Press Releases*

January 2011

RBI makes Public the Engagement Schedule of its Top Executives

January 3, 2011

From January 3, 2011, the Reserve Bank of India will place on its website, the public engagement schedule of the Governor and the Deputy Governors. The engagement schedule will include public speeches and outreach activities undertaken by the executives.The initiative is one more step towards demystifying the central bank and the offices of the Governor and the Deputy Governors.

RBI releases Draft Guidelines on Advanced Measurement Approach (AMA) for Calculating Operational Risk Capital Charge

January 6, 2011

The Reserve Bank of India today released on its website, draft guidelines on advanced measurement approach (AMA) for calculating operational risk capital charge. Comments/feedback on the draft guidelines may please be emailed before February 7, 2011 email 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. The guidelines for the standardised approach (TSA)/alternate standardised approach (ASA) for operational risk were issued in March 2010 and those for internal models approach (IMA) for market risk were issued in April 2010. The Reserve Bank had, in July 7, 2009, advised banks that they can, among other things, apply for migrating to Advanced Measurement Approach (AMA) for Operational Risk from April 1, 2012 onwards. Guidelines for advanced measurement approach (AMA) for Operational Risk were expected to be finalised by December 2010.

RBI Measures to extend Credit Support to Micro Finance Institutions

January 19, 2011

The Reserve Bank of India has today advised certain relaxation to banks in its present restructuring guidelines in order to enable them to extend credit support to micro finance institutions (MFIs). The relaxation is purely a temporary measure and would be applicable to bank loans to MFIs restructured by banks up to March 31, 2011, the Reserve Bank has stated.

Relaxation considered

The Reserve Bank has asked banks to extend the regulatory asset classification benefit to standard restructured MFI accounts, even if they were not fully secured. This relaxation was given considering the fact that the problems afflicting the MFI sector were not necessarily on account of any credit weakness *per-se* but were mainly due to environmental factors. This measure initiated by the Reserve Bank is expected to impart some liquidity support by banks to MFIs and facilitate a 'holding on' operation for some time till the Malegam Committee submits its report and measures are taken to bring about long-term and structural changes in the functioning of MFIs. The Reserve Bank has also advised banks that they should endeavour to recycle the collections to MFIs so as to ensure that the intended 'holding on' operation is successful.

Background

The Reserve Bank of India had held discussions with select banks on December 22, 2010 to get an assessment regarding the ground level situation in microfinance sector in Andhra Pradesh and other States

* Important Press Releases during January 2011

and the need for any interim measures. The banks informed that collections by MFIs in Andhra Pradesh had deteriorated considerably and there were some incipient signs of contagion spreading to other States. Subsequently, the Indian Banks' Association (IBA) based on the banks' feedback came up with a proposal that there was a need for extending certain relaxations in the restructuring guidelines of the Reserve Bank for the MFI sector. It observed that bank loans to MFIs were mostly unsecured but to avail of the regulatory asset classification benefits under the present restructuring guidelines of the Reserve Bank, the accounts had to be fully secured. The banks had also stressed on the need to work out an interim arrangement involving, among other things, rescheduling of exposures to MFIs subject to certain covenants, such as, MFIs agreeing to reduce their leverage and growth projections.

Anand Sinha takes over as RBI Deputy Governor

January 19, 2011

Shri Anand Sinha took over today as Deputy Governor of the Reserve Bank of India. As Deputy Governor, Shri Sinha has been appointed for a period upto February 28, 2013. He will look after two regulatory departments, namely, Department of Banking Operations and Development and Urban Banks Department. He will also look after the Departments of Information Technology, Expenditure and Budgetary Control, Inspection, Legal and Premises. Prior to being appointed as the Deputy Governor, Shri Sinha was Executive Director, Reserve Bank of India and looked after Department of Banking Operations and Development, Financial Stability Unit and the Department of Expenditure and Budgetary Control. Shri Sinha's central banking career has spanned over 34 years. He has been involved with formulation of several major regulatory and supervisory policies for commercial banks. He has also been on several internal committees. He has handled, among others, foreign exchange, deposit insurance and regional office work during his career. As Executive Director, he represented India and the Reserve Bank on several international committees. He was Reserve Bank of India's alternate representative in the Basel Committee on Banking Supervision (BCBS), Bank for International Settlements (BIS), Basel, Switzerland. He also represented the Reserve Bank on three sub-committees/work streams of the BCBS, namely, Policy Development Group (PDG), Macro Prudential Supervision Group (MPG) and Macro Variable Task Force (MVTF). Till recently, he represented the Reserve Bank on the Committee on Global Financial Systems (CGFS), BIS since December 2005. He was a member of the CGFS Working Group on Capital Flows to Emerging Market Economies. He represented India on the G20 Working Group on 'Enhancing Sound Regulation and Strengthening Transparency' set up in the aftermath of the crisis. Shri Sinha was also the Reserve Bank's nominee director on the boards of Dena Bank, Allahabad Bank, Bank of Baroda, Indian Overseas Bank, Deposit Insurance and Credit Guarantee Corporation and Export Credit and Guarantee Corporation at different phases of his career. Shri Sinha joined the Reserve Bank in 1976 after his Masters in Physics from the Indian Institute of Technology, Delhi. He is married to Sheela and has two sons.

RBI releases Report of the Sub-Committee of its Central Board of Directors to study Issues and concerns in the MFI Sector

January 19, 2011

The Reserve Bank of India today released on its website the Report of the Reserve Bank Sub-Committee of its Central Board of Directors to study Issues and concerns in the micro finance institutions (MFI) Sector. The Sub-Committee has recommended creation of a separate category of Non-Banking Financial Companies (NBFCs) operating in the microfinance sector to be designated as NBFC-MFIs. To qualify as a NBFC-MFI, the Sub-Committee has stated that the NBFC should be 'a company which provides financial services pre-dominantly to low-income borrowers, with loans of small amounts, for short-terms, on unsecured basis, mainly for income-generating activities, with repayment schedules which are more frequent than those normally stipulated by commercial banks' and which further satisfies the regulations specified in that behalf. The Sub-Committee has also recommended some additional qualifications for NBFC to be classified as NBFC-MFI. These are:

a. The NBFC-MFI will hold not less than 90 per cent of its total assets (other than cash and bank balances and money market instruments) in the form of qualifying assets.
b. There are limits of an annual family income of ₹50,000 and an individual ceiling on loans to a single borrower of ₹25,000
c. Not less than 75 per cent of the loans given by the MFI should be for income-generating purposes.
d. There is a restriction on the other services to be provided by the MFI which has to be in accordance with the type of service and the maximum percentage of total income as may be prescribed.

The Sub-Committee has recommended that bank lending to NBFCs which qualify as NBFC-MFIs will be entitled to 'priority lending' status. With regard to the interest chargeable to the borrower, the Sub-Committee has recommended an average 'margin cap' of 10 per cent for MFIs having a loan portfolio of ₹100 crore and of 12 per cent for smaller MFIs and a cap of 24 per cent for interest on individual loans. It has also proposed that, in the interest of transparency, an MFI can levy only three charges, namely, (a) processing fee (b) interest and (c) insurance charge.

The Sub-committee has made a number of recommendations to mitigate the problems of multiple-lending, over borrowing, ghost borrowers and coercive methods of recovery. These include:

a. A borrower can be a member of only one Self-Help Group (SHG) or a Joint Liability Group (JLG)
b. Not more than two MFIs can lend to a single borrower
c. There should be a minimum period of moratorium between the disbursement of loan and the commencement of recovery
d. The tenure of the loan must vary with its amount
e. A Credit Information Bureau has to be established
f. The primary responsibility for avoidance of coercive methods of recovery must lie with the MFI and its management
g. The Reserve Bank must prepare a draft Customer Protection Code to be adopted by all MFIs
h. There must be grievance redressal procedures and establishment of ombudsmen
i. All MFIs must observe a specified Code of Corporate Governance

For monitoring compliance with regulations, the Sub-Committee has proposed a four-pillar approach with the responsibility being shared by (a) MFI (b) industry associations (c) banks and (d) the Reserve Bank.

While reviewing the proposed Micro Finance (Development and Regulation) Bill 2010, the Sub-Committee has recommended that entities governed by the proposed Act should not be allowed to do business of providing thrift services. It has also suggested that NBFC-MFIs should be exempted from the State Money Lending Acts and also that if the recommendations of the Sub-Committee are accepted, the need for the Andhra Pradesh Micro Finance Institutions (Regulation of Money Lending) Act will not survive.

The Sub-Committee has cautioned that while recognising the need to protect borrowers, it is also necessary to recognise that if the recovery culture is adversely affected and the free flow of funds in the system interrupted, the ultimate sufferers will be the borrowers themselves as the flow of fresh funds to the microfinance sector will inevitably be reduced.

Background

It may be recalled that the Reserve Bank of India in October 2010 set up a Sub-Committee of its Central Board of Directors to study the issues and concerns in microfinance sector, under the Chairmanship of Shri Y H Malegam, a senior member on the Reserve Bank's Central Board of Directors. Other members of the Sub-Committee included Shri Kumar Mangalam Birla, Dr. K C Chakrabarty, Deputy Governor, Smt. Shashi Rajagopalan and Prof. U R Rao. Shri V K Sharma, Executive Director, Reserve Bank of India was the Member Secretary to the Sub-Committee.

RBI Releases Report of Working Group on Information Security, Electronic Banking, Technology Risk Management and Cyber Frauds

January 21, 2011

The Reserve Bank of India has today placed on its website the report of the Working Group on information security, electronic banking, technology risk management, and cyber frauds.

The Working Group (Chairman: Shri G.Gopalakrishna, Executive Director, Reserve Bank of India) was established following the announcement in the April 2010 Monetary Policy Statement, which recommended enhancing Reserve Bank guidelines relating to the governance of IT, information security measures to tackle cyber fraud apart from enhancing independent assurance about the effectiveness of Information Technology (IT) controls.

The report covers various areas such as IT Governance, information security (including electronic banking channels like internet banking, ATMs, cards), IT operations, IT services outsourcing, Information System Audit, Cyber frauds, business continuity planning, customer education and legal issues.

The objective of the Working Group was to provide a set of guidelines to banks covering the entire gamut of electronic banking. This would serve as a common minimum standard for all banks to adopt as well as lay down the best practices for banks to adopt in a phased manner for a safer and sounder banking environment. The Group felt that there was a need for banks to follow a consistent approach in each focus area, to minimise differing interpretations.

Some of the major recommendations of the Working Group are provided here. The Group recognised that the recommendations are not 'one-size-fits-all' and the implementation of these recommendations need to be based on the nature and scope of activities engaged by banks and the technology environment prevalent in the bank and the support rendered by technology to the business processes.

The Reserve Bank will begin implementing the recommendations of the Working Group shortly.

Background

Rapid strides in IT and its swift adoption by the commercial banks in India have enabled banks to use IT extensively to offer products and services to customers apart from automating internal processes. Some opportunities arising from intensive use of IT are multiple delivery channels to customers, development of new products and processes, reduction in service delivery costs and potential for financial inclusion initiatives.

Developments in IT have also brought along a whole set of challenges to deal with. These include rapid changes in technology, complexities, high costs, security and data privacy issues, new laws and regulations and inadequate trained manpower.. Inadequate IT controls could result in cyber frauds and poor implementation of technology could lead to unsound decision making based on inaccurate information/data. The cyber threat landscape is also changing over the years and needs to be factored in while considering mitigating measures.

Given this context, there was a need to enhance the governance of IT and institute robust information security measures in the Indian banking sector based on extant international standards and best practices. IT risk assessment and management was required to be made a part of the risk management framework of a bank, while internal audits/information system audits needed to independently provide assurance that IT-related processes and controls were working as intended. Given the instances of cyber fraud in banks recently, it was necessary to improve controls and examine the need for pro-active fraud risk assessments and management processes in commercial banks. With the increase in transactions in electronic mode, it was also critical to examine the legal implications for banks arising out of cyber laws and steps that were required to be taken to suitably mitigate the legal risks. To consider these issues, the Governor had announced, in the Annual Monetary Policy Statement 2010-11 in April, 2010, the creation of a Working Group on Information Security, Electronic Banking, Technology Risk Management and Tackling Cyber Fraud.

Agreement with Government of Jammu & Kashmir

January 21, 2011

The Reserve Bank of India has entered into a Supplementary Agreement under Section 21A of the Reserve Bank of India Act, 1934 with the Government of Jammu & Kashmir. Under the agreement, which shall be effective from April 1, 2011, the Reserve Bank of India shall carry on the general banking business of the Government of Jammu & Kashmir and act as the sole agent for investment of Government's funds. On the recommendation of the State Government, the Reserve Bank of India has entered into an agreement with J&K Bank Ltd. whereby J&K Bank would act as an agent of the Reserve Bank of India, for conduct of general banking business of the State Government.

The Reserve Bank of India has already been acting as a debt manager to the Government of Jammu & Kashmir pursuant to an agreement entered into with the State Government under Section 21 A of the Reserve Bank of India Act, 1934, with effect from September 1, 1972.

Application for Certificate of Registration of Nirma Capital Private Limited – Rejected

January 24, 2011

The Reserve Bank of India has rejected on January 4, 2011 the application for certificate of registration of Nirma Capital Private Limited, having its registered office at Nirma House, Ashram Road, Ahmedabad – 380 009 for carrying on the business of a non-banking financial institution. Following rejection of the application for certificate of registration Nirma Capital Private Limited cannot transact the business of a non-banking financial institution.

By the powers conferred under Section 45-IA (6) of the Reserve Bank of India Act, 1934, the Reserve Bank can reject the application for registration certificate of a non-banking financial company. The business of a non-banking financial institution is defined in clause (a) of Section 45-I of the Reserve Bank of India Act, 1934.

RBI invites Comments on Malegam Committee Report on MFIs

January 28, 2011

The Reserve Bank of India has invited views/ comments of all stakeholders and the public at large on the Malegam Committee report on microfinance institutions (MFIs). Comments/suggestions/views may be forwarded to the Chief General Manager-in-Charge, Rural Planning and Credit Department, Reserve Bank of India, Central Office Building, 10th floor, S.B.S. Road, Mumbai-400001 or emailed to latest by February 13, 2011.

It may be recalled that the Reserve Bank had appointed a Sub-Committee of its Central Board of Directors to study issues and concerns in the MFI Sector. The Sub-Committee submitted its report on January 19, 2011. The report was placed on the Reserve Bank website on the same day.