*Press Releases**

August 2011

RBI seeks Public Comments on Report on Customer Service of Banks

August 3, 2011

The Reserve Bank of India placed on its website, the Report of the Committee on Customer Service in Banks and sought comments/feedback from members of the public/all the stakeholders on the Committee's recommendations.

Major recommendations of the Committee are:

- Creation of a toll free common bank call number
- Providing plain vanilla savings account without prescription of minimum balance
- Setting up of third party Know Your Customer (KYC) data bank
- Prescription of service charges for basic services
- Providing small remittances at reasonable price
- Providing floating rate housing loans on a non-discriminatory basis
- Compensation for delayed return/loss of title deeds in the custody of banks
- Zero liability against loss in ATM and online transactions
- Enhancement of DICGC cover up to ₹ 5,00,000
- Prepaid instruments up to ₹ 50,000 for frequent travellers
- Differential merchant discount/fee for debit cards
- Self-personalisation of cards enabling customer to fix limits/area of operation/activation for international use
- Instant blocking of ATM card through SMS – BLOCK for lost/misused cards
- Transition to chip based card (EMV) with photograph
- Chief customer service officer (CCSO) for grievance redressal in every bank
- Submission of life certificate for pensioners in any Core Banking Solution (CBS) branch
- Automatic updation of senior citizen status in CBS
- Financial inclusion through branch expansions in the North-East
- Moving towards paperless fund transfers
- Ensure fulfillment of the tenets of customer service through inspections

Background

The Reserve Bank of India had constituted a Committee under the chairmanship of Shri M. Damodaran, former Chairman, Securities and Exchange Board of India, to look into banking services rendered to retail and small customers, including pensioners. The Committee was also required to look into –

- the system of grievance redressal mechanism prevalent in banks, its structure and efficacy and suggest measures for expeditious resolution of complaints,
- functioning of Banking Ombudsman Scheme, its structure, legal framework and recommend steps to make it more effective and responsive,
- possible methods of leveraging technology for better customer service with proper safeguards, including legal aspects in the light of increasing use of Internet and information technology for bank products and services and to recommend measures to enhance consumer protection, and
- the role of the Board of Directors of banks and the role of regulators in customer service matters.

* Important Press Releases during August 2011.

The Committee interacted with various stakeholders across the country on all aspects of customer service - fair treatment, improvement in the service to pensioners, attitude of the bank staff towards the small and rural customers, service charges and fees, loans, transparency in operations, grievance redressal, promptness in service, education and information on new products, services, customer rights, expectations, *etc.* It had called for suggestions from members of public. In response to the Committee's appeal more than 1000 suggestions were received from public through e-mail, fax and post. Based on the interactions and suggestions received, the Committee submitted its report to the Reserve Bank on July 04, 2011.

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Reconstitution of the Technical Advisory Committee on Monetary Policy

August 4, 2011

With a view to strengthening the consultative process in monetary policy, the Reserve Bank of India had constituted a Technical Advisory Committee on Monetary Policy in June, 2009. The tenure of the Committee was up to June 30, 2011. However, it was decided to continue with the Committee up to the First Quarter Review of July 2011.

It has now been decided to reconstitute the Technical Advisory Committee on Monetary Policy with a view to obtaining continued benefit of expert opinion from external experts in the areas of monetary economics, central banking, financial markets and public finance.

The composition of the reconstituted Committee will be as under:

Chairman : Dr. D. Subbarao
Governor, Reserve Bank of India

Vice-Chairman : Dr Subir Gokarn

Deputy Governor-in-Charge
Monetary Policy Department

Members : **Deputy Governors**

Dr. K.C. Chakrabarty
Shri Anand Sinha
Shri H.R. Khan

Two Members of the Committee of the Central Board (CCB)

Shri Y. H. Malegam
Shri Sanjay Labroo

External Members

Dr. Shankar Acharya
Hon. Professor
Indian Council for Research on International Economic Relations New Delhi

Dr. Rakesh Mohan
Professor
Practice of International Economics of Finance, School of Management, and Senior Fellow, Jackson Institute of Global Affairs Yale University New Haven, Connecticut US

Prof. Sudipto Mundle
Emeritus Professor
National Institute of Public Finance and Policy New Delhi

Prof. Errol D'Souza
Professor Indian Institute of Management Ahmedabad

Prof. Ashima Goyal
Professor Indira Gandhi Institute of Development Research Mumbai

In Attendance:

Shri Deepak Mohanty
Executive Director

Adviser-in-Charge, Monetary Policy Department, Reserve Bank of India

Advisers, Monetary Policy Department, Reserve Bank of India

O-in-C, Department of Economic and Policy Research, Reserve Bank of India

Monetary Policy Department would be the secretariat to the Committee.

The objective of the TAC on Monetary Policy is to periodically advise the Reserve Bank on the stance of monetary policy in the light of macroeconomic and monetary developments. The TAC is an outcome of the Reserve Bank's growing emphasis on strengthening the process of monetary policy formulation.

The terms of reference of the Committee are:

i. To review macroeconomic and monetary developments, and

ii. To advise on the stance of monetary policy.

The Committee meets at least once in a quarter.

The tenure of the Committee would be up to June 30, 2013.

Smt. Shashi Rekha Rajagopalan, RBI Board Member Expires

August 5, 2011

Smt. Shashi Rekha Rajagopalan, a member of the Central Board of Directors of the Reserve Bank of India, and a member of the Board for Financial Services constituted by the Reserve Bank Board expired in Hyderabad. She was 60 and leaves behind her mother and other family members.

Condoling the sad demise of Smt. Rajagopalan, Dr. D Subbarao, Governor, Reserve Bank of India said, 'Shashi's death is an irreplaceable loss for the entire RBI family. The RBI Board benefitted enormously from her deep knowledge of the frontline credit delivery systems of the country, her strong sense of conviction and above all her compassion for the less privileged. She is truly one of the millions of unsung heroes of our country.'

Smt. Rajagopalan was a freelance consultant with special interests in organisational design, structuring and development of user-based and voluntary development organisations, planning/ envisioning in user-based and voluntary development organisations, accounts and financial systems, user-owned and controlled financial and other business development and cooperative legislation. She was also a member of the Board of Directors of NABARD and Chairperson of the Audit Committee constituted by its Board.

Born on July 21, 1951 in Madurai, Tamil Nadu, Smt. Rajagopalan was a B.Sc. (Hons) in Mathematics from Calcutta University. She categorised her work in four broad phases. In the first phase, between 1970 and 1975 she served as a volunteer with Service Civil International, an international pacifist organisation working against conscription. She worked closely with disadvantaged communities, living in conditions and with income similar to them. During the second phase between 1975 and 1977, she served Hyderabad Archdiocese Social Service Society and worked on maternal and child health centres. In the third phase between 1978 and 1998, Smt. Rajagopalan worked with Cooperative Development Foundation and its associate organisations and worked on advocacy for change in cooperative law, management of a revolving fund for the promotion of cooperative (non-financial) businesses and design and promotion of new types of cooperatives. The fourth phase of her worklife as a freelance consultant started in January 1999 when she took various assignments focussing on studies, training and drafting manuscripts for publication on the subject of savings and credit cooperatives.

Smt. Rajagopalan was a member on the Brahm Perkash Committee constituted by the Planning Commission in 1989, the first of a series of initiatives that led to reforms in cooperative law. She also worked closely with the Government in Andhra Pradesh on the AP Mutually Aided Cooperative Societies Act, 1995. The Governments of Bihar, Punjab, Karnataka, Jammu and Kashmir, and Orissa, too, had invited her to help reform cooperative law. The International Labour Organisation had invited her to Geneva, to participate as a member of an Expert Committee to review Recommendation 127 on cooperatives.

Gujarat Mercantile Co-operative Bank Ltd., Ahmedabad (Gujarat) – Penalised

August 5, 2011

The Reserve Bank of India has imposed a monetary penalty of ₹1.00 lakh (Rupees one lakh only) on Gujarat Mercantile Co-operative Bank Ltd., Ahmedabad (Gujarat), in exercise of powers vested in it under the provisions of Section 47(A)(1)(b) read with

Section 46(4) of the Banking Regulation Act, 1949 (AACS) for violation of Reserve Bank of India directives/ instructions relating to filing of Suspicious Transaction Reports as required under Anti Money Laundering guidelines and persistence of irregularities pointed out in the previous Reserve Bank of India inspection report.

The Reserve Bank of India had issued a show cause notice to the bank in response to which the bank submitted a written reply. After considering the facts of the case and the bank's reply as also personal submissions in the matter, the Reserve Bank of India came to the conclusion that the violations were substantiated and warranted imposition of the penalty.

The Sawaimadhopur Urban Co-operative Bank Limited, Sawaimadhopur – Penalised

August 8, 2011

The Reserve Bank of India has imposed a monetary penalty of ₹1.00 lakh (Rupees one lakh only) on The Sawaimadhopur Urban Co-operative Bank Limited, Sawaimadhopur, in exercise of powers vested in it under the provisions of Section 47(A)(1)(b) read with Section 46(4) of the Banking Regulation Act, 1949 (AACS) for violation of Reserve Bank of India directives/ guidelines pertaining to the ceiling on unsecured advances applicable in case of urban co-operative Banks.

The Reserve Bank of India had issued a show cause notice to the bank in response to which the bank submitted a written reply. After considering the facts of the case and the bank's reply as also personal submissions in the matter, the Reserve Bank of India came to the conclusion that the violations were substantiated and warranted imposition of the penalty.

Teachers' Co-operative Bank Limited, Udupi, Karnataka – Penalised

August 9, 2011

The Reserve Bank of India has imposed a monetary penalty of ₹5.00 lakh (Rupees five lakh only) on Teachers' Co-operative Bank Limited, Udupi, Karnataka, in exercise of powers vested in it under the provisions of Section 47(A)(1)(b) read with Section 46(4) of the Banking Regulation Act, 1949 (AACS) for violation of Reserve Bank of India's directives on collection of third party account payee cheques.

The Reserve Bank of India had issued a show cause notice to the bank in response to which the bank submitted a written reply. After considering the facts of the case and the bank's reply as also personal submissions in the matter, the Reserve Bank of India came to the conclusion that the violations were substantiated and warranted imposition of the penalty.

RBI signs MoU with Qatar Financial Centre Regulatory Authority

August 9, 2011

The Reserve Bank of India and the Qatar Financial Centre (QFC) Regulatory Authority, on August 4, 2011 signed a Memorandum of Understanding (MoU) to promote greater co-operation and sharing of supervisory information between the two regulators. The MoU was signed at the Reserve Bank's Central Office Building in Mumbai by Shri P. Vijaya Bhaskar, Executive Director and Mr. Michael Ryan, QFC Regulatory Authority Deputy Chief Executive Officer.

Welcoming the Memorandum of Understanding, Shri Vijaya Bhaskar commented:

'*The RBI is looking forward to enhanced co-operation and information sharing with the QFC Regulatory Authority. India and Qatar are among the fastest growing economies in the world, and we are seeing greater economic ties and increased investment flows between both countries. Our co-operation under the Memorandum of Understanding will help to make certain that our organisations are appropriately positioned to ensure that financial institutions under our supervision are well regulated and supported.*'

Dr. Subbarao Re-appointed RBI Governor for Two More Years

August 9, 2011

The Government of India approved the extension of the term of Dr. D. Subbarao as the

Governor of the Reserve Bank of India. Dr. Subbarao's term has been extended for a period of two years with effect from September 5, 2011 up to September 4, 2013.

Dr. Subbarao was appointed the Governor of the Reserve Bank in September 2008 for a period of three years. Dr. Subbarao took over as the 22nd Governor of the Reserve Bank on September 5, 2008. His term was up to September 4, 2011.

Commenting upon his re-appointment, Dr. Subbarao said, 'I am happy that the Government has reposed its confidence in me at this difficult juncture in the world economy. I look forward to working with a great team in the Reserve Bank to meet the many challenges ahead.'

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RBI Releases Draft Guidelines on Internal Rating Based (IRB) Approach for Calculating Credit Risk Capital Charge

August 10, 2011

The Reserve Bank of India today released on its website, draft guidelines on Internal Rating Based (IRB) Approach for calculating credit risk capital charge. Comments/feedback on the draft guidelines may please be emailed before September 9, 2011 or mailed to the Chief General Manager-in-Charge, Department of Banking Operations and Development, Reserve Bank of India, Central Office Building, 12th Floor, S.B. Singh Marg, Mumbai-400001.

The Reserve Bank had announced timeline for implementation of advanced approaches for computation of regulatory capital under the Basel II framework in India in July 2009. As per the timeframe, banks could apply for migrating to Internal Rating Based (IRB) Approach for calculating credit risk from April 1, 2012 onwards.

The guidelines for the standardised approach (TSA)/alternate standardised approach (ASA) for operational risk were issued in March 2010, those for internal models approach (IMA) for market risk were issued in April 2010 and those for Advanced Measurement Approach (AMA) for operational risk were issued in April 2011.

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RBI Releases Report of the Committee to Review Facilities for Individuals under FEMA, 1999

August 10, 2011

The Reserve Bank of India (RBI) placed on its website (www.rbi.org.in) the Report of the Committee to Review the Facilities for Individuals under Foreign Exchange Management Act (FEMA), 1999. The Report was submitted to the Reserve Bank of India on August 8, 2011.

Pursuant to the announcement in the Annual Monetary Policy for 2011-12, a Committee was constituted under the chairmanship of Smt. K. J. Udeshi for this purpose. The objective of the review was to identify areas for streamlining and simplifying the procedure so as to remove the operational impediments and assess the level of efficiency in the functioning of authorised persons, including the infrastructure created by them. The Committee also included representatives from select authorised dealer banks, external members, representative from Indian Banks' Association and Foreign Exchange Dealers Association.

The Committee has made several recommendations to improve facilities to resident individuals, non-resident Indians, person of Indian origin, as also, simplification of procedures and training of bank personnel.

The recommendations of the Committee would be examined for action that is necessary to finetune the regulatory framework.

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Reserve Bank Transfers Surplus Profit to Government of India

August 11, 2011

The Reserve Bank's Central Board, at its meeting held today, approved the transfer of surplus profit to the Government of India amounting to ₹15,009 crore for the year ended June 30, 2011 as against ₹18,759 crore for the year ended June 30, 2010.

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RBI Central Board meets at Mumbai; Governor meets State Government and Bankers

August 11, 2011

The Central Board of Directors of the Reserve Bank of India met at Mumbai. Dr. D. Subbarao, Governor, Reserve Bank of India chaired the meeting. Shri Y. H. Malegam, Prof U. R. Rao, Shri Lakshmi Chand, Shri H. P. Ranina, Shri Suresh Neotia, Dr. A. Vaidyanathan, Prof. M. M. Sharma and Shri Sanjay Labroo were present at the meeting. Deputy Governors of the Reserve Bank, Dr. K.C. Chakrabarty, Dr. Subir Gokarn, Shri Anand Sinha and Shri H. R. Khan were also present. The meeting was also attended by Shri R. Gopalan, Secretary, Economic Affairs and Government nominee director on the Central Board and Dr. Kaushik Basu, Chief Economic Adviser. The meeting reviewed key economic, monetary and financial developments in the country.

The Central Board meets at least once every quarter. Apart from holding meetings in Mumbai, Chennai, Kolkata and one in New Delhi after the Union Budget which is addressed by the Finance Minister - the rest of the meetings are held in other state capitals by rotation. The main function of the Central Board of Directors of the Reserve Bank is to provide overall direction to the Reserve Bank's affairs.

Prior to the Board meeting, the Governor also met, on August 10, 2011, the officials of the Maharashtra State Government and bankers at a specially convened meeting of the State Level Bankers Committee (SLBC). Issues, such as, crop loans, crop insurance, financial inclusion, cooperative banks and credit-deposit ratio in the State of Maharashtra were discussed. The following decisions were taken:

- The performance of commercial banks in disbursement of crop loans in Maharashtra was better than that in the previous years. However, commercial banks would strive to further improve the achievement of the increased target of crop loans this year.
- Banks and State government would work together to establish linkages so as to directly credit Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) benefits to beneficiaries' bank accounts. For this purpose, all the lead banks would cover one block each in the next one month, review the performance there and scale up to cover the entire State.
- Banks would also open 25 per cent of their branches in villages with population of less than 10,000.
- Senior bank and government officials, such as, Regional Managers and District Collectors would periodically visit the bank branches in sensitive/ disturbed districts in the State to understand first-hand, issues and problems faced by the branch level functionaries and ensure availability of banking services in these areas.

FSDC Sub-Committee meeting held in RBI, New Delhi

August 16, 2011

The third meeting of the Sub-Committee of the Financial Stability Development Council (FSDC) was held today in the Reserve Bank of India, New Delhi. Dr. D. Subbarao, Governor, Reserve Bank of India, chaired the meeting. The meeting was attended by Shri R. S. Gujaral, Finance Secretary; Shri R. Gopalan, Secretary, Department of Economic Affairs; Shri D. K. Mittal, Secretary, Department of Financial Services; Dr. Kaushik Basu, Chief Economic Adviser, Ministry of Finance; Shri U. K. Sinha, Chairman, SEBI; Shri Yogesh Agrawal, Chairman, PFRDA and Deputy Governors, RBI: Dr. K.C. Chakrabarty, Dr. Subir Gokarn, Shri Anand Sinha, Shri H.R. Khan and other officials.

The Sub-Committee reviewed the recent developments in the global macroeconomic and financial sector scenario, focusing on issues relating to potential systemic risks for India. The Sub-Committee also deliberated upon some issues concerning inter-regulatory co-ordination and regulatory gaps. It resolved to strengthen the mechanism for inter regulatory coordination, discussed issues facing the development of repos in corporate bonds, introduction of infrastructure development funds (IDFs), regulation of investment advisory services and the conflict of interest in the distribution of financial products.

The Sub-Committee also focussed on issues relating to the progress so far in achieving financial inclusion and highlighted the need for a coordinated national strategy for financial literacy.

The Becharaji Nagarik Sahakari Bank Ltd., Becharaji, Dist. Mehsana, Gujarat – Penalised

August 16, 2011

The Reserve Bank of India has imposed a monetary penalty of ₹1.00 lakh (Rupees one lakh only) on The Becharaji Nagarik Sahakari Bank Limited, Becharaji, Dist. Mehsana, Gujarat, in exercise of powers vested in it under the provisions of Section 47(A)(1)(b) read with Section 46(4) of the Banking Regulation Act, 1949 (AACS) for violation of Reserve Bank of India's instructions relating to Know Your Customer (KYC) norms and Anti Money Laundering (AML) guidelines.

The Reserve Bank of India had issued a show cause notice to the bank in response to which the bank submitted a written reply. After considering the facts of the case and the bank's reply as also personal submissions in the matter, the Reserve Bank of India came to the conclusion that the violations were substantiated and warranted imposition of the penalty.

RBI and 926 Branches of Banks to accept Advance Income Tax

August 17, 2011

As many as 926 computerised branches of public and private sector banks will receive advance income tax in Mumbai and Navi Mumbai. These arrangements have been made for the convenience of the income tax assesses. Of the 926 bank branches 862 branches are public sector bank branches, 35 HDFC bank branches, 10 ICICI bank branches and 19 AXIS bank branches. The Reserve Bank of India has advised income tax assesses to take advantage of these standing arrangements made for their convenience.

Long queues and inconveniences can be avoided at the Reserve Bank of India counters if the assesses in Mumbai and Navi Mumbai utilise the services being made available at various designated branches of banks and deposit their income tax dues well in advance of the last date.

Rajkot Commercial Co-operative Bank Ltd., Rajkot – Penalised

August 18, 2011

The Reserve Bank of India has imposed a monetary penalty of ₹2.00 lakh (Rupees two lakh only) on Rajkot Commercial Co-operative Bank Limited, Rajkot, Gujarat, in exercise of powers vested in it under the provisions of Section 47(A)(1)(b) read with Section 46(4) of the Banking Regulation Act, 1949 (AACS) for violation of Reserve Bank of India's instructions regarding grant of unsecured advances in excess of prescribed ceiling and director related advances.

The Reserve Bank of India had issued a show cause notice to the bank in response to which the bank submitted a written reply. After considering the facts of the case and the bank's reply as also personal submissions in the matter, the Reserve Bank of India came to the conclusion that the violations were substantiated and warranted imposition of the penalty.

Minutes of the July 20, 2011 Meeting of the Technical Advisory Committee on Monetary Policy

August 18, 2011

The Reserve Bank has been placing the main points of discussion of the Technical Advisory Committee (TAC) on Monetary Policy meeting in public domain with a lag of roughly four weeks after its meeting. Accordingly, the minutes of the twenty-fourth meeting of the TAC held on April 27, 2011 were placed in public domain on May 30, 2011. The twenty-fifth meeting of the Committee was held on July 20, 2011 in the run up to the First Quarter Review of the Monetary Policy 2011-12 on July 26, 2011. The main points of discussion of this meeting are set out below.

The Committee reviewed the global and domestic macroeconomic developments. It felt that the global macroeconomic situation had worsened with the uncertainty clouding the increase in the US debt ceiling issue and continuing problem in the euro area. If the US debt crisis was not resolved satisfactorily, it would have serious ramifications for the global economy. They were also concerned that if the euro area sovereign debt problem spilled over to Spain and Italy, the consequences could be serious. While the international commodity prices had softened, the outlook was still uncertain. Members also expressed concerns over rising incipient inflationary pressures in advanced economies, even as the emerging market economies (EMEs) were still battling with high inflation.

On the domestic macroeconomic developments, most members observed that investment activity was slowing down due to a variety of factors. However, the overall growth was still strong in comparison with most other EMEs. According to the Committee, inflation continued to be a major concern. The inflation rate continued to be stubbornly high. Inflation expectations were high and wages were rising. This could worsen the vicious wage-prices spiral, which to some extent was already evident. According to some members, inflation was driven largely by cost push factors, which was not amenable to monetary policy action. Most members felt that inflation was expected to moderate, although the risk on the monsoon front remained. In view of global uncertainty and deceleration of domestic economic activity, most members suggested that equal weight be given to the objectives of fostering growth and controlling inflation while formulating monetary policy.

Most members felt that there could be a slippage in the fiscal deficit budgeted in the Union Budget 2011-12. They were concerned that the fiscal situation had placed the entire burden of inflation management on monetary policy. Uncertainty about the fiscal situation would continue to pose a serious challenge for monetary policy. Some members also observed there had been no major economic reforms in the recent period.

On monetary measures, while one member suggested an increase in the repo rate by 25 basis points, two members felt that the increase in the policy rate be avoided, if possible. However, if the Reserve Bank needed to give a signal to the market about its continuing anti-inflationary stance, it could raise the repo rate by 25 basis points. Other four members of the Committee were of the view that the past monetary policy actions had an impact and the transmission was still playing out. In view of this, as also the fact that the uncertainty in the global environment had increased and domestic investment was slowing down, they suggested that the Reserve Bank should follow a wait and watch policy. Hence, the repo rate should not be changed. One member suggested an increase in CRR by 25 basis points, segmented in such a way that the long-term investment was encouraged. A member also felt that the Reserve Bank could give clear signals of more stringent capital requirements in future, at least for systemically important financial institutions.

The meeting was chaired by Dr. D. Subbarao, Governor. Other members present were: Dr. Subir Gokarn, Vice-Chairman, Dr. K.C. Chakrabarty, Shri H.R. Khan, Dr. Shankar Acharya, Shri Y.H. Malegam, Shri Sanjay Labroo, Dr. A. Vasudevan and Prof. Sudipto Mundle. Prof. Dilip M. Nachane and Prof. Samir K. Barua could not attend the meeting but submitted their written views. Shri Anand Sinha could not attend the meeting. Shri Deepak Mohanty, Dr. Janak Raj, Shri B.M. Misra and Shri Amitava Sardar were in attendance.

Committee to Re-examine the Existing Classification and Suggest Revised Guidelines with Regard to Priority Sector Lending Classification and Related Issues

August 25, 2011

The Reserve Bank of India has set up a Committee to re-examine the existing classification and suggest revised guidelines with regard to priority sector lending classification and related issues.

Shri M. V. Nair, CMD, Union Bank of India will chair the Committee. Other members of the Committee include,

1. Dr. P. K. Mishra, IAS (Retd.), Former Secretary, Ministry of Agriculture and Co-operation, Government of India
2. Smt. Nupur Mitra, ED, Indian Overseas Bank
3. Smt. Sreya Guha, Director, Ministry of Finance, Department of Financial Services
4. Shri Rajiv Sabharwal, Executive Director, ICICI Bank Ltd.
5. Shri V. Ramakrishna Rao, Executive Director, NABARD
6. Shri N. K. Maini, Deputy Managing Director, SIDBI
7. Shri J. K. Sinha, Chief General Manager, State Bank of India
8. Shri N. C. Khulbe, General Manager, Bank of India
9. Shri Pranab. K. Roy, General Manager, United Bank of India

Dr. Deepali Pant Joshi, CGM-in-Charge, RBI, Rural Planning and Credit Department will be the Member Secretary. The Committee will submit its report in four months from the date of its first meeting.

The Terms of reference of the committee are as under:-

To revisit the current eligibility criteria for classification of bank loans as priority sector with reference to

a. Nature of activities and types of borrowers (individuals versus institutions, corporate and partnership firms) of loans.

b. Limits on loan amounts.

c. Appropriate documentation and due-diligence thresholds, with a view to ensuring that loans extended by banks are indeed for the eligible categories of purposes and borrowers, which need special attention and treatment.

To comprehensively review and fine-tune the definition of direct and indirect priority sector finance/ lending, especially loans advanced to/routed through corporate entities, cooperative societies.

To consider if bank lending via financial intermediaries like Non-Banking Finance Companies, Housing Finance Companies, *etc.*, for eligible categories of borrowers and activities could be classified under the priority sector and if so, to lay down the conditions subject to which this classification would be admissible .

To consider the desirability, or otherwise of capping interest rate on loans under the eligible categories of the priority sector

To review

a. The current allocation mechanism for RIDF and other Funds

b. The interest rates payable on RIDF and other Funds to non-compliant (defaulting) banks.

c. The interest rates to be charged on loans from these funds.

To review the existing Management Information System (MIS) prevalent in banks, and suggest ways to streamline the same in terms of frequency of compliance, data consistency and data integrity.

To consider and suggest the manner and periodicity of conducting impact evaluation studies of credit flows to different segments of priority sector and arrive at various policy options.

Any other issues and concerns germane to the subject matter.

The Committee will submit the report within four months from the date of its first meeting.

Backdrop

The sub-committee of the Central Board of Directors of the Reserve Bank to study issues and concerns in the MFI sector (Malegam Committee) recommended that the existing guidelines on bank lending to the priority sector be revisited. Requests were also received from various quarters in the recent past to relook at the definition of the priority sector, especially where bank finance was being routed through other agencies. In this backdrop, it has been proposed in Paragraph 94 of the Monetary Policy Statement 2011-12 'to appoint a committee to re-examine the existing classification and suggest revised guidelines with regard to priority sector lending classification.'

RBI Releases Report of the Working Group on the Issues and Concerns in the NBFC Sector

August 29, 2011

The Reserve Bank of India placed on its website the Report of the Working Group on the Issues and Concerns in the NBFC Sector, chaired by Smt. Usha Thorat, Director, Centre for Advanced Financial Research and Learning (CAFRAL). Other members of the Group were Sanjay Labroo, Rajiv Lall, Bharat Doshi, Pratip Kar and Uma Subramaniam (Member secretary). Comments on the Report may please be emailed or forwarded by end-September 2011 to the Chief General Manager-in-Charge, Department of Non-Banking Supervision, Reserve Bank of India, Central Office, WTC, Cuffe Parade, Mumbai 400 005.

It may be recalled that the Working Group was constituted to review the existing regulatory and supervisory framework of non-banking finance companies (NBFCs) with special focus on the risks in the sector. The Working Group was also to recommend appropriate regulatory and supervisory measures to address these risks, with the aim of creating a strong and resilient financial sector, vital for all round economic growth of the country.

The basic considerations underlying the approach of the Working Group were:

(i) recognition that registration as NBFC with RBI provides comfort to lenders and investors and enables leveraging of public funds;

(ii) simplification and rationalization of the scope of regulation and registration so as to focus on risk based regulation of non deposit taking entities, as risk on account of deposit taking entities had been largely dealt with earlier;

(iii) retaining the innovative nature of NBFCs engaged in productive sectors while placing buffers to cushion risk on account of (a) concentration and funding pattern inherent in the business model and (b) exposure to sensitive sectors;

(iv) dealing with regulatory arbitrage while not recommending completely bank like policies and regulation for NBFCs; and

(v) strengthening governance, disclosure and supervision to ensure that the changes recommended cause minimum disruption to NBFCs, adequate transition time for compliance to the recommendations has been provided, except where expressly specified.

Key recommendations of the Working Group are:

1. The minimum net owned fund (NOF) requirement for all new NBFCs wanting to register with the Reserve Bank could be retained at the present ₹ 2 crore till the Reserve Bank of India Act is amended. The Reserve Bank of India should, however, insist on a minimum asset size of more than ₹ 50 crore for registering any new NBFC. Existing NBFCs below this limit may deregister or be asked to seek a fresh certificate of registration at the end of two years;

2. NBFCs not accessing public funds may be exempted from registration provided their assets are below ₹ 1000 crore;

3. Any transfer of shareholding, direct or indirect, of 25 per cent and above, change in control, merger or acquisition of any registered NBFC should have prior approval of the Reserve Bank;

4. The twin-criterion of assets and income for determining the principal business of an NBFC should be increased to 75 per cent of the total asset and 75 per cent of the total income, respectively. A time period of three years may be given to fulfil revised principal business criteria;

5. Tier I capital for Capital to Risk Weighted Assets Ratio (CRAR) purposes may be specified at 12 per cent to be achieved in three years for all registered deposit taking and non-deposit taking NBFCs;

6. Liquidity ratio may be introduced for all registered NBFCs such that cash, bank balances and holdings of government securities fully cover the gaps, if any, between cumulative outflows and cumulative inflows for the first 30 days;

7. Asset classification and provisioning norms similar to banks to be brought in phased manner

for NBFCs. Suitable income tax deduction akin to banks may be allowed for provisions made under the regulations. Accounting norms applicable to banks may be applied to NBFCs;

8. NBFCs may be subject to regulations similar to banks while lending to stock brokers and merchant banks and similar to stock brokers, as specified by the Securities and Exchange Board of India (SEBI), while undertaking margin financing;

9. Financial conglomerate approach may be adopted for supervision of larger NBFCs that have stock brokers and merchant bankers in the group;

10. Government owned entities that qualify as NBFCs may comply with the regulatory framework applicable to NBFCs at the earliest.

11. Board approved limits for bank's exposure to real estate may be made applicable for the bank group as a whole, where there is an NBFC in the group. The risk weights for NBFCs that are not sponsored by banks or that do not have any bank as part of the group may be raised to 150 per cent for capital market exposures and 125 per cent for Commercial Real Estate (CRE) exposures. In case of bank sponsored NBFCs, the risk weights for Capital Market Exposures (CME) and CRE may be the same as specified for banks;

12. NBFCs may be given the benefit under Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002;

13. Captive NBFCs, the business models of which focus mainly (90 per cent and above) on financing parent company's products, may maintain Tier I capital at 12 per cent from the time of registration. Supervisory risk assessment of such companies should take into account the risk of the parent company;

14. For the purpose of applicability of registration and supervision, the total assets of all NBFCs in a group should be taken together to determine the cut off limit of ₹ 100 crore;

15. All NBFCs with assets of ₹1000 crore and above, whether listed or not, should be required to comply with Clause 49 of SEBI Listing Agreements including mandatory disclosures;

16. Disclosure for NBFCs with assets over Rs 100 crore may include provision coverage ratio, liquidity ratio, asset liability profile, extent of financing of parent company products, movement of non-performing assets (NPAs), off-balance sheet exposures, structured products and securitisations/assignments.

17. NBFCs with assets of ₹ 1000 crore and above should be inspected comprehensively on an annual basis with an annual stress test carried out to ascertain their vulnerability.

RBI Releases Draft Guidelines for Licensing of New Banks in the Private Sector

August 29, 2011

The Reserve Bank of India released on its website today, the Draft Guidelines for 'Licensing of New Banks in the Private Sector'. The Reserve Bank has sought views/comments on the draft guidelines from banks, non-banking financial institutions, industrial houses, other institutions and the public at large. Suggestions and comments on the draft guidelines may be sent by October 31, 2011 to the Chief General Manager, Reserve Bank of India, Department of Banking Operations and Development, Central Office, 13h floor, Central Office Building, Shahid Bhagat Singh Marg, Mumbai-400001 or emailed.

Final guidelines will be issued and the process of inviting applications for setting up of new banks in the private sector will be initiated after receiving feedback, comments and suggestions on the draft guidelines, and after certain vital amendments to Banking Regulation Act, 1949 are in place.

Key features of the draft guidelines are:

(i) **Eligible promoters**: Entities/groups in the private sector, owned and controlled by residents, with diversified ownership, sound credentials and integrity and having successful track record of at least 10 years will be eligible to promote banks. Entities/groups having significant (10 per cent or more) income or assets or both from real estate construction and/or broking activities individually or taken together in the last three years will not be eligible.

(ii) **Corporate structure**: New banks will be set up only through a wholly owned Non-Operative Holding Company (NOHC) to be registered with the Reserve Bank as a non-banking finance company (NBFC) which will hold the bank as well as all the other financial companies in the promoter group.

(iii) **Minimum capital requirement**: Minimum capital requirement will be ' 500 crore. Subject to this, actual capital to be brought in will depend on the business plan of the promoters. NOHC shall hold minimum 40 per cent of the paid-up capital of the bank for a period of five years from the date of licensing of the bank. Shareholding by NOHC in excess of 40 per cent shall be brought down to 20 per cent within 10 years and to 15 per cent within 12 years from the date of licensing of the bank.

(iv) **Foreign shareholding**: The aggregate non-resident shareholding in the new bank shall not exceed 49 per cent for the first 5 years after which it will be as per the extant policy.

(v) **Corporate governance**: At least 50 per cent of the directors of the NOHC should be independent directors. The corporate structure should be such that it does not impede effective supervision of the bank and the NOHC on a consolidated basis by the Reserve Bank.

(vi) **Business model**: Should be realistic and viable and should address how the bank proposes to achieve financial inclusion.

(vii) **Other conditions**:

- The exposure of bank to any entity in the promoter group shall not exceed 10 per cent and the aggregate exposure to all the entities in the group shall not exceed 20 per cent of the paid-up capital and reserves of the bank.
- The bank shall get its shares listed on the stock exchanges within two years of licensing.
- The bank shall open at least 25 per cent of its branches in unbanked rural centres (population upto 9,999 as per 2001 census)
- Existing NBFCs, if considered eligible, may be permitted to either promote a new bank or convert themselves into banks.

(viii) In respect of promoter groups having 40 per cent or more assets/income from non-financial business, certain additional requirements have been stipulated.

Background

It may be recalled that pursuant to the announcement made by the Union Finance Minister in his budget speech and the Reserve Bank's Annual Policy Statement for the year 2010-11, a discussion paper on 'Entry of New Banks in the Private Sector' was placed on RBI website on August 11, 2010. The discussion paper marshalled international practices, Indian experience as well as the extant ownership and governance (O&G) guidelines. The Reserve Bank had sought views/comments from banks, non-banking financial institutions, industrial houses, other institutions and the public at large. Discussions were also held with major stakeholders to seek their comments and suggestions on the issues raised in the paper. The gist of comments on various issues received through email and letters and discussions was placed on Reserve Bank's website on December 23, 2010. The draft guidelines have been prepared based on the responses received, extensive internal discussions and consultation with the Government of India.

Shri Janata Sahakari Bank Limited, Halol, Dist. Panchmahal – Penalised

August 30, 2011

The Reserve Bank of India has imposed a monetary penalty of ₹1.00 lakh (Rupees one lakh only) on Shri Janata Sahakari Bank Limited, Halol, Dist.

Panchmahal, in exercise of powers vested in it under the provisions of Section 47(A)(1)(b) read with Section 46(4) of the Banking Regulation Act, 1949 (AACS) for not reporting cash transactions in excess of ₹10.00 lakh to Financial Intelligence Unit-India (FIU-IND), as required under the Anti Money Laundering (AML) guidelines.

The Reserve Bank of India had issued a show cause notice to the bank in response to which the bank submitted a written reply. After considering the facts of the case and the bank's reply as also personal submissions in the matter, the Reserve Bank of India came to the conclusion that the violations were substantiated and warranted imposition of the penalty.