



**RESERVE BANK OF INDIA
RURAL PLANNING AND CREDIT DEPARTMENT
CENTRAL OFFICE**

DRAFT REPORT

OF THE

INTERNAL WORKING GROUP

ON SPECIAL RELIEF MEASURES

BY BANKS

IN AREAS AFFECTED BY

NATURAL CALAMITIES

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IN AREAS AFFECTED BY NATURAL CALAMITIES**

Introduction:

Periodical but intermittent occurrence of droughts, floods, cyclones, earth quakes, tidal waves and other natural calamities takes a heavy toll of human life and cause widespread damage to economic pursuits of human beings in one area or the other of our country. The devastations caused by such natural calamities call for massive rehabilitation efforts by all agencies including banks. Reserve Bank has, from time to time, issued guidelines/instructions to banks in regard to relief measures to be provided in areas affected by natural calamities. The Bank has also issued a Master Circular consolidating the instructions in this regard. These guidelines, however, mostly focus on various concessions that may be extended to existing borrowers, mainly agriculturalists.

2. During the recent tsunami and heavy rains, floods and earthquakes in some parts of the country, a number of issues relating to functioning of Automated Teller Machines (ATMs), opening of accounts of customers with small deposits, operations of accounts in the absence of documents, failure of computer networks, etc came to the notice of the Bank. As the present guidelines on relief measures are generally confined to agricultural loans and priority sector loans, it was announced in the Mid-Term Review of the Monetary Policy Statement for the year 2005-06 that an internal Working Group would be constituted to look into the whole gamut of the issues involved and to suggest suitable revisions and additions to the existing guidelines.

3. Accordingly, an internal Working Group was constituted by Deputy Governor (Shri V. Leeladhar) under the Chairmanship of Shri G. Srinivasan, Chief General Manager, RPCD with the following members:

- (i) Kum. Kamala Rajan, GM, DIT
- (ii) Shri B.B. Sangma, GM, DGBA
- (iii) Shri T.B. Satyanarayan, GM, DBOD
- (iv) Shri S.S. Barik, GM, UBD
- (v) Shri Raju Kurian, DGM, DBS

Terms of reference

4. The terms of reference of the Working Group were as under:

- (i) To suggest guidelines on relief measures for ensuring continued access to the customers to their bank accounts at the time of a natural calamity (including business-continuity-plans for banks);
- (ii) To suggest guidelines for restructuring the existing loans and relaxed guidelines for issuance of fresh loans at the time of a natural calamity;
- (iii) To suggest relaxations to the banks affected by a natural calamity in regulatory reporting and other aspects; and
- (iv) Any other related issues.

The report of the Group consists of four chapters. Chapter-I covers issues relating to ensuring continued access to banking services during natural calamity. Chapter-II deals with relief measures that may be extended by the banks. The issues relating to regulatory forbearance in reporting requirements and other related matters are discussed in Chapter-III and IV respectively.

EXECUTIVE SUMMARY

Introduction:

Periodical but intermittent occurrence of various natural calamities takes a heavy toll of human life and cause widespread damage to economic pursuits of human beings. The devastations caused by such natural calamities call for massive rehabilitation efforts by all agencies including banks. Reserve Bank has, from time to time, issued guidelines/instructions to banks in regard to relief measures to be provided in areas affected by natural calamities. These guidelines, however, mostly focus on various concessions that may be extended to existing borrowers, mainly agriculturalists.

2. Accordingly, it was announced in the Mid-Term Review of the Monetary Policy Statement for the year 2005-06 that an internal Working Group would be constituted to look into the whole gamut of the issues involved and to suggest suitable revisions and additions to the existing guidelines.

3. The Working Group (WG) worked with the following terms of reference:

- (v) To suggest guidelines on relief measures for ensuring continued access to the customers to their bank accounts at the time of a natural calamity (including business-continuity-plans for banks);
- (vi) To suggest guidelines for restructuring the existing loans and for issuance of fresh loans at the time of a natural calamity;
- (vii) To suggest relaxations to the banks affected by a natural calamity in regulatory reporting and other aspects; and
- (viii) Any other related issues.

Ensuring Continued Access to the Customers to Bank Accounts

4. In areas affected by a natural calamity, providing continued access to the customers to their bank accounts, poses a serious challenge to the banks. The banking transactions are disrupted on account of non-functioning of Automated Teller Machines (ATM) and branches in areas affected by natural calamity. The payment and settlement system is also affected due to lack of cheque clearing. Further, there could be urgent need for opening of new bank accounts and making available the information on calamity relief.

5. Restoration of the functioning of ATMs or making alternate arrangements for providing such facilities is very important at the time of a calamity. The suggestions of the WG include allowing customers of one bank to use ATM networks of other banks for cash withdrawals with charges being borne by the parent bank, increasing ATM daily cash withdrawal limits and dispensing cash through mobile ATMs.

6. In the backdrop of increased leveraging of technology in banking system, Business-Continuity-Planning (BCP) has become a key pre-requisite for minimizing business disruption and system failures. As per the extant instructions, the Boards of banks are required to approve a policy on BCP, allocate sufficient resources and provide clear guidance and direction in this regard to the Top Management. However, the WG suggests that banks may be advised to formulate full-fledged comprehensive BCP rather than having only disaster-recovery (DR) arrangements for some of their important information systems. The banks may be required to provide adequate focus on keeping the DR site current, to test them comprehensively and to synchronize the data between the primary and secondary sites.

7. In situations wherein the bank branches are affected by natural calamity, the WG suggests that RBI may consider allowing banks to open temporary branches, under advice to it, by relaxing the norms for opening of the temporary branches and stipulating that such branches should be closed within 30 days of opening. Banks should also endeavour for resumption of banking services by setting up satellite offices, extension counters or mobile banking facilities. The banks may also be advised to identify the alternate branch well in advance, as a BCP strategy.

8. If currency-chest branches are affected, they will not be in a position to supply the required currency notes to the non-chest branches that are linked to them. As the requirements for currency notes will increase manifold after the a natural calamity there is a need for alternative arrangements being made for supply of the currency notes in the affected areas by way of linkages with nearby currency chests.

9. In places where there is more than one currency chest branch, it is possible that the branches affected can obtain currency notes from the currency chest branch that continue to function. However, there is a need to have such an alternate arrangement as part of the

bank's BCP indicating at least two alternative currency chest branches. In places, where only one currency chest branch is functioning, banks may be permitted to open temporary repositories at a pre-identified branch as a contingency arrangement. The repositories can be opened at post offices and treasuries (subject to complying with security requirements and storage capacities). The above arrangements may form a part of the bank's BCP.

10. The Group examined the issues such as 'relaxed KYC norms' and 'financial inclusion' towards the sufficiency of the existing guidelines towards facilitating expeditious opening of bank accounts and is of the opinion that the existing instructions are sufficient for the purpose.

11. The availability of cheque clearing facility will be among the most important needs of customers at the time of a natural calamity. The need for continuity in clearing services has made RBI advise the banks for 'on-city back-up centres' in 20 large cities and effective low-cost settlement solution for the remaining cities. However, notwithstanding these arrangements, WG suggests that the banks can consider allowing certain relaxed clearing facilities to the customers at the time of the calamity based on their nature of relationship with the bank.

12. Availability of information on the relief measures will facilitate the customers to approach the appropriate authorities for assistance. In this connection, the WG suggests for setting up of a control room at the SLBC Convenor banks supported by SIDBI, NHB, NABARD and one or two major banks in the area, helplines at SLBC Convenor and in Reserve Bank and Nodal Offices in banks in affected areas. The banks may also give adequate publicity to their disaster management arrangements, including the helpline numbers.

13. The banks could also waive fees for EFT, ECS or mail services so as to facilitate inward transfer of funds for the persons affected by a natural calamity. The banks could also consider waiving the penalties related to accessing restricted accounts such as fixed deposits to satisfy immediate cash requirements.

Issuance of fresh loans and restructuring the existing loans

14. The banks play a developmental role by actively participating in the rehabilitation measures that support revival of economic activities. The relief measures that could be provided by the banks as far as loans and advances are concerned are: granting consumption loans/fresh loans and restructuring of the existing loans.

15. The SLBC Convenor banks have been advised to assess the situation and take immediate measures to provide appropriate relief to the affected people in terms of the standing instructions issued by RBI. As per extant instructions, loans up to Rs. 250 could be sanctioned to existing borrowers for general consumption purposes and the limit could be enhanced to Rs. 1,000/- in the States where the State Governments have constituted risk funds for such lending. The WG is of the view that the present limits need to be enhanced to Rs. 10,000/- without any collateral and to provide such loans even if no risk fund has been constituted. Further, the limit may be enhanced to Rs. 25,000/- at the discretion of the bank.

16. The borrowers would require immediate financial assistance also to resume productive activities. The banks should provide fresh loans and advances to the existing borrowers in the categories (i) agricultural purposes, (ii) small scale, ancillary, tiny and khadi & village industries, (iii) small scale service & business enterprises, (iv) small road and water transport operators, (v) retail trade, (vi) small business, (vii) professional & self-employed persons and (viii) housing.

17. The banks may provide fresh financial assistance not only to the existing borrowers, but also to other eligible borrowers on a priority basis, provided they are not financed by other financing agencies in accordance with the existing guidelines on such advances as advised by State Level Bankers' Committee, Reserve Bank of India and refinancing agencies, such as NABARD, SIDBI, NHB, etc.

18. Natural calamities affect a large number of borrowers, in general. The existing guidelines focus mainly on the advances to agriculture and allied sector. Reserve Bank may, therefore, consider broad-basing the coverage of the guidelines to the above sectors also.

19. As the repaying capacity of the people affected by natural calamities gets severely impaired due to the damage to the economic pursuits and loss of economic assets, relief in repayment of loans becomes necessary in areas affected by calamity. The restructuring of the existing loans in standard or sub-standard assets category could be considered. The principal amount of the short-term loan as well as interest due for repayment in the year of occurrence of natural calamity may be converted into term loan. The un-paid amount of installment of the term loan and the interest due for repayment in the year of occurrence may also be converted into term loan.

20. The repayment period of restructured term loan may vary depending on the severity of calamity and its recurrence, the extent of loss of economic assets and distress caused to the existing borrowers. In normal circumstances, the restructured period for repayment may be 3 to 5 years. However, where the damage arising out of the calamity is very severe, banks may, at their discretion and in consultation with Task Force/Steering Committee of SLBC, extend the period of repayment ranging up to 7 years and in extreme cases of hardship, the repayment period may be prolonged up to a maximum period of 10 years. The restructuring of loans shall not be applicable to willful defaulters. Further, the banks should not insist for additional collateral security and such loans may be charged rate of interest at the applicable rate at conversion.

21. The banks may provide loans for educational purposes to the persons in the affected areas to enable them to purchase books, clothes etc. for children studying in educational institutions. The banks may draw suitable schemes as early as possible to help the victims of a natural calamity.

22. As corporate loans are generally insured, no specific relief measures are envisaged. However, in such cases, if a corporate customer requests for any re-scheduling, banks may examine the same on merits and on a case-to-case basis and provide the relief as deem fit. Similarly, in retail or consumer loans segment, the banks may restructure the loans in a manner suitable to the borrowers on a case-to-case basis. The reliefs to be extended may include freezing the account and lowering interest rates as well as avoiding reporting adverse credit information.

23. As it is possible that the natural calamity may affect the receipt of monthly statements regarding the credit card dues of cardholders, the card issuers may consider deferring of the payments and waiving of late fees and penalties related to the non-payment of the dues in respect of cardholders residing in the areas affected by natural calamity for a period of one to two months. The card issuers may also be encouraged to avoid reporting adverse credit information.

Regulatory relaxations

24. In the case of natural calamities like floods, tsunami, earthquakes etc., where operations of banks are affected, relaxations, which are within the provisions of B.R. Act, could be considered in submitting the regulatory returns. If the head office of a bank is affected the bank may be allowed, at the discretion of the Reserve Bank, to submit its returns up to a delay of one month and no penal clause for the delay may be invoked. For banks with reporting branches in affected area, no extension need be given but the banks concerned may be advised to submit the returns by taking into account the last reported figures of the affected branches.

25. Every Scheduled Bank is required to maintain with the Reserve Bank CRR and SLR as required under the provisions of B.R. Act and RBI Act. For non-maintenance of the required balances, penalties have also been envisaged. However, the Acts also provide for relief from penalty due to non-maintenance of the balances. As it is possible that a bank affected by a natural calamity may not be able to maintain sufficient balances, Reserve Bank may consider giving exemptions to banks on a case to case basis and on merits, from maintaining the required balances on receipt of request for the same indicating that more than 10% of their assets have been affected. The exemption could be granted for a period of two fortnights.

26. Banks carry out Government business of receipt of taxes, subscriptions under various small saving schemes and payment of pension to Central and State Government pensioners. The funds received under the various Government schemes are required to be reported and remitted to the Government account within a specified time period and for any delay, penalty is levied by the Government on the defaulting bank. In the event of occurrence of a natural calamity, it may not be possible for Agency banks to report the

transactions or remit the funds received under various schemes of the Government. In such a scenario, the banks should immediately report the matter to RBI so that the issue can be taken up with the Government and penalty can be waived in deserving cases.

27. Similarly, the currency chests are required to report all their transactions, through their Link Offices, to RBI on the next working day. The Sub-Treasury Offices should report all transactions directly to RBI on the same day. For the delay, penal interest at the rate of 2% over the prevailing Bank Rate will be levied. As a natural calamity can affect such reporting, requests may be sent to the RBI for waiver of penal interest which may consider such requests at its discretion on a case-to-case basis.

Other Related Issues

28. Banks have an important role in remitting of funds collected by Government to various far-flung areas where a natural calamity might have occurred. In such cases, banks should offer their co-operation and help without waiting for instructions from RBI in this regard.

29. Self-help groups among the affected should be encouraged and micro finance avenues to be explored to rehabilitate the affected persons/families preferably through self-help groups.

30. It is also suggested that all the instructions/guidelines issued towards relief measures during natural calamities may be made applicable to the NBFCs and FIs to the extent the same are relevant to them as the NBFCs and FIs are also involved in customer service. Further, the arrangements made by them may be communicated among the financial service regulators/supervisors concerned so that coordinated relief works can be undertaken during the time of a natural calamity.

31. RBI's role in the aftermath of a calamity is very vital as an overseer/coordinator of relief operations and provider of necessary regulatory instructions/guidelines to the banks. It is, therefore, necessary that Reserve Bank takes steps to ensure its continued functioning even if it is affected by a natural calamity by continuously updating its Business-Continuity-Plan.

CHAPTER-I

Ensuring Continued Access to the Customers to their Bank Accounts

5. In areas affected by natural calamity, providing continued access to the customers to their monetary resources i.e. their bank accounts, poses a serious challenge to the banks. The banking transactions are disrupted on account of non-functioning of Automated Teller Machines (ATM) and branches in areas affected by natural calamity. The payment and settlement system is also affected due to lack of cheque clearing. Further, there could be urgent need for opening of new bank accounts and making available the information on calamity relief.

Non-functioning ATMs and other connectivity issues

6. With the technological advancement in banking, the Automated Teller Machines play an important role in the functioning of a bank by providing a 24-hour access to the customers to their accounts regardless of the branches where the customers maintain their accounts. With the spread of ATMs throughout the country, ATMs could be a point for customers to access their bank accounts during natural calamities.

7. It is, therefore, imperative to restore the functioning of ATMs soon after a natural calamity or the banks make alternate arrangements for providing such facilities to their customers in collaboration with other banks. The Group, therefore, suggests that:

- a) the customers of one bank may be allowed to use ATM networks of other banks for cash withdrawals and charges for using such network could be borne by the bank concerned;
- b) the ATM daily cash withdrawal limit may be increased during the period succeeding the calamity, for some time;
- c) mobile ATMs may be provided in a vehicle which could travel from place to place and be parked in various localities for the convenience of the customers;
- d) the Institute for Development and Research in Banking Technology (IDRBT) is in the process of setting-up the National Financial Switch (NFS), which comprises a National Switch to facilitate connectivity between the Bank's Switches and their ATMs, and inter-bank payment gateway for authentication and routing the payment details of various e-commerce transactions, e-government activities etc.

The banks may be encouraged to join and to make maximum use of such networks at the time of a natural calamity.

8. In the backdrop of increased leveraging of technology in banking system and systemic connotation in the event of contagion through channels like payment system, Business-Continuity-Planning (BCP) has become a key pre-requisite for minimizing business disruption and system failures. The BCPs of banks shall have a great role in ensuring that the ATMs of banks function at the time of a calamity. In this connection, RBI has issued a Guidance Note on Risks and Controls in Computer and Telecommunication Systems. Further, based on a study conducted by the Reserve Bank which revealed that some banks were still in the process of framing a BCP, all banks were advised by Reserve Bank in April 2005, to put in place a BCP including a robust information risk management system. As per the instructions, the Boards of banks were required to approve a policy on BCP, allocate sufficient resources and provide clear guidance and direction in this regard to the Top Management.

9. The BCP methodology, as advised to the banks, was expected to include, *inter alia*, identification of critical businesses, formulating Recovery Time Objectives (RTO) based on Business Impact Analysis, processes for shifting to secondary/back-up systems and sites, minimizing immediate damage and losses, restoring critical business functions, including cash disbursements, ATMs, internet banking, call centres etc., establishing management succession and emergency powers, addressing human resource issues and training aspects, providing for the safety and wellbeing of people in the branch, use of external resources/support, having contingency plans, outsourcing arrangements, ensuring that the service providers also have BCPs in place, action plans, practical manuals and testing procedures, and so on. In addition, independent audit and review of the BCP and test results and periodic updating to absorb changes in the institution or its service providers were to be ensured.

10. Towards implementing an effective BCP, the Group suggests that:

- i. banks may be advised to formulate full-fledged comprehensive BCP rather than having only disaster-recovery (DR) arrangements for some of their important information systems;

- ii. banks may be required to have robust DR arrangements for critical systems like core banking etc. and electronic delivery channels;
- iii. banks may be required to provide adequate focus on keeping the DR site current and to test the site comprehensively. It is suggested that the banks could make the DR site as the primary site for some period of time or alternatively use DR for back-office processing like MIS etc. on a regular basis.
- iv. banks should synchronize the data between the primary and secondary sites so that the time required for data replication from the secondary site is minimized to the maximum extent possible.
- v. BCP processes should also be periodically subjected to third party audit.

Bank branches being affected in a natural calamity

11. There may be occasions when some of the bank branches are located in the areas affected by natural calamity, resulting in loss of access to the customers to their bank accounts. In this connection, the Group suggests that RBI may consider allowing banks to open temporary branches (including shifting the branches to nearby places, even if the places happen to be outside the same town or city) under advice to it so that services could be restored within little or no lead-time. As per the present policy/legal requirements, the banks cannot, without the prior approval of RBI, open a new place of business in India or abroad or change, otherwise than within the same city, town or village, the location of the existing place of business. However, these conditions may be relaxed for opening of the temporary branches and it could be stipulated that such branches may be closed within 30 days of opening. Banks should also endeavour for resumption of banking services in respect of branches, which have been damaged/affected/rendered non-functional, by setting up satellite offices, extension counters or mobile banking facilities. Presently, permission for opening of new branches is being attended to by RBI, Central Office. However, the powers for the measures enumerated above could be delegated to the Regional Directors. The banks may also be advised to identify the alternate branch well in advance, as a part of their BCP strategy.

12. It was also observed that functioning of many of the branches that were located on the ground floor were adversely affected during the floods. Branches with basement areas containing locker units, etc. were inundated causing damage to currency notes, loan

documents, security items, UPS systems and other furniture and fixtures. In this connection, the banks could be advised to put in place suitable precautionary measures for proper storage of records/documents/lockers etc., which are housed in the basement area.

13. It is possible that some of the bank branches affected are currency-chest branches. In such a case, the branch will not be in a position to supply the required currency notes to the non-chest branches that are linked to it. Reserve Bank has issued instructions for the purpose of retrieval of affected/damaged banknotes. However, as the requirements for currency notes will increase manifold after a natural calamity due to reasons such as increase in cash transactions and absence of cheque clearing facilities, there is a need for alternative/contingency arrangements towards supply of currency notes in the affected areas by way of linkages with nearby currency chests.

14. In bigger towns/cities, where there are more than one currency chest branches, it is possible that the branches affected can obtain currency notes from the currency chest branch that continue to function without being affected. However, there is a need to have such an alternate arrangement as part of the bank's contingency plan indicating at least two alternative currency chest branches wherefrom branches could obtain currency notes when the chest supplying notes under the normal linkage scheme would be affected by the natural calamity and would shut down. Such arrangements would reduce loss of precious time at the time of an exigency.

15. In cities/places, where only one currency chest branch is functioning, banks may be permitted to open repositories (under advice to Reserve Bank) at a pre-identified branch as a contingency arrangement. The repositories can be opened in post offices and treasuries (subject to complying with security requirements and storage capacities). These repositories opened on a temporary basis could be issued with currency notes from the nearest functioning currency chest or Reserve Bank. Further, the repositories may be allowed to function for a period not more than 30 days or till the functioning of the regular currency chest branch is restored to normalcy, whichever is earlier. The above arrangements may form a part of the RBI's BCP (of the relevant department) as replenishment if any will have to come from RBI to this alternative point.

16. Further, whenever a currency chest branch is affected by a natural calamity, Reserve Bank may advise the bank concerned to examine whether shifting of the same to some other location would be desirable.

17. The Reserve Bank may also explore alternate storage methods/water-proof packing for safety of currency notes.

Relaxed KYC norms for opening of bank accounts

18. The banks have already been advised by the Reserve Bank to observe minimum formalities for enabling people affected by natural calamities who may not be having bank accounts and would need to quickly open bank accounts for encashing the cheques issued by the State Government authorities to them as part of their relief measures. Banks have been advised to open accounts with:

- ❖ introduction from another account holder or
- ❖ documents of identity such as Voter's Identity Card or a driving license, identity card issued by an office, company, school, college, etc., along with a document indicating the address such as Electricity Bill, Ration Card etc., or
- ❖ introduction by two neighbours who have the documents as indicated above or
- ❖ in the absence of the above, any other evidence to the satisfaction of the bank.

19. Banks have also been advised to further simplify the KYC procedure for opening accounts for those persons who intend to keep balances not exceeding Rs.50,000/- in all their accounts taken together and the total credit in all the accounts taken together is not expected to exceed Rs. 1,00,000/- in a year. In case a person who wants to open an account is not able to produce the necessary documents prescribed, the banks may open accounts subject to:

- a) Introduction from another account holder who has been subjected to full KYC procedure. The introducer's account with the bank should be at least six months old and should show satisfactory transactions. Photograph of the customer who proposes to open the account and also his address need to be certified by the introducer or
- b) Any other evidence as to the identity and address of the customer to the satisfaction of the bank.

20. Further, Reserve Bank, recognizing the concerns in regard to the banking practices that tend to exclude rather than attract vast sections of population, has urged banks to review their existing practices to align them with the objective of 'financial inclusion'. In many banks, the requirement of minimum balance and charges levied, although accompanied by a number of free facilities, deter a sizeable section of population from opening/maintaining bank accounts. Reserve Bank, with a view to achieving the objective of greater financial inclusion, has advised all banks to make available a basic banking 'no-frills' account either with 'nil' or very low minimum balances as well as charges that would make such accounts accessible to vast sections of population. All banks have also been advised to give wide publicity to the facility of such a 'no-frills' account including on their web sites indicating the facilities and charges in a transparent manner.

21. The Group examined these issues towards the sufficiency of the above guidelines and is of the opinion that the existing instructions are sufficient for facilitating expeditious opening of bank accounts.

Cheque clearing facilities

22. The availability of cheque clearing facility will be among the most important needs of customers at the time of a natural calamity. The Board for Regulation and Supervision of Payment and Settlement Services has recently discussed the issue of business continuity in clearing services and decided that on-city back-up centres should be set up in 20 large cities and for the remaining cities an effective low-cost settlement solution should be put in place.

23. Continued clearing facilities has also been emphasized in the top level communication to all Chief Executive Officers of banks in the aftermath of the floods in Mumbai. The banks have been advised to take adequate steps to put in place effective systems covering the entire range of activities that are critical and may have an impact on funds or on customer service. It has been emphasized therein that the best plan is one that works when in need.

24. Such measures are expected to ensure cheque clearing facilities on a continuing basis even during the time of a natural calamity. However, notwithstanding these

arrangements, the banks can consider certain relaxed clearing facilities to its customers at the time of the calamity. All such facilities may be decided with certain monetary ceiling and may be linked to the nature of the account of the customer and his track record with the bank.

Information on the available relief measures

25. Availability of information on the relief measures will facilitate the customers to approach the appropriate authorities for appropriate assistance. In this connection, the Group suggests that the following action plan may be considered:

- (i) Control room for directing and monitoring relief operations may be set up by Convenor of the SLBC supported at all times by officers specifically designated for the purpose from SIDBI, NHB, NABARD and one or two banks with major presence in the area.
- (ii) The Convenor of the SLBC in the particular State affected by natural calamities should as soon as possible broadcast through the available communication channels information regarding the availability/ non-availability of banking operations bank-wise/branch-wise.
- (iii) A helpline could also be set up by the SLBC Convenor as also in the regional office of Reserve Bank within whose jurisdiction the majority of the area affected by the calamity falls.
- (iv) Nodal Offices may be set up by banks in affected areas, with preferably a senior officer at the district level, to monitor and report on the implementation of relief measures to the Control room and to their respective Controlling Offices/Head Office on an ongoing basis.
- (v) The banks may also publicize their disaster management arrangements, including the helpline numbers. Such arrangements may include area-wise pre-identified Nodal Offices so that such offices start functioning immediately upon the occurrence of a natural calamity.

Certain other suggestions

26. The banks may also be advised to waive fees for EFT, ECS or mail services so as to facilitate inward transfer of funds for the persons affected by a natural calamity.

27. The banks could also consider waiving the penalties related to accessing restricted accounts (Fixed Deposits) to satisfy immediate cash requirements. ALM impact for the banks has to be kept in view and the extent of negative gap and liquidity problems may have to be taken into account.

CHAPTER-II

Review of the existing guidelines on relief measures

28. Natural calamities cause large-scale devastation to economic enterprises of people. The economic rehabilitation of the people affected by natural calamities requires massive relief measures for providing the basic needs such as food, shelter and clothing besides huge investments for restoration of the infrastructure like roads, rails, electricity, ports, etc by the Government. The banks also play a developmental role by actively participating in the rehabilitation measures that support revival of economic activities at the earliest. The relief measures that could be provided by the banks so far as loans and advances are concerned are broadly as under:

- Consumption loans
- Sanction of fresh loans
- Restructuring of the existing loans

Consumption Loans

29. The sustenance of the existing borrowers affected by natural calamity should be the immediate concern of the banks. Generally, restoration of normalcy takes quite some time. The banks may sanction consumption loans to existing borrowers affected by calamities for their sustenance immediately after the calamity.

30. As a first step towards relief, the Convenor banks of the State Level Bankers' Committee (SLBC) in these States/Union Territories have been advised to assess the situation and take immediate measures to provide appropriate relief to the affected people in terms of the standing guidelines issued by RBI.

31. As per extant instructions, loans up to Rs. 250 could be sanctioned to existing borrowers for general consumption purposes and the limit could be enhanced to Rs. 1,000/- in the states where the State Governments have constituted risk funds for such lending by commercial banks. Further, RBI also advises enhanced limits depending upon the extent of damage caused by a natural calamity.

32. The Working Group is of the view that the present limits need to be enhanced as follows:

- ❖ Banks may consider increasing the limit of consumption loan to be provided to the affected persons up to Rs. 10,000/- without asking for any collateral.
- ❖ Such loans may be given even if no risk fund has been constituted by the concerned State Government.
- ❖ Further, the limit may be enhanced to Rs. 25,000/- at the discretion of the bank, on merits and on a case-to-case basis depending on the repaying capacity of the borrower.
- ❖ Where the enhanced limit is sanctioned, banks may at their discretion ask for third party guarantee, in addition to the personal guarantee of the borrower.
- ❖ The banks may also consider providing such loans not only to the existing borrowers/customers but also to the prospective borrowers as well once the relaxed KYC norms for account opening are complied with.
- ❖ Such loans may also be treated as loans under 'priority sector lending'.

Sanction of fresh loans and advances

33. The borrowers would require immediate financial assistance to salvage the economic assets from further damage after a natural calamity and to resume productive activities. The banks could provide fresh loans and advances to the existing borrowers in the following categories, subject to compliance with the due process of identification of beneficiaries and assessment of the loss:

- Direct finance to farmers for agricultural purposes.
- Finance to small scale, ancillary, tiny and khadi & village industries, small scale service & business enterprises.
- Advances to small road and water transport operators.
- Retail Trade.
- Small Business.
- Professional & Self-employed persons.
- Finance for housing.

34. The banks may provide fresh financial assistance not only to the existing borrowers, but also to other eligible borrowers on a priority basis, provided they are not financed by other financing agencies. The credit requirements of the borrowers, the scale of finance, collateral security requirement, rate of interest on fresh loans and advances should be in

accordance with the existing guidelines on such advances as advised by State Level Bankers' Committee, Reserve Bank of India and refinancing agencies, such as NABARD, SIDBI, NHB, etc.

35. Natural calamities affect a large number of borrowers, in general. The class of borrowers affected most would depend on the type of natural calamity. The existing guidelines focus mainly on the advances to agriculture and allied sector. Reserve Bank may, therefore, consider broad-basing the coverage of the guidelines to the above sectors by including the categories of advances where:

- The number of affected borrowers is large in these categories.
- The amount of advance per borrower is not very large.
- The assessment of the level of finance is largely standardized.
- The scrutiny of application does not take more time.
- There is adequate delegation of powers with regard to these advances.

Assistance in phases

36. The different kinds of assistance that are envisaged for consumption, resettlement, for starting economic activity, etc. may be given in time-stages as, otherwise, the affected person will only end up burdened and adding to his indebtedness. For instance, the assistance provided may be in the sequence of:

- a. Consumption loans (assistance for food, clothing and shelter), depending upon the extent of devastation may form the first phase of assistance. At this point of time, assistance to start the economic activity may not help an affected person and he will actually lose the entire sum since he does not even have the means for safekeeping.
- b. This may be followed by the household/business premises reconstruction loans.
- c. Educational loan may form the next phase of assistance as in a major devastation the school starts after a few weeks only as the premises are used for shelter and other welfare activities.
- d. Assistance for economic activity may be provided subsequent to the above phases.

However, the banks may be advised to keep in mind that the scheduling/prioritization of the assistance has to be as per the specific needs/conditions of the individual borrower.

Restructuring of existing loans

37. The repaying capacity of the people affected by natural calamities gets severely impaired due to the damage to the economic pursuits and loss of economic assets. This, in turn, leads to loss of income in the current period and a lag in generation of future incomes. Therefore, relief in repayment of loans becomes necessary in areas affected by calamity for existing borrowers, whose economic enterprises financed by the banks, or otherwise, have been damaged. The banks may restructure their loans in respect of the existing borrowers in the above categories of advances, subject to compliance with the due process of identification of beneficiaries and assessment of the loss. The restructuring of the existing loans in the above category may be carried out as under:

- i) Only those loans (short, medium and long term loans), which were classified as Standard or Sub-standard Assets at the time of occurrence of a natural calamity may be considered for restructuring.
- ii) The principal amount of the short-term loan as well as interest due for repayment in the year of occurrence of natural calamity may be converted into term loan (Converted Term Loan).
- iii) Similarly, the un-paid amount of installment of the term loan and the interest due for repayment in the year of occurrence may be converted into term loan (Converted Term Loan).
- iv) Further, the banks may consider re-scheduling of the entire un-paid amount of the term loan (Re-scheduled Term Loan) depending upon the loss suffered by the borrower and the bank's assessment as to the capacity of the borrower to repay the loan as per the original schedule.

38. The repayment period of restructured term loan may vary depending on the severity of calamity and its recurrence, the extent of loss of economic assets and distress caused to the existing borrowers.

- i) In the normal circumstances, the restructured term loan should be paid within a period of 3 to 5 years. The due dates for repayment of restructured loans may be prescribed taking into account the future cash flows of the borrowers.

- ii) However, where the damage arising out of the calamity is very severe in terms of loss of economic assets and has caused acute distress to the borrowers or if the calamity is for two successive years, banks may, at their discretion and in consultation with Task Force/Steering Committee of SLBC, extend the period of repayment ranging up to 7 years.
- iii) In extreme cases of hardship arising out of the total loss to the borrowers of their economic assets or occurrence of calamity in three successive years and the debt burden being found to be beyond the immediate repaying capacity of the borrower, the repayment period may be prolonged up to a maximum period of 10 years, in consultation with the Task Force/SLBC.
- iv) The restructuring of loans shall not be applicable to borrowers, who are willful defaulters.

39. Further, the restructuring of the existing loans may be carried out, subject to the under-noted guidelines:

- i) The banks should not insist for additional collateral security while restructuring the existing loans.
- ii) The Converted Term Loan may be charged at the applicable rate for the short-term loan.
- iii) The Re-scheduled Term Loan may be charged at the prevailing rate as on the date of re-scheduling.
- iv) Interest on the Converted Term Loans/Re-scheduled Term Loans may not be compounded, as a measure of relief.
- v) The restructured loans may be classified as Performing or Non-Performing Assets based on the record of recovery since the date of restructuring.
- vi) The banks may also be required to ensure quick processing of loan applications, preferably within 48 hours of receipt of such applications.

Other Loans

Loans for Educational Purposes:

40. The banks may provide loans for educational purposes to the persons in the affected areas to enable them to purchase books, clothes etc. for children studying in educational

institutions. The banks may draw up suitable schemes as early as possible to help the victims of a natural calamity.

Corporate Loans

41. As corporate loans are generally insured, no specific relief measures are envisaged. However, in such cases, if a corporate customer requests for any re-schedulement, banks may examine the same on a case-to-case basis and provide the relief as they deem fit.

Credit Card Dues/Loans

42. Card issuers generally ensure that there is no delay in dispatching bills (credit card expenditure statement) and customers have sufficient number of days (at least a fortnight) for making payment before the interest charges become due. However, it is possible that the cardholders may not receive the statement (notice) in time during the period when the area is affected by natural calamity. In such situations, the card issuers may consider deferring of the payments (including the minimum payment requirements) and waiving of late fees and penalties related to the non-payment of the dues in respect of cardholders residing in the areas affected by natural calamity. Such deferrals can be provided for a period of one to two months.

43. In the normal course, the card issuers report default status, if any, of a credit cardholder to the Credit Information Bureau of India Ltd. (CIBIL) or any other credit information company authorized by RBI, as per procedures approved by their Board. The card issuers may be encouraged to avoid reporting adverse information to such credit information agencies in respect of customers located in the affected areas until conditions stabilize and the cardholders (borrowers) can reasonably be expected to resume payment activity.

Retail/Consumer Loans

44. In retail or consumer loans segment, the banks may restructure the loans in a manner suitable to the borrowers on a case-to-case basis. The relief to be extended may include freezing the account and lowering interest rates.

45. Further, the banks may be encouraged to avoid reporting adverse information to consumer reporting agencies such as Credit Information Bureau of India Ltd. (CIBIL) in

respect of borrowers located in affected areas until conditions stabilize and they can reasonably be expected to resume payment activity.

In General

46. Further, notwithstanding the wide ranging suggestions indicated in this Report, the bank functionaries would be expected to exercise normal caution and prudence in sanctioning/restructuring loans even while acting under liberalised conditions.

CHAPTER-III

Regulatory forbearance in reporting requirements

Regulatory reporting

47. In terms of Section 42 (2) of the Reserve Bank of India Act, 1934, all Scheduled Commercial Banks are required to submit on fortnightly basis a return (Form A) showing their assets and liabilities. The return facilitates RBI in monitoring compliance of the banks with CRR requirements. While the Provisional return in Form A is required to be submitted within seven days from the date to which it relates to, the final form A return is required to be submitted within 20 days from the date to which it relates to. Similarly, banks are also required to submit on a monthly basis return in Form VIII, which will facilitate the Reserve Bank in monitoring compliance of the banks with SLR requirements.

48. It is also observed that while both the Reserve Bank of India Act (RBI Act), 1934 and the Banking Regulation Act (B.R. Act), 1949 bestow sufficient powers on the Reserve Bank to call for various returns from banks, the BR Act has certain provisions to suspend operation of the Act. As per Section 4 (1) of the B.R. Act, the Central Government, on a representation made by the Reserve Bank in this behalf, can suspend the operation of all or any of the provisions of this Act, either generally or in relation to any specified banking company for such period, not exceeding sixty days. As per Section 4 (2), this can be done by the Governor or in his absence the Deputy Governor for a period of 30 days subject to reporting the matter to the Central Government. Further, as per Section 4 (3), the period of suspension may be extended by the Central Government, 60 days at a time, for up to one year.

49. Generally, it is observed that there are two types of returns namely statutory and non-statutory. For non-submission or delay in submission of the statutory returns, penalty can be imposed by the Reserve Bank. The statement on demand and time liabilities (Form A), liquid assets maintained (Form VIII), the various DSB returns etc. are statutory in nature but the other statements on balancing of books, inter-bank and inter-branch reconciliation etc. are non-statutory.

50. It is suggested that in case majority of the branches of a bank concerned are affected by natural calamities, the bank concerned may approach Reserve Bank for extension of time for submitting the Form A and Form VIII returns. In genuine circumstances, Reserve Bank may grant extension of time to banks for submission of the above two statutory returns.

51. It may not be necessary to place in public domain the decisions in this regard. The decisions taken in this regard can be kept as RBI's internal guidelines for action in case of any event occurring. Reserve Bank may only announce that it may be willing to consider concessions in submission of the statements on a case to case basis from banks in affected areas and that the banks may apply to the concerned office (RO/CO) of the Reserve Bank for the purpose.

52. In the case of natural calamities like floods, tsunami, earthquakes etc., where operations of banks are affected, the following relaxations could be considered which are within the provisions provided in Section 4 of B R Act:

- (a) Banks with Head Office in affected area: Banks may be allowed to submit their returns up to a delay of one month. This would be at the discretion of the Reserve Bank after receipt of application from the affected bank on a case-to-case basis. Penal clause for delay may not be invoked.
- (b) Banks with reporting branches in affected area: No extension need be given but H.O. may be advised to submit the returns by taking into account the last reported figures of the affected branches. The return may be revised on receipt of updated figures from the affected branches concerned. Penal clause for delay may be waived.

Statutory defaults

(i) Cash Reserve Ratio:

53. As per section 42(1) of the RBI Act, every scheduled bank shall maintain with the Reserve Bank an average daily balance the amount of which shall not be less than three per cent of the total of the demand and time liabilities in India of such bank or such percentage as prescribed by RBI by notification. For non-maintenance of the required Cash Reserve Ratio, penalties have also been envisaged in the RBI Act.

54. However, the Act also provides for relief from maintaining the necessary CRR, through section 42(5)(c) of the Act wherein, the Bank if it is satisfied that the defaulting bank had sufficient cause for its failure to comply with the provisions, it may not demand the payment of the penal interest.

55. It is possible that a bank affected by a natural calamity may not be able to maintain sufficient CRR balance. Accordingly, it is suggested that Reserve Bank may consider giving exemptions to banks on a case to case basis and on merits, from maintaining the required Cash Reserve Ratio on receipt of request for the same from the bank concerned indicating that more than 10% of its assets have been affected. The exemption could be granted for a period of two fortnights.

(56. Though Section 18 of the Banking Regulation Act, 1949 prescribes CRR for non-scheduled banks, the Act does not prescribe any penalties for non-maintenance of such balance. Therefore, the question of exemptions from penalties due to statutory defaults does not arise).

Statutory Liquidity Ratio

57. Similarly, as per section 24 of the Banking Regulation Act, 1949 every banking company is required to maintain in cash, gold or unencumbered approved securities, an amount which shall not, at the close of business on any day, be less than twenty-five per cent (or such other percentage not exceeding forty per cent as the Reserve Bank may, from time to time, by notification in the Official Gazette, specify), of the total of its demand and time liabilities in India, as on the last Friday of the second preceding fortnight. Suitable penalties have also been indicated in the B.R. Act for non-maintenance of the Statutory Liquidity Ratio.

58. However, the Act also indicates that, if the Reserve Bank is satisfied, on an application in writing by the defaulting banking company, that the banking company had sufficient cause for its failure to comply with the provisions, the Reserve Bank may not demand the payment of the penal interest.

59. It is possible that a bank affected by a natural calamity may not be able to maintain prescribed SLR. Accordingly, it is suggested that Reserve Bank may consider giving

exemptions to banks, on a case-to-case basis, from maintaining the same on receipt of request for the same from the bank concerned indicating that more than 10% of its assets have been affected. The exemption could be granted for a period of two fortnights.

Involvement of banks handling Government business

60. Reserve Bank of India is conducting Government business of receipt of taxes, subscriptions under various small saving schemes such as Special Deposit scheme, Public Provident Fund, Savings Bonds, etc. and payment of pension to Central and State Government pensioners. A number of commercial banks (Public sector and Private sector banks) have been inducted to conduct the Government business on behalf of the Reserve Bank as Agency banks.

61. While conducting the Government business, the funds received under the various Government schemes are required to be reported and remitted to the Government account within a specified time period. In case, for any reason, the funds collected are not remitted within the specified time limit, penalty at the coupon rate of the scheme is levied by the Government on the defaulting Agency bank. In case of Savings Bonds scheme, delay in dispatch of interest warrants/redemption proceeds after a specified time period, Agency banks are required to financially compensate the investor by paying him the loss of interest at the prevailing Savings Bank rate of interest for the period of delay.

62. In the event of occurrence of natural calamity, it may not be possible for Agency banks to report the transactions or remit the funds received under various schemes of the Government. In such a scenario, the Agency banks should immediately report the matter to Reserve Bank so that the issue can be taken up with the Government of India and penalty can be waived in deserving cases.

Delayed reporting of Currency Chest Transactions

63. The Currency Chests are required to report all transactions to the Link Office on the same day and the Link Offices in turn should report the consolidated position to the Issue Department of Reserve Bank positively on the next working day. The Sub-Treasury Offices should report all transactions directly to the Issue Department on the same day.

64. In the event of delay beyond three clear working days (including the date of transaction) in reporting the figures relating to a particular Currency Chest in the Link office statement or delay in submission of the Chest Slip in the case of single chest or Sub-Treasury Office directly linked to the Issue Department of the Circle, penal interest at the rate of 2% over the prevailing Bank Rate will be levied for the period of delay excluding the date of transaction and date of receipt of figures/chest slip. Such penal interest will be levied on the amount due from the Currency Chest holding bank.

65. In the case of natural calamities when the currency chests/Link Offices/Sub Treasury offices are not in a position to report the transactions within the specified time period, representations should be sent to the concerned Regional Office of the Issue Department for waiver of penal interest. Reserve Bank may consider such requests at its discretion on merits and on a case-to-case basis.

Delinquency reporting

66. The banks report to the Credit Information Bureau of India Limited (CIBIL) information such as basic borrower details, records of all the credit facilities availed by the borrower, past payment history, amount overdue and suit-filed status. Such information includes whether the borrower has defaulted on the loan repayment. CIBIL does not classify any accounts as default accounts on its own and it merely reflects the information submitted by member banks, who have classified the status of the loan accounts as per the norms prescribed by Reserve Bank for the purpose.

67. It is very likely that some of the borrowers have become defaulters as they are affected by a natural calamity. It is, therefore, suggested that the banks may be advised not to report such borrowers as defaulters for the period the banks consider such loan accounts need to recover from a natural calamity.

CHAPTER-IV

Other Related Issues

Co-operation of banks with the Central/State Governments in remittance of funds

68. The Government of India and State Governments have set up Funds such as "Prime Minister's National Relief Fund" and "Calamity Relief Fund". While the corpus is managed by Reserve Bank of India, commercial banks are having an important role in remitting of funds to various far-flung areas where a natural calamity might have occurred. In such cases, banks should offer their co-operation and help by allowing remittances free of charge without waiting for instructions from Reserve bank of India in this regard.

Self-help Groups in the relief process

69. Self-help groups among the affected should be encouraged and micro finance avenues should be explored to rehabilitate the affected persons/families preferably through self-help groups.

Applicability to NBFCs/FIs/NHB/SIDBI

70. It is also suggested that all the instructions/guidelines issued to banks towards relief measures during natural calamities may be made applicable to the NBFCs and FIs to the extent the same are relevant to them as the NBFCs and FIs are also involved in customer service.

71. The NBFCs and FIs may be required to have in place adequate Backup and Business Continuity Planning and NABARD/NHB/SIDBI and other financial regulators/supervisors may be required to ensure that their constituents have undertaken such preparations.

72. Further, the contingency arrangements made may be communicated among the financial service regulators/supervisors so that coordinated relief works can be effectively undertaken during the time of a natural calamity.

Steps to be taken by Reserve Bank

73. Reserve Bank's role in the aftermath of a calamity is very vital as an overseer/coordinator of relief operations and provider of necessary regulatory instructions/guidelines to the banks. It is, therefore, necessary that Reserve Bank takes

steps to ensure its continued functioning even if it is affected by a natural calamity. Reserve Bank may, therefore ensure that it continuously update its Business-Continuity-Plan in view of the natural calamities faced.

Role of banks in the relief works

74. The Working Group is of the view that the role of the banks in the relief and rehabilitation work in the aftermath of a natural calamity is limited. The role of the State/Central Government Agencies is pivotal in this regard and the efforts of the banks may be seen only as complementary. Further, provision of grants required for the relief/rehabilitation work cannot be expected to come from banks and this will have to come from the Government, International Aid Agencies and such other sources.

75. Further, more specifically, the banks should not be required to provide loan waivers as a part of the relief package in a natural calamity. Such a position is not desirable and, more importantly, any loan waiver scheme will have an adverse impact on the recovery climate/discipline as well.