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MONETARY AND CREDIT INFORMATION REVIEW

Banking Regulation

RBI grants In-principle Approval to 11 Applicants for Payments Banks

The Reserve Bank, on August 19, 2015 granted "in-principle" approval to eleven applicants to set up payments banks under the Guidelines for Licensing of Payments Banks issued on November 27, 2014. These are:

- (i) Aditya Birla Nuvo Limited;
- (ii) Airtel M Commerce Services Limited;
- (iii) Cholamandalam Distribution Services Limited;
- (iv) Department of Posts;
- (v) Fino PayTech Limited;
- (vi) National Securities Depository Limited;
- (vii) Reliance Industries Limited;
- (viii) Shri Dilip Shantilal Shanghvi;
- (ix) Shri Vijay Shekhar Sharma;
- (x) Tech Mahindra Limited; and
- (xi) Vodafone m-pesa Limited.

During the validity of 18 months of the "in-principle" approval, the applicants have to comply with the requirements under the Guidelines and fulfil the other conditions as stipulated by the Reserve Bank. On being satisfied that the applicants have complied with the requisite conditions laid down by it as part of "in-principle" approval, the Reserve Bank would consider granting a licence for commencement of banking business to them. Until a regular licence is issued, the applicants cannot undertake any banking business.

Going forward, the Reserve Bank intends to use the learning from this licensing round to appropriately revise the Guidelines and move to giving licences more regularly "on tap". The Reserve Bank believes that some of the entities which did not qualify in this round, could well be successful in future rounds.

Selection Process

The Reserve Bank followed the following process for selecting the applicants:

- First, a detailed scrutiny was undertaken by an External Advisory Committee (EAC) under the Chairmanship of Dr. Nachiket Mor, Director, Central Board of the Reserve Bank of India.
- The recommendations of the EAC were an input to an Internal Screening Committee (ISC), consisting of the Governor and the four Deputy Governors. This Internal Screening Committee prepared a final list of recommendations for the Committee of the Central Board (CCB), after independently scrutinising all the applications.
- The CCB, at its meeting of August 19, 2015, went through the applications, the recommendations of the EAC and the ISC, and approved the announced list of applicants.

In arriving at the final list, the CCB noted that payments banks cannot undertake lending, and therefore they would not be subject to the same risks as a full service bank. However, the CCB evaluated applicants to assess whether there would be any unacceptable risk even to the narrower functions of a payments bank. It also noted that

it would be difficult at this stage to forecast which model would be the most successful one in the emerging business of payments. It, therefore, selected entities with experience in different sectors and having different capabilities so that different models could be tried out. It did ensure that all the selected applicants have the reach and the technological and financial strength to service hitherto excluded customers across the country. Nevertheless, the in-principle approvals are subject to certain condition in the guidelines, including any developments in on-going cases.

Background

- *August 27, 2013:* The Reserve Bank places on its website a policy discussion paper on Banking Structure in India – The Way forward observing, among other things, the need for niche banking in India, and desirability of differentiated licensing, particularly for infrastructure financing, wholesale banking and retail banking.
- *January 2014:* The Reserve Bank releases the report of the Committee on Comprehensive Financial Services for Small Businesses and Low Income Households (Chairman: Dr. Nachiket Mor) which examined the issues relevant to an ubiquitous payment network and universal access to savings and recommended the licensing of payment banks to offer financial services to hitherto excluded segments of the population.
- *July 17, 2014:* Draft guidelines for licensing of payments banks were released for public comments.
- *November 27, 2014:* Final guidelines for licensing of payments banks were issued.
- *January 1, 2015:* The Reserve Bank issued clarifications to the queries (numbering 144) on the guidelines. The Reserve Bank received 41 applications for payments banks. (https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=34754)

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Functioning of RBI on Saturdays

All scheduled and non-scheduled banks – public, private, foreign, cooperative, regional rural and local area banks – will observe public holiday on second and fourth Saturdays from September 1, 2015; and will observe full working days on Saturdays other than second and fourth Saturdays (referred to as working Saturdays). Consequent to this, the Reserve Bank has announced the following changes in its functioning with effect from September 1, 2015:

I. Financial Market Segments

a) The financial market segments which are currently open for transactions on Saturdays will continue to remain open on all working Saturdays. That is,

i. All money market segments, namely, call/notice/term money, market repo and Collateralised Borrowing and Lending Obligation (CBLO) will remain open on all working Saturdays as on any normal business day; and

ii. Forex market and Government securities markets, along with all OTC derivative markets would remain closed on all Saturdays, as hitherto.

b) The Reserve Bank will continue to operate fixed rate reverse repo as well as the marginal standing facility (MSF) windows on all working Saturdays between 7:00 pm and 7.30 pm as on any normal business day.

c) The Reserve Bank will also operate a fixed rate liquidity adjustment facility (LAF) repo window on all working Saturdays between 9.30 am and 10.30 am. The LAF repo window on working Saturdays would in fact be an extension of the Friday LAF window. That is, banks could borrow for three days on Friday, within the prescribed limits, and any residual unused limit could be utilised for a 2-day period on working Saturdays.

II. Payment Systems

i. Payment systems will not be operated on second and fourth Saturdays but would operate for full day on working Saturdays. Payment systems typically includes Real Time Gross Settlement (RTGS), National Electronic Fund Transfer (NEFT), Cheque Clearing operated by various Bankers' Clearing Houses in the country including the grid based Cheque Truncation System (CTS) and ECS suite [Electronic Clearing Service (ECS), Regional Electronic Clearing Service (RECS) and National Electronic Clearing Service (NECS)].

ii. Processing of future value dated transactions with value date falling on second and fourth Saturdays will not be undertaken under RTGS and ECS suite.

III. Banking Department

The Banking Departments in Regional Offices of the Reserve Bank will remain open for the full day on working Saturdays as required to support the functioning of the Financial Markets and the Payment Systems. Government business will be transacted at agency banks on working Saturdays.

It may be recalled that the Government of India issued a Notification on August 20, 2015 [published in the Gazette of India, Extra Ordinary, Part II, Section 3, Sub-Section (ii)] declaring every second and the fourth Saturday of every month as public holiday under Section 25 of the Negotiable Instruments Act, 1881 (26 of 1881). Accordingly, all banks whether or not included in the Second Schedule to the Reserve Bank of India Act, 1934 (2 of 1934) will observe holidays on second and fourth Saturdays with effect from September 1, 2015. As a regulator of banks, financial markets and payment and settlement systems, the Reserve Bank has made supporting changes in the working of some of its operational areas.

The above arrangements would be reviewed after six months.

(https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=34844)

Third Bi-monthly Monetary Policy Statement, 2015-16

The Reserve Bank, on August 4, 2015 announced the Third Bi-monthly Monetary Policy Review, 2015-16. On the basis of an assessment of the current and evolving macroeconomic situation, the Reserve Bank decided to:

- keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 7.25 per cent;
- keep the cash reserve ratio (CRR) of scheduled banks unchanged at 4.0 per cent of net demand and time liability (NDTL);
- continue to provide liquidity under overnight repos at 0.25 per cent of bank-wise NDTL at the LAF repo rate and liquidity under 14-day term repos as well as longer term repos of up to 0.75 per cent of NDTL of the banking system through auctions; and
- continue with daily variable rate repos and reverse repos to smooth liquidity.

Consequently, the reverse repo rate under the LAF remained unchanged at 6.25 per cent, and the marginal standing facility (MSF) rate and the Bank Rate at 8.25 per cent. (https://www.rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=34614)

RBI's Clarification on Agency Commission

The Reserve Bank has clarified to agency banks that following activities do not come under the purview of agency bank business and are, therefore, not eligible for payment of agency commission:

- Furnishing of bank guarantees/security deposits, through private sector banks by government contractors/suppliers, which constitutes banking transactions undertaken by banks for their customers;
- Banking business of autonomous/statutory bodies;
- Payments of a capital nature, such as, capital contributions/subsidies/ grants made by governments to cover losses incurred by autonomous/statutory bodies;
- Prefunded schemes which may be implemented by a Central Government Ministry/ Department (in consultation with the Controller General of Accounts) and a State Government Department through any bank without reference to the Reserve Bank. (<https://rbi.org.in/Scripts/NotificationUser.aspx?id=9985&Mode=0>)

Data Format for Credit Information

The Reserve Bank has created a new status value in the Uniform Credit Reporting Format prescribed for the purpose of reporting credit information to the Credit Information Companies (CICs) namely, 'Restructured due to Natural Calamity' for the fields 'Written Off and Settled Status' in the Consumer Bureau and 'Major reasons for restructuring' in the Commercial Bureau. It will enable scheduled commercial banks (excluding regional rural banks) / financial institutions (EXIM, NABARD, NHB and SIDBI) to report to Credit Information Companies restructured/ rescheduled agricultural loans on account of any declared natural calamities. Such reporting would help banks know if any earlier loans availed by the farmers were restructured due to natural calamities. (<https://rbi.org.in/Scripts/NotificationUser.aspx?id=9932&Mode=0>)

Branch Authorisation Policy relaxed

The Reserve Bank dispensed with the existing instructions permitting domestic scheduled commercial banks (excluding regional rural banks) to undertake merger, closure, shifting, part-shifting, opening of extension counters and reporting in accordance with the instructions given below:

Merger/Closure/ Shifting of branches:

i) Banks may shift, merge or close all branches except rural branches and sole semi-urban branches at their discretion.

ii) Shifting, merger, or closure of any rural branch as well as a sole semi urban branch would require approval of the District Consultative Committee (DCC) and District Level Review Committee (DLRC). Further, while shifting/merging/closing sole rural or semi urban branches, banks may ensure that the banking needs of the centre continue to be met through either satellite offices/mobile vans or through Business Correspondents.

iii) Banks should ensure that customers of the branch, which is being shifted/merged/closed, are informed well in time before actual shifting/merger/closure of the branch, so as to avoid inconvenience to them. Further, while considering shifting/merger/closure of branches, banks should ensure that they continue to fulfil the role entrusted to these branches under the Government sponsored programmes and Direct Benefit Transfer (DBT) Schemes.

iv) Banks should ensure that branches are shifted within the same or to a lesser population category, i.e., semi urban branches to semi urban or rural centres and rural branches to other rural centres.

v) Banks should surrender the licence, if any was issued, of the merged/closed/shifted branch to the Regional Office concerned of Department of Banking Supervision (DBS) except in respect of branches in Maharashtra and Goa, which should be surrendered to Department of Banking Regulation (DBR), CO, Mumbai.

Thus banks may shift their metropolitan, urban and semi urban branches outside the State, and their rural branches outside the block without prior approval of the Reserve Bank.

Part-shifting of Branches:

Banks may shift /part shift some activities of a branch in any centre without seeking prior approval of Reserve Bank. However, the banking activity, i.e., deposit or loan business cannot be maintained at both places, and the new location for part shifting would have to be within one kilometre of the existing location. They may also spin off certain activities, such as, Government business into separate branches at their discretion.

Opening of Extension Counters:

Banks can open Extension Counters in the premises of institutions even if they are not the principal bankers of the institution.

Rationalisation of Reporting Requirements:

Banks, including LABs, are no longer required to report details of opening of a new place of business including Mobile branch/Mobile ATMs/ call centres, closure, merger, shifting or conversion of any existing place of business including call centres to the Regional Office concerned of DBS/DBR CO. They may, however, ensure to continue submitting within fourteen days of every quarter, information relating to opening, closure, merger, shifting and conversion of branches in Proforma I & II to Department of Statistics and Information Management, Banking Statistics Division, (DSIM), Mumbai. Further, the annual report of branches actually opened during the year, may now be submitted in the revised format. All other instructions remain unchanged. (<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=9974&Mode=0>)

Financial Inclusion and Development

Operationalisation of NRLM Scheme

The Reserve Bank issued consolidated instructions to scheduled commercial banks about operationalisation of the Government of India's National Rural Livelihoods Mission (NRLM) Scheme. The Scheme replaces the Swarnajayanti Gram Swarozgar Yojana (SGSY). The salient features are:

Role of Banks:

The role of banks would commence with opening of accounts for all the women self help groups (SHGs), SHGs with members of disability and the Federations of the SHGs. The 'Know Your Customer' (KYC) norms as specified from time to time by the Reserve Bank are applicable for identification of the customers.

Lending Norms:

The Reserve Bank's instructions on NRLM scheme with regard to lending norms primarily relate to (i) eligibility criteria, (ii) loan amount,

(iii) type of facility and repayment, (iv) repayment schedule, (v) security and margin and (vi) Defaults:

Credit Target Planning:

Based on the Potential Linked Plan/State Focus Paper prepared by NABARD, State Level Bankers Committee (SLBC) sub-committee may arrive at the district-wise, block-wise and branch-wise credit plan. The sub-committee has to consider the existing SHGs, new SHGs proposed, and number of SHGs eligible for fresh and repeat loans as suggested by the State Rural Livelihood Mission (SRLMs) to arrive at the credit targets for the states. The targets so decided should be approved in the SLBC and should be reviewed and monitored periodically for effective implementation.

The district-wise credit plans should be communicated to the District Coordination Committee (DCC). The Block-wise/Cluster-wise targets are to be communicated to the bank Branches through the Controllers. Banks may give a state-wise consolidated report on the progress made on NRLM to Reserve Bank/NABARD at monthly intervals. NABARD shall submit monthly report on the SHG bank linkage, data for which shall flow from the CBS platform to NRLM on regular basis. Existing procedure of submitting LBR returns to be continued. (<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=9968&Mode=0>)

Operationalisation of NULM Scheme

The Reserve Bank also issued consolidated instructions to scheduled commercial banks about operationalisation of the Government of India's National Urban Livelihoods Mission (NULM) Scheme, which has replaced the erstwhile Swarna Jayanti Shahari Rozgar Yojana (SJSRY). The salient features are:

Self Employment Programme:

Selection of Beneficiary: Community Organisers (COs) and professionals from Urban Local Body (ULB) will identify the prospective beneficiaries from among the urban poor. The community structures formed under Social Mobilisation and Institutional Development (SM&ID) component of NULM, namely, Self Help Groups (SHGs) and Area Level Federations (ALFs) may also refer prospective individual and group entrepreneurs for the purpose of financial assistance under Self Employment Programme (SEP) to ULB. The beneficiaries may directly approach ULB or its representatives for assistance. Banks may also identify prospective beneficiaries at their end and send such cases directly to ULB.

Educational Qualifications and Training Requirement:

No minimum educational qualification is required for prospective beneficiaries under this component. Financial assistance should be extended only after the prospective beneficiary has acquired required skills for running the proposed micro-enterprise. In addition to skill training of the beneficiaries, the ULB will also arrange to conduct Entrepreneurship Development Programme for 3-7 days for individual and group entrepreneurs, covering basics of entrepreneurship development, such as, management of an enterprise, basic accounting, financial management, marketing, backward and forward linkages, legal procedures, costing and revenue. The module should also include group dynamics, allocation of work, profit sharing mechanism etc. for group enterprises. This EDP training may be arranged through institutions, such as, Rural Self Employment Training Institutes (RSETI), reputed institutions engaged in entrepreneurship development/ training, management/ educational institutes, reputed NGOs engaged in entrepreneurship development/ training.

Pattern of Financial Assistance:

The financial assistance available to urban poor in setting up individual and group enterprises will be in the form of interest subsidy on the bank loans, over and above 7 percent rate of interest available on a bank loan. The difference between 7 percent per annum and the prevailing rate of interest will be provided to banks under NULM.

Eligibility for subvention:

All scheduled commercial banks (SCBs), Regional Rural Banks (RRBs) and cooperative banks, which are on the Core Banking Solution (CBS) platform would be eligible for getting interest subvention under the

scheme. After disbursement of loan to the beneficiaries, the concerned branch of the bank will send details of disbursed loan cases to ULB along with details of interest subsidy amount. The settlement of claims made by banks would be done on quarterly basis by the ULBs, however the submission of claims should be monthly. The ULB will check the data at their end and will release the interest subsidy amount (difference between 7 percent per annum and prevailing rate of interest) to the banks.

Individual Enterprises (SEP-I)-Loan & Subsidy :

An urban poor individual beneficiary desirous of setting up an individual micro-enterprise for self-employment can avail benefit of subsidised loan under this component from any bank. The prospective beneficiary should have attained the age of 18 years at the time of applying for loan. The maximum unit project cost for individual micro-enterprises cases is ₹2,00,000 (₹Two Lakhs). No collateral are required. Banks are mandated not to accept collateral security in the case of loans up to ₹10 lakhs extended to units in the MSE sector. Therefore, only the assets created would be hypothecated/ mortgaged/ pledged to banks for advancing loans. The banks may approach Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) setup by Small Industries Development Bank (SIDBI) and Government of India for the purpose of availing guarantee cover for SEP loans as per the eligibility of the activity for guarantee cover. Repayment schedule ranges from 5 to 7 years after initial moratorium of 6-18 months as per norms of the banks.

Group Enterprises (SEP-G) -Loan & Subsidy :

A self help group (SHG) or members of an SHG constituted under NULM or a group of urban poor desirous of setting up a group enterprise for self-employment can avail benefit of subsidised loans under this component from any bank. The group enterprise should have minimum 5 members with a minimum of 70 percent members from urban poor families. The application/ intent to set up a group enterprise by beneficiaries/ group members should preferably be referred by the community structures, namely, SHG/ ALF formed under NULM. All members of the group enterprise should have attained an age of 18 years at the time of applying for bank loan. The maximum unit project cost for a group enterprise is ₹10,00,000 (₹Ten Lakhs). Project cost less the beneficiary contribution (as specified by bank) would be made available as loan amount to the group enterprise by the bank. No collateral/ guarantee required. Only the assets created would be hypothecated/ mortgaged/ pledged to banks for advancing loans. The banks may approach Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE). Repayment schedule ranges from 5 to 7 Years after initial moratorium of 6-18 months as decided by banks.

Task Force at ULB Level:

A Task Force may be constituted at ULB level for recommending cases for individual and group enterprises for onward transmission to the banks by the ULB. There could be more than one task force at ULB level depending upon the size/population of the ULB. The indicative composition of the Task Force includes Chief Executive Officer (CEO) ULB/ Municipal Commissioner of ULB/ or any representative authorised by CEO ULB (Chairman), City Project Officer (CPO), ULB/ or any authorised representative of ULB (Member Convener), Lead District Manager (LDM), Representative from District Industries Centre (DIC), Senior Branch Managers (Max-2) of banks, Representatives (2) of Area Level Federation / City Level Federation (Members). (<https://rbi.org.in/Scripts/NotificationUser.aspx?id=9967&Mode=0>)

Interest Subvention Scheme for Short Term Crop Loans

The Reserve Bank has advised public and private sector scheduled commercial banks that the Government of India has approved the implementation of the Interest Subvention Scheme for the year 2015-16 for short term crop loans upto ₹3.00 lakhs with certain stipulations. (<https://rbi.org.in/Scripts/NotificationUser.aspx?id=9984&Mode=0>)

Direct Lending to Non-corporate Farmers

The Reserve Bank has directed all scheduled commercial banks (excluding regional rural banks) to ensure that their overall direct lending to non-corporate farmers does not fall below the system-wide average of the last three years achievement, failing which they will attract the usual penalties for shortfall. They should also continue to maintain all efforts

to reach the level of 13.5 percent direct lending to the beneficiaries who earlier constituted the direct agriculture sector. (<https://rbi.org.in/Scripts/NotificationUser.aspx?id=9948&Mode=0>)

Non-Banking Regulation

Exposure Norms for SPDs

To facilitate greater level of participation in corporate bonds by Stand alone Primary Dealers (SPDs), the Reserve Bank has increased exposure ceiling limits in respect of single borrower/ counterparty from 25 per cent to 50 per cent of latest audited Net Owned Funds (NOF) and in respect of group borrower from 40 per cent to 65 per cent of the latest audited NOF only for investments in AAA rated corporate bonds. The existing norm of exposure ceilings for single borrower/ counterparty and group borrower of 25 and 40 per cent, respectively, and other instructions, will continue to apply in respect of other investments in the corporate bonds. (<https://rbi.org.in/Scripts/NotificationUser.aspx?id=9976&Mode=0>)

New Return Formats for NBFCs

The Reserve Bank has prescribed two new Return Formats for all NBFCs (excluding RNBCs) to capture important financial parameters of the respective category of NBFCs:

- (i) NBS 8 for NBFCs-ND with assets size between ₹100-500 crore, and
- (ii) NBS 9 for NBFCs-ND with assets size below ₹100 crore.

These Return Formats are available on <https://cosmos.rbi.org.in> under the menu 'Download Blank Form'. The Return Formats are also available on the RBI website www.rbi.org.in > Function wise sites > Regulation > Non-Banking > Forms. The NBFCs may get in touch with the concerned DNBS regional office for obtaining the log-in ID and password for submitting on-line annual returns.

The annual return should be submitted within 30 days of closing of the financial year, i.e. by 30th April of every year. As most of these NBFCs will be filing such return for the first time, the annual return for the year ending March 31, 2015 may be filed by September 30, 2015. Further, non-deposit taking NBFCs with assets of ₹50- 500 crore that have already submitted the prescribed returns for the quarter ending March 31, 2015 are not required to submit the annual return for the year ending March 2015. There is no change in the returns prescribed for deposit taking NBFCs and NDSI (with assets of ₹500 crore and above). (<https://rbi.org.in/Scripts/NotificationUser.aspx?id=9931&Mode=0>)

Co-operative Banking

Extending Value Added Services through ATMs

The Reserve Bank has permitted Primary (Urban) Co-operative Banks to offer services that can be offered via a standardised ATM machine like bill payments, account transfers at their on-site / off-site / mobile ATMs. Approved Services / facilities on ATMs installed by UCBs are:

- Deposits/Withdrawals;
- Personal Identification Number (PIN) changes;
- Requisition for cheque books; Statement of accounts;
- Balance enquiry;
- Inter account transfer within the bank between accounts of same customer or different customers of the bank at the same centre or different centres within the country;
- Inter Bank Funds Transfer - Transfer of Funds between the bank's customers and customers of other banks;
- Mail facility for sending written communication to the bank;
- Utility payments like Electricity bill, Telephone bill, etc;
- Issue of railway tickets and
- Product Information

The UCBs may, however, ensure that there are enough technological safeguards in place for ensuring data security. Further, as per extant instructions, the products of other financial institutions will not be allowed to be marketed through ATMs. (<https://rbi.org.in/Scripts/NotificationUser.aspx?id=9963&Mode=0>)