MONETARY & CREDIT INFORMATION REVIEW

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I. Regulation

IWG on Private Banks

The Reserve Bank on November 20, 2020 placed on the Reserve Bank website the report of the Internal Working Group (IWG) constituted on June 12, 2020 to review extant ownership guidelines and corporate structure for Indian private sector banks.

The composition of the Internal Working Group (IWG) was as under:

- Dr. Prasanna Kumar Mohanty, Director, Central Board of RBI
- Prof. Sachin Chaturvedi, Director Central Board of RBI
- Smt. Lily Vadera, Executive Director, RBI
- Shri S. C. Murmu, Executive Director, RBI
- Shri Shrimohan Yadav, Chief General Manager, RBI – Convenor

The terms of reference of the IWG were

i) To review the extant licensing guidelines and regulations relating to ownership and control in Indian private sector banks and suggest appropriate norms, keeping in mind the issue of excessive concentration of ownership and control, and having regard to international practices as well as domestic requirements;

ii) To examine and review the eligibility criteria for individuals/ entities to apply for banking license and make recommendations on all related issues;

iii) To study the current regulations on holding of financial subsidiaries through non-operative financial holding company (NOFHC) and suggest the manner of migrating all banks to a uniform regulation in the matter, including providing a transition path;

iv) To examine and review the norms for promoter shareholding at the initial/licensing stage and subsequently, along with the timelines for dilution of the shareholding; and,

v) To identify any other issue germane to the subject matter and make recommendations thereon

The key recommendations of the IWG are as follows:

i) The cap on promoters' stake in the long run (15 years) may be raised from the current level of 15 per cent to 26 per cent of the paid-up voting equity share capital of the bank.

ii) As regards non-promoter shareholding, uniform cap of 15 per cent of the paid-up voting equity share capital of the bank may be prescribed for all types of shareholders.

iii) Large corporate/industrial houses may be allowed as promoters of banks only after necessary amendments to the Banking Regulation Act,1949 (to prevent connected lending and exposures between the banks and other financial and non-financial group entities); and strengthening of the supervisory mechanism for large conglomerates, including consolidated supervision.

iv) Well run large Non-banking Financial Companies (NBFCs), with an asset size of ₹50,000 crore and above, including those which are owned by a corporate house, may be considered for conversion into banks subject to completion of 10 years of operations and meeting due diligence criteria and compliance with additional conditions specified in this regard.

v) For payments banks intending to convert to a small finance bank, track record of 3 years of experience as payments bank may be considered as sufficient.

Contents

Note from the Editor

Welcome to yet another edition of the Monetary and Credit Information Review (MCIR). This monthly periodical of the RBI helps keep abreast with new developments and important policy initiatives taken by the RBI during the month of November in the world of money and credit. MCIR can be accessed at https://mcir.rbi.org.in as well as by scanning the QR code.

Through this communication tool, we aim to share information, educate, and stay in touch while ensuring factual accuracy and consistency in disseminating the information.

We welcome your feedback at mcir@rbi.org.in

Yogesh Dayal
Editor

vi) Small finance banks and payments banks may be listed within 'six years from the date of reaching net worth equivalent to prevalent entry capital requirement prescribed for universal banks' or '10 years from the date of commencement of operations', whichever is earlier.

vii) The minimum initial capital requirement for licensing new banks should be enhanced from ₹500 crore to ₹1000 crore for universal banks, and from ₹200 crore to ₹300 crore for small finance banks.

viii) Non-operative Financial Holding Company (NOFHC) should continue to be the preferred structure for all new licenses to be issued for universal banks.

ix) While banks licensed before 2013 may move to an NOFHC structure at their discretion, once the NOFHC structure attains a tax-neutral status, all banks licensed before 2013 shall move to the NOFHC structure within five years from announcement of tax-neutrality.

x) Till the NOFHC structure is made feasible and operational, the concerns with regard to banks undertaking different activities through subsidiaries/ joint ventures/ associates need to be addressed through suitable regulations.

xi) Banks which are currently under the NOFHC structure may be allowed to exit from such a structure if they do not have other group entities in their fold.

xii) The Reserve Bank may take steps to ensure harmonisation and uniformity in different licensing guidelines, to the extent possible.

The report is placed on the public domain for comments of stakeholders and members of the public which may be submitted by January 15, 2021. To read the full report, please click here.

LVB Placed Under Moratorium

The financial position of the Lakshmi Vilas Bank Ltd. (the bank) has undergone a steady decline with the bank incurring continuous losses over the last three years, eroding its net-worth. The Reserve Bank had been continually engaging with the bank's management to find ways to augment the capital funds to comply with the capital adequacy norms.

The Reserve Bank after taking into consideration the developments came to the conclusion that in the absence of a credible revival plan, with a view to protect depositors' interest and in the interest of financial and banking stability, there was no alternative but to apply to the Central Government for imposing a moratorium under section 45 of the Banking Regulation Act, 1949. Accordingly, after considering the Reserve Bank's request, the Central Government imposed moratorium for thirty days effective from November 17, 2020. To read more, please click here.

Supersession of the Board of Directors

The Reserve Bank on November 17, 2020 in consultation with the Central Government, superseded the Board of Directors of the Lakshmi Vilas Bank Ltd. for a period of 30 days owing to serious deterioration in the financial position of the bank. Shri T. N. Manoharan, former Non Executive Chairman of Canara Bank was appointed as the Administrator under Sub-section (2) of Section 36 A C A of the Act. To read more, please click here.

Draft Scheme of Amalgamation

The Reserve Bank on November 17, 2020 placed in public domain a draft scheme of amalgamation of The Lakshmi Vilas Bank Ltd. (LVB) with DBS Bank India Ltd. (DBIL), a banking company incorporated in India under Companies Act, 2013, and having its registered office at New Delhi. The Reserve Bank invited suggestions and objections, if any, from members, depositors and other creditors of transferor bank (LVB) and transferee bank (DBIL), on the draft scheme. To read more, please click here.

LVB branches to operate as DBS branches

The Government of India on November 25, 2020 sanctioned the Scheme for the amalgamation of the Lakshmi Vilas Bank Ltd. with DBS Bank India Ltd. The amalgamation came into force on November 27, 2020. From November 27, 2020, all the branches of the Lakshmi Vilas Bank Ltd. would function as branches of DBS Bank India Ltd. Customers, including depositors of the Lakshmi Vilas Bank Ltd. would be able to operate their accounts as customers of DBS Bank India Ltd. with effect from November 27, 2020. Consequently the moratorium on the Lakshmi Vilas Bank Ltd. ceased to be operative from that date. DBS Bank India Ltd. has made necessary arrangements to ensure that service, as usual, is provided to the customers of the Lakshmi Vilas Bank Ltd.

FATF Monitoring

The Financial Action Task Force (FATF), vide public document 'High-Risk Jurisdictions subject to a Call for Action' dated October 23, 2020, called on its members and other jurisdictions to refer to the statement on these jurisdictions adopted in February 2020. These jurisdictions are: Albania, The Bahamas, Barbados, Botswana, Cambodia, Ghana, Jamaica, Mauritius, Myanmar, Nicaragua, Pakistan, Panama, Syria, Uganda, Yemen and Zimbabwe. As per the public statement, Iceland and Mongolia are no longer subjected to increased monitoring based on the decision made at the October 2020 FATF plenary. FATF plenary releases documents titled "High-Risk jurisdictions subject to a Call for Action" and "Jurisdictions under increased Monitoring" with respect to jurisdictions that have strategic AML/CFT deficiencies as a part of the ongoing efforts to identify and work with jurisdictions with strategic Anti-Money Laundering (AML)/Combating of Financing of Terrorism (CFT) deficiencies.

The detailed information is available in the updated public statements and document released by FATF on October 23, 2020. The statements and document can be accessed by clicking here.

Current Account

The Reserve Bank on November 02, 2020 advised banks to ensure compliance with the instructions contained in the circular DOR.No.BP.BC/7/21.04.048/2020-21 dated August 6, 2020 ibid by December 15, 2020. Banks were advised to ensure compliance with the above instructions within a period of three months from the date of issue of the circular i.e., by November 5, 2020. The Reserve Bank received several references from banks seeking clarifications on operational issues regarding maintenance of current accounts already opened by the banks. These references are being examined by the Reserve Bank and will be clarified separately by means of a FAQ. To read more, please click here.

II. Payment and Settlement Systems

Reserve Bank Innovation Hub

The Reserve Bank in its Monetary Policy Statement on Development and Regulatory Policies dated August 06, 2020, announced setting up of Reserve Bank Innovation Hub (RBIH) to promote innovation across the financial sector by leveraging on technology and creating an environment which would facilitate and foster innovation. RBIH would be guided and managed by a Governing Council (GC) led by a Chairperson. The Reserve Bank has appointed Shri Senapathy (Kris) Gopalakrishnan, co-founder and former co-Chairman, Infosys, as the first Chairperson of the RBIH. Shri Gopalakrishnan is currently the Chief Mentor of Start-up Village, an incubation hub for start-ups.

The RBIH shall create an eco-system that would focus on promoting access to financial services and products. This will also promote financial inclusion. The hub will collaborate with financial sector institutions, technology industry and academic institutions and coordinate efforts for exchange of ideas and development of prototypes related to financial innovations. It would develop internal infrastructure to promote fintech research and facilitate engagement with innovators and start-ups. To read more, please click here.

Regulatory Sandbox

The Reserve Bank on November 17, 2020 announced that two entities, as per details below, have started testing of their products from November 16, 2020. The Reserve Bank received applications from 32 entities of which six have been selected for the 'Test Phase'.

i) Natural Support Consultancy Services Pvt. Ltd. Jaipur- The product 'eRupaya' is a set of Near-Field Communication (NFC) based Prepaid card and NFC enabled Point of Sale (PoS) device, to facilitate offline Person-to-Merchant (P2M) transactions and offline digital payments in remote locations.

ii) Nucleus Software Exports Ltd., New Delhi - The offline digital cash product, 'PaySe', will help connect with rural areas for e-payments. The product proposes to help in digitisation of payments in rural areas, starting with Self Help Groups (SHG), through an offline payment solution and a digitised SHG-centered ecosystem. To read more, please click here.

Maintenance of Escrow Account

The Reserve Bank on November 17, 2020 allowed authorised Prepaid Payment Instruments (PPIs) Issuer or a Payment Aggregator (PA) to maintain one additional escrow account in a different scheduled commercial bank, with a view to diversify risk and address business continuity concerns. An authorised PPI Issuer or a PA is required to maintain an escrow account with a scheduled commercial bank on an ongoing basis. The directions are issued under Section 18 read with Section 10(2) of the Payment and Settlement Systems Act, 2007. To read more, please click here.

III. Financial Inclusion

Co-Lending to Priority Sector

The Reserve Bank on November 05, 2020 provided greater operational flexibility to the lending institutions, while requiring them to conform to the regulatory guidelines on outsourcing and KYC. The primary focus of the revised scheme, rechristened as "Co-Lending Model" (CLM), is to improve the flow of credit to the unserved and underserved sector of the economy and make available funds to the ultimate beneficiary at an affordable cost, considering the lower cost of funds from banks and greater reach of the NBFCs. In terms of the CLM, banks are permitted to co-lend with all registered NBFCs (including HFCs) based on a prior agreement. The co-lending banks will take their share of the individual loans on a back-to-back basis in their books. The CLM shall not be applicable to foreign banks (including WOS) with less than 20 branches. To read more, please click here.

IV. Financial Markets

Repayment of TLTRO/TLTRO 2.0

The Reserve Bank on November 16, 2020 decided to extend the date for submission of requests up to November 20, 2020. Banks which had availed of funds under TLTRO and TLTRO 2.0 were provided an option of reversing these transactions before maturity vide press release no.2020-2021/521 dated October 21, 2020. Based on requests received from banks, it was decided to postpone the dates of submission of requests for and exercise of the repayment option vide press release no. 2020-2021/551 dated October 28, 2020. To read more, please click here.

RBI restores Market Trading Hours

The Reserve Bank on November 02, 2020 decided to restore trading hours for regulated markets in a phased manner. The trading hours for various markets regulated by the Reserve Bank were amended effective from April 7, 2020 in view of the operational dislocations and elevated levels of health risks posed by COVID-19. To view the trading hours, please click here.

V. Foreign Exchange

Discontinuation of Returns/Reports

The Reserve Bank on November 13, 2020 discontinued 17 returns/reports as listed in the Annexure of Master Direction - Reporting under Foreign Exchange Management Act, 1999 dated January 01, 2016. The directions contained in the circular have been issued under Section 10(4) and 11(2) of the Foreign Exchange Management Act, 1999 (42 of 1999) and are without prejudice to permissions/approvals, if any, required under any other law. To read more, please click here.

Establishment of BO/LO/PO

The Reserve Bank on November 23, 2020 directed authorised dealer (AD Category – I) banks not to grant any approval to any branch office, project office, liaison office or other place of business in India under FEMA for the purpose of practicing legal profession in India. Further, they shall bring to the notice of the Reserve Bank in case any such violation of the provisions of the Advocates Act comes to their notice. AD - Category I banks were advised vide AP (DIR Series) Circular No. 23 dated October 29, 2015, on the above issue that no fresh permissions/ renewal of permission shall be granted by the Reserve Bank/AD Category-I banks to any foreign law firm for opening of liaison office in India, till the policy is reviewed based on, among others, final disposal of the matter by the Hon'ble Supreme Court. The Hon'ble Supreme Court has while disposing of the case, held that advocates enrolled under the Advocates Act, 1961 alone are entitled to practice law in India and that foreign law firms/companies or foreign lawyers cannot practice profession of law in India.

VI. RBI Publications

BSR on Credit by SCBs

The Reserve Bank on November 04, 2020 released the web publication 'Basic Statistical Return on Credit by Scheduled Commercial Banks (SCBs) in India – March 2020' on its Database on Indian Economy (DBIE) portal (weblink: https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications#!19). The publication provides information on various characteristics of bank credit, based on data submitted by SCBs (including Regional Rural Banks) under the annual Basic Statistical Return (BSR)-1 system, which collects information on type of account, organisation, occupation/activity and category of the borrower, district and population group of the place of utilisation of credit, rate of interest, credit limit and amount outstanding.

Main Findings:

- Personal loans continued to record robust growth their share in total credit has gradually increased to 24.0 per cent in March 2020 from 16.6 per cent five years ago.
- Credit to the industrial sector moderated further and its share in total credit declined to 30.6 per cent in March 2020 from 41.2 per cent in March 2015.
- All bank groups recorded moderation in credit growth during 2019-20 though private sector banks continued to lead the growth.
- With consistently high growth in retail lending, the share of household sector in total credit increased substantially to 51.0 per cent in March 2020 from 41.8 per cent in March 2015.
- Among individuals, female borrowers held 34.2 percent of the loan accounts in March 2020 as compared with their 21.1 per cent share five years ago.
- The number of credit accounts with SCBs increased by 17.3 per cent (Y-o-Y) during 2019-20 and stood at 27.25 crore accounts in March 2020 reflecting increased penetration of bank lending.
- Though less than one-fifth of the branches of SCBs were in the metropolitan areas, they accounted for 63.5 per cent of sanctioned credit and 59.3 per cent of credit utilisation.
- Among states, credit utilisation was the highest in Maharashtra (23.9 per cent), followed by national capital territory (NCT) of Delhi (13.0 per cent) and Tamil Nadu (9.3 per cent).

To read more, please click here

RBI Bulletin – November 2020

The Reserve Bank of India released the November 2020 issue of its monthly Bulletin on November 11, 2020. The Bulletin includes one Speech, seven Articles and Current Statistics. The seven articles are: I. State of the Economy; II. An Economic Activity Index for India; III. Preliminary Estimates of Household Financial Savings - Q1:2020-21; IV. Revisiting the Determinants of the Term Premium in India; V. India's Gilt Market; VI. LIBOR: The Rise and the Fall; and VII. Fintech: The Force of Creative Disruption.

VII. Data Releases

Important Data Releases by the Reserve Bank in the month of November 2020:

	Title
1	Data on ECB/FCCB/RDB for September 2020
2	Scheduled Banks' Statement of Position in India
3	India's International Trade in Services for the Month of September 2020
4	Data on India's invisibles for First Quarter (April-June) 2020-21
5	Overseas Direct Investment for October 2020
6	Quarterly Statistics on Deposits and Credit of SCBs: September 2020
7	Sectoral Deployment of Bank Credit – October 2020
8	Marginal Cost of Funds Based Lending Rate (MCLR) for the month November 2020

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