying out banking transactions with ease. The branches should display, at a prominent place, notice about the availability of magnifying glasses and other facilities for persons with disabilities.

No Foreclosure Charges/Pre-payment Penalty on Floating Loans

The Reserve Bank, on May 7, 2014, asked banks not to charge foreclosure charges/pre-payment penalties on all floating rate term loans sanctioned to individual borrowers, with immediate effect. This was a follow up on the First Bi-monthly Monetary Policy Statement 2014-15 announced on April 1, 2014, in which the Reserve Bank had proposed certain measures for consumer protection.

No Penalty on Non-Maintenance of Minimum Balances in Inoperative Accounts

The Reserve Bank, on May 6, 2014, prohibited all scheduled commercial banks (excluding RRBs) from levying penal charges for non-maintenance of minimum balances in any inoperative account, including the basic savings bank deposit accounts (BSBDAs). The instructions also apply to all primary urban co-operative banks.

POLICY

Foreign Branches/Subsidiaries of Banks can offer Structured Financial Products

The Reserve Bank, on May 12, 2014, decided that foreign branches/subsidiaries of Indian banks who propose to offer structured financial and derivative products that are not specifically permitted by the Reserve Bank in the domestic market, can do so only at the established financial centres outside India like New York, London, Singapore, Hong Kong, Frankfurt, Dubai, etc. Banks should, however, ensure that their foreign branches/subsidiaries, dealing with such products in foreign jurisdictions, have adequate knowledge, understanding, and risk management capability for handling such products. At other centres, banks may offer only those products that are specifically permitted in India.

The products that the foreign branches/subsidiaries of Indian banks offer at overseas location should also be in compliance with host country regulations, with prior approval from their board and appropriate authority in these foreign jurisdictions. Banks should continue to adhere to more stringent among the host and home regulations in respect of these products. In particular, banks should ensure that the suitability and appropriateness policy is strictly adhered to as mandated by the Reserve Bank and the host regulators.

The Reserve Bank has further reiterated that for undertaking activities by Indian banks' branches and subsidiaries abroad which are not permitted under the Banking Regulations Act, 1949/respective Statute of the Public Sector Banks, banks should obtain necessary permission from the Reserve Bank/Government of India, as the case may be, before undertaking such activities.

Scaling up of the BC Model

With a view to scaling up the Business Correspondent (BC) Model by dealing with the critical issue of cash management of BCs, the Reserve Bank decided on April 22, 2014, that -

- The Boards of the banks must review the operations of BCs at least once every six months with a view to ensuring that requirement of prefunding of Corporate BCs and BC Agents should progressively taper down with the passage of time. Ideally in all normal cases the prefunding should progressively come down to reach around 15 percent of the limits fixed for each BC/CSP (customer selling point) in case of deposits and 30 percent in case of bank guarantees, etc. in say two years from the time a BC starts operations.
- The Board should also review the position of payment of remuneration of BCs and should also lay down a system of monitoring by the top management of the bank. The issue of allowing BCs to handle deposit and payment transactions of various credits, remittance, overdraft and other products of banks must also be examined by the Board from time to time. Complaints redressal system in this regard should also be laid down by the Board.
- As the cash handled by BCs is bank's cash, the responsibility for insuring this cash should rest with the banks.

Issuance and Operation of PPIs

The Reserve Bank, on May 13, 2014, granted general permission to banks to issue rupee denominated co-branded pre-paid instruments subject to certain terms and conditions. Non-banking finance companies (NBFCs)/other persons desirous of issuing such co-branded prepaid payment instruments (PPIs) will, however, have to seek one time approval from the Reserve Bank.

All persons authorised/approved to issue pre-paid payment instruments are permitted to co-brand such instruments with the name/logos of financial institution/Government organisation for whose customers/beneficiaries such co-branded instruments are issued. The name of the issuer should be visible prominently on the payment instrument.

The revised consolidated guidelines on Prepaid Payment Instruments are available on RBI website (http://rbidocs.rbi.org.in/rdocs/content/pdfs/PPICCR130514_A.pdf)

Fund/Non-Fund based Credit Facilities

The Reserve Bank, on April 22, 2014, advised that, banks, including overseas branches/subsidiaries of Indian banks, shall not issue standby letters of credit/guarantees/letter of comforts etc., on behalf of overseas Joint Ventures (JV)/Wholly Owned Subsidiaries (WOS)/Wholly owned Step-down Subsidiaries (WoSDS) of Indian companies for the purpose of raising loans/advances of any kind from other entities except in connection with the ordinary course of overseas business. The Reserve Bank further advised that while extending fund/non-fund based credit facilities to overseas JV/WOS/WoSDS of Indian companies in connection with their business, either through branches in India or through branches/subsidiaries abroad, banks should ensure effective monitoring of the end use of such facilities and its conformity with the business needs of such entities.

Treatment of RIDF and Other Funds

The Reserve Bank has decided to include the outstanding deposits placed by scheduled commercial banks under Rural Infrastructure Development Fund (RIDF) and certain other funds established with NABARD, on account of their shortfall in lending to priority sector as part of indirect agriculture under priority sector classification.

Accordingly, the outstanding deposits as on March 31 of the current year under RIDF, Warehouse Infrastructure Fund, Short Term Co-operative Rural Credit Refinance Fund and Short Term Regional Rural Bank (RRB) Fund with NABARD would be treated as part of indirect agriculture and would count towards overall priority sector target achievement. The outstanding deposits under the above funds with NABARD as on preceding March 31 will form part of adjusted net bank credit. These guidelines are applicable with effect from March 31, 2014.

Inclusion in the Second Schedule to the RBI Act- Bharatiya Mahila Bank Limited

The Reserve Bank, on May 21, 2014 advised that the name of "Bharatiya Mahila Bank Limited" has been included in the Second Schedule to the Reserve Bank of India Act, 1934 by Notification dated March 25, 2014, published in the Gazette of India (Part III – Section 4) dated April 12, 2014.

FEMA

Import of Gold by Nominated Banks/Agencies/Entities

The Reserve Bank, on May 21, 2014, modified the guidelines for import of Gold by the nominated banks/agencies/entities, as under:

- Star Trading Houses/Premier Trading Houses (STH/PTH) which are registered as nominated agencies by the Director General of Foreign Trade (DGFT) may now import gold under 20:80 scheme subject to certain conditions.
- Further, the nominated banks have been permitted to give Gold Metal Loans (GML) to domestic jewellery manufacturers out of the eligible domestic import quota of 80 percent to the extent of GML outstanding in their books as on March 31, 2013.

Background

The Government of India and Reserve Bank of India has been receiving representations from the jewelers, bullion dealers, authorised dealer (AD) banks, and trade bodies to rationalise the guidelines for import of gold. Taking into account such representations and in consultation with the Government of India, the Reserve Bank has modified A.P. (DIR Series) Circular No. 25 dated August 14, 2013.

Limited Liability Partnership as Indian Party

The Reserve Bank, on May 19, 2014, decided to notify a Limited Liability Partnership (LLP), registered under the Limited Liability Partnership Act, 2008, as an "Indian Party". An LLP, may now undertake financial commitment to/on behalf of a Joint Venture (JV)/Wholly Owned Subsidiaries (WOS) abroad in terms of the existing FEMA provisions.

Earlier, on April 16, 2014, the Reserve Bank had decided that Limited Liability Partnership (LLP) formed and registered under the Limited Liability Partnership Act, 2008 would be eligible to accept Foreign Direct Investment (FDI) subject to certain conditions.

Procedure for ECB from FEHs simplified

As a measure of simplification of the existing procedure, the Reserve Bank, on May 16, 2014, decided to delegate powers to authorised dealer (AD) banks to approve the following cases under the automatic route:

- Proposals for raising External Commercial Borrowing (ECB) by companies belonging to manufacturing, infrastructure, hotels, hospitals and software sectors from indirect equity holders and group companies.
- Proposals for raising ECB for companies in miscellaneous services from direct/indirect equity holders and group companies. Miscellaneous services mean companies engaged in training activities (but not educational institutes), research and development activities and companies supporting infrastructure sector. Companies doing trading business, companies providing logistics services, financial services and consultancy services are, however, not covered under the facility.
- Proposals for raising ECB by companies belonging to manufacturing, infrastructure, hotels, hospitals and software sectors for general corporate purpose. ECB for general corporate purpose (which includes working capital financing) is, however, permitted only from direct equity holder.
- Proposals involving change of lender when the ECB is from foreign equity holders (FEHs) – direct/indirect equity holders and group company.

Earlier, ECBs from direct FEHs were considered both, under automatic and approval routes, as the case was. ECBs from indirect equity holders and group companies and ECBs from direct FEH for general corporate purpose were, however, considered under the approval route. Further, any request for change of the ECB lender in case of FEH required the Reserve Bank's approval.

CO-OPERATIVE BANKING

UCBs to act as PAN Service Agents

The Reserve Bank, on May 16, 2014, permitted financially sound and well managed urban co-operative banks (UCBs), to act as permanent account number (PAN) service agents (PSAs). Such UCBs, with prior approval of the Reserve Bank, will have to tie-up with National Securities Depository Limited (NSDL) e-Governance Infrastructure Limited or with any other agency authorised by the Income Tax Department, Government of India, for providing PAN issuance services to its customers.

Advance against Pledge of Gold/Silver Ornaments

As a prudential measure, the Reserve Bank has on May 9, 2014, prescribed a Loan to Value (LTV) Ratio of not exceeding 75 per cent for Urban Cooperative Banks' (UCBs) lending against gold jewellery (including bullet repayment loans against pledge of gold jewellery). Therefore, now loans sanctioned by UCBs should not exceed 75 per cent of the value of gold ornaments and jewellery.

To standardise the valuation and make it more transparent to the borrower, the Reserve Bank has asked banks to value gold jewellery accepted as security/collateral at the average of the closing price of 22 carat gold for the preceding 30 days as quoted by the India Bullion and Jewellers Association Ltd. [Formerly known as the Bombay Bullion Association Ltd. (BBA)]. If the gold is of purity less than 22 carats, the bank should translate the collateral into 22 carat and value the exact grams of the collateral. In other words, jewellery of lower purity of gold should be valued proportionately.

UCBs should continue to observe necessary and usual safeguards and also have a suitable policy for lending against gold jewellery with the approval of their Boards of Directors.

REPORTS**Committee to review Governance of Boards of Banks**

The Reserve Bank placed the Report of the Committee to Review Governance of Boards of Banks in India (Chairman: Dr. P.J. Nayak) on its website (<http://rbi.org.in/scripts/PublicationReportDetails.aspx?UrlPage=&ID=784>) on May 13, 2014. The comments, if any, on the recommendations of the Report, may be emailed or sent by post to the Chief General Manager, Reserve Bank of India, Department of Banking Operations and Development, 12th Floor, Central Office Building, Shahid Bhagat Singh Marg, Fort, Mumbai – 400 001 on or before June 12, 2014.

Background

It may be recalled that the Reserve Bank had constituted an Expert Committee to Review Governance of Boards of Banks in India (http://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=30436). The Expert Committee was requested to examine, inter alia, the working of banks' boards including whether adequate time is devoted to issues of strategy, growth, governance and risk management; to review central bank regulatory guidelines on bank ownership, ownership concentration and representation in the board; to analyse the representation on banks' boards to see whether the boards have the appropriate mix of capabilities and the necessary independence to govern the institution, and to investigate possible conflicts of interest in board representation, including among owner representatives and regulators.

Committee on Resolution Regime for Financial Institutions

A high level Working Group, with Shri Anand Sinha, the then Deputy Governor, Reserve Bank of India as Chairperson, submitted its report on Resolution Regime for Financial Institutions, to the Governor, Reserve Bank of India and Chairman of the Sub-Committee of Financial Stability and Development Council (FSDC). Dr. Arvind Mayaram, Secretary, Department of Economic Affairs, Ministry of Finance, Government of India was the Co-Chairperson. The Group was constituted by the Sub-Committee of the Financial Stability and Development Council (FSDC). The objective of setting up the Group was to suggest extensive strengthening of the resolution regime taking into consideration the structure of Indian financial institutions and the Financial Stability Board's key attributes of effective resolution regime for financial institutions.

At present, there are some provisions contained in various Acts governing the respective financial institutions, which empower the respective regulator/supervisor and/or the central government to resolve different types of financial institutions in India once they run into viability problems. In order to bridge the gaps and develop an effective resolution regime for all financial institutions in line with the key attributes, the Group has made wide ranging recommendations taking into consideration

the international best practices and work in major advanced jurisdictions as also the recommendations given by the Financial Sector Legislative Reforms Commission (FSLRC).

The Group has emphasised the need for a separate comprehensive legal framework providing the necessary powers and tools to resolve all financial institutions irrespective of ownership; and setting up of a single Financial Resolution Authority (FRA) that is institutionally independent of regulators/Government. The Group has also recommended putting in place an early intervention mechanism in the form of a Prompt Corrective Action (PCA) framework with clear trigger levels for regulatory intervention in the early stages and for handing over to the resolution authority for initiating appropriate actions in the last stage.

On May 2, 2014, the Report of the Working Group on Resolution Regime for Financial Institutions was placed on the website of Ministry of Finance (MoF)/Reserve Bank of India (RBI)/Securities and Exchange Board of India (SEBI)/Insurance Regulatory and Development Authority (IRDA)/Pension Fund Regulatory and Development Authority (PFRDA)/Financial Markets Committee (FMC), for inviting public comments.

Committee on Enabling PKI in Payment System Applications

The Reserve Bank, released the final Report of the Technical Committee on Enabling Public Key Infrastructure (PKI) in Payment System Applications, on its website on April 22, 2014. The committee constituted in September 2013, had released the draft report for public comment on February-March 2014.

Cognisant of the fact that non-PKI enabled payment systems, such as, clearing (Magnetic Ink Character Recognition (MICR)/Non MICR), electronic credit system, credit card and debit cards contributed 75 percent in volume terms but only 6.3 percent in value terms in the year 2012-13, the Group has suggested that in order to ensure a safe, secure payment system in the country and to ensure legal compliance, digital technology, such as, PKI may be used. Based on the feedback received, the Group has also included a detailed study of cloud-hosted digital signature certificate (DSC), trusted execution environment, hardened—"soft" signatures, mobile PKI, portable security transaction protocol and hybrid PKI solution by Institute for Development and Research in Banking Technology (IDRBT) as alternative strategies keeping in view the Indian context.

The report highlights, among other things, security features in existing payment system applications and feasibility in implementing PKI in all payments system applications. All banks' internet banking applications should mandatorily create authentication environment for password-based two-factor authentication as well as PKI-based system for authentication and transaction verification in online banking transaction. In online banking transactions, banks should provide the option to its customers for enabling PKI for its online banking transactions as optional feature for all customers. The Group has also recommended that banks may carry out in phases PKI implementation for authentication and transaction verification.