

Regulatory and Other Measures

January 2010

RBI/2010-11/352DPSS. CO. CHD. No. 1514/03.01.03/2010-2011 dated January 4, 2011

Enhancing the scope of Speed Clearing

The Chairman and Managing Director/
Chief Executive Officer

All Scheduled Commercial Banks including Regional Rural Banks/Urban Co-operative Banks/State Co-operative Banks/District Central Co-operative Banks

A reference is invited to our circulars DPSS.CO.1808/03.01.02/2007-08 dated May 5, 2008 and DPSS.CO.No. 517/03.01.02(P)/2008-09 dated September 22, 2008 on implementation of Speed Clearing. Speed Clearing leverages on the Core Banking Solutions (CBS) implemented in banks across the country and facilitates realisation of outstation cheques drawn on CBS-enabled branches at the local centre itself, thus obviating the need of such cheques to physically move to the outstation centre.

2. Roll-out of Speed Clearing is one of the many initiatives taken by Reserve Bank of India for improving efficiency in the time-frame for and process of collection of outstation cheques – the time-frame has reduced from 7-45 days to 2-3 days, while the monthly volume of outstation cheques collected through Speed Clearing has increased significantly to more than 2 million. In terms of coverage, Speed Clearing facility is available at all the 66 MICR centres and reaches more than 50,000 bank branches in the country. Efforts are on to increase the coverage, both in terms of centres and bank branches.

3. Speed Clearing is currently enabled for cheques issued by account holders with transaction codes 10 (savings bank), 11 (current account) and 13 (cash credit). Keeping in view the benefits to customers as also the infrastructural and processing preparedness of banks, it has been decided to extend the scope of Speed Clearing to cover all transaction codes, other than those relating to government cheques. Banks may

exercise usual care and caution while handling such instruments.

4. The revised instructions will be effective from February 1, 2011. Please confirm that necessary arrangements will be in place to ensure compliance.

RBI/2010-11/361DBOD.No.Dir.BC.73/13.03.00/2010-11 dated January 6, 2011

Guidelines on the Base Rate

All Scheduled Commercial Banks (excluding RRBs)

Please refer to our circular DBOD.No.Dir.BC.88/13.03.00/2009-10 dated April 9, 2010.

2. In partial modification of paragraph 2 (iii) of the above mentioned circular, we advise that banks are permitted to change the benchmark and methodology used in the computation of Base Rate for a further period of six months, *i.e.*, upto June 30, 2011.

RBI/2010-11/363 UBD. CO. BPD. No. 35/12.05.001/2010-11 dated January 10, 2011

Opening of bank accounts - salaried employees

The Chief Executive Officers

All Primary (urban) Co-operative Banks

Please refer to circular UBD. No. DS. PCB. Cir. 17/13.01.00/2002-03 dated September 18, 2002 and UBD. PCB. Cir. 30/09.161.00/2004-05 dated December 15, 2004 on Know Your Customer (KYC) norms/Anti-Money Laundering (AML) standards/Combating of Financing of Terrorism (CFT)/Obligation of banks under PMLA, 2002. In Annex I to the circular of December 15, 2004 an indicative list of the nature and type of documents/information that may be relied upon for customer identification and address verification for opening bank accounts has been given.

2. It has been brought to our notice that for opening bank accounts of salaried employees some banks rely on a certificate/letter issued by the employer as the only KYC document for the purposes of certification of identity as well as address proof. Such a practice is open to misuse and fraught with risk. It is, therefore, clarified that with a view to containing the risk of fraud, banks need to rely on such certification only from corporates and other entities of repute and should be aware of the competent authority designated by the concerned employer to issue such certificate/letter. Further, in addition to the certificate from employer, banks should insist on at least one of the officially valid documents as provided in the Prevention of Money Laundering Rules (*viz.* passport, driving licence, PAN Card, Voter's Identity card *etc.*) or utility bills for KYC purposes for opening bank account of salaried employees of corporates and other entities.

3. These guidelines are issued under Section 35 A of the Banking Regulation Act, 1949 (AACS) and Rule 7 of Prevention of Money-Laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of the Banking Companies, Financial Institutions and Intermediaries) Rules, 2005. Any contravention thereof or non-compliance shall attract penalties under the Banking Regulation Act, 1949 (AACS).

RBI/2010-11/368 DBS.CO.PPD.BC.No. 5/11.01.005/2010-11 dated January 14, 2011

End Use of Funds - Monitoring

The Chairman/Chief Executives Officer
All Scheduled Commercial Banks (excluding RRBs)

The Reserve Bank, as a part of ongoing supervision, had undertaken an assessment of the practices in vogue at certain banks for ensuring the end-use of funds. The review revealed that the expected level of due diligence had not been exercised in some cases facilitating diversion of funds by the borrowers. The shortcomings, amongst others, included, crediting of term loan disbursements to the

current/cash credit accounts of borrowers and utilisation thereof for day-to-day operations, as also, exclusive reliance on Chartered Accountants' certification both in regard to infusion of promoters' contribution and deployment of banks' funds.

2. In the context of the above, it is advised that the efficacy of the existing machinery in your bank for post-sanction supervision and follow-up of advances may please be evaluated and made robust, wherever considered necessary. Illustratively, the systems and procedures may broadly include the following:

- i. meaningful scrutiny of the periodical progress reports and operating/financial statements of the borrowers;
- ii. regular visits to the assisted units and inspection of securities charged/hypothecated to the banks;
- iii. periodical scrutiny of the books of accounts of the borrowers;
- iv. introduction of stock audits depending upon the extent of exposure;
- v. obtention of certificates from the borrowers that the funds have been utilised for the purposes approved and in case of incorrect certification, initiation of prompt action as may be warranted, which may include withdrawal of the facilities sanctioned and legal recourse as well. In case a specific certification regarding diversion/siphoning of funds is desired from the auditors of the borrowers, a separate mandate may be awarded to them and appropriate covenants incorporated in the loan agreements; and
- vi. examination of all aspects of diversion of funds during internal audit/inspection of the branches and at the time of periodical reviews.

3. As would be appreciated, effective monitoring of the end-use of funds lent is of critical importance in safeguarding a bank's interest. Further, this would also act as a deterrent for borrowers to misuse the credit facilities sanctioned, and in the process, help build a healthy credit culture in the Indian banking system.

RBI/2010-11/376DBOD.BP.BC.No. 74/21.04.132/2010-11 dated January 19, 2011

Credit Support to Micro Finance Institutions (MFIs)

The Chairman and Managing Directors/Chief Executive Officers of All Scheduled Commercial Banks (Excluding RRBs & LABs)

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 the microfinance sector in Andhra Pradesh and other States 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, Indian Bankers' Association (IBA) based on the feedback received by them from banks had come up with a proposal that there is a need for extending certain relaxations in the restructuring guidelines of the Reserve Bank for the MFI sector. They had observed that bank loans to MFIs are mostly unsecured but to avail of the regulatory asset classification benefits under the present restructuring guidelines of the Reserve Bank, the accounts have to be fully secured. As far as the banks' exposures to MFIs were concerned, the banks stressed on the need to work out an interim arrangement involving, *inter alia*, rescheduling of exposures to MFIs subject to certain covenants such as MFIs agreeing to reduce their leverage and growth projections.

2. In terms of paragraph 6.2.2 of our circular DBOD.No.BP.BC.No.37/21.04.132/2008-09 dated August 27, 2008 on 'Prudential Guidelines on Restructuring of Advances by Banks', special regulatory asset classification benefits are available to restructured accounts provided, *inter alia*, the dues to the banks are fully secured. Considering the fact that the current problems afflicting the Micro Finance Institutions (MFIs) sector are not necessarily on account of any credit weakness *per-se* but are mainly due to environmental factors, it has been decided that the special regulatory asset classification benefit could be extended to restructured MFI accounts, which are standard at the time of restructuring, even if they are not fully secured. This relaxation is granted purely as

a temporary measure and would be applicable to Standard MFI accounts restructured by banks up to March 31, 2011. The other conditions specified in the above mentioned circular for getting the special asset classification benefits would remain unchanged. It is advised that a consortium approach for restructuring may be preferred and all the banks financing a MFI unit should come together and decide on the course of action to be pursued for that unit.

3. The above measure is likely to impart some liquidity support 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. Banks are advised that they should endeavour to recycle the collections to MFIs so as to ensure that the intended 'holding on' operation is successful.

RBI/2010-11/377 DPSS.CO.CHD.No. 1671/03.06.01/2010-11 dated January 19, 2011

The Chairman and Managing Director/
Chief Executive Officer

All Scheduled Commercial Banks including RRBs/UCBs/
State Co-operative Banks/District Central Co-operative
Banks

Review of Service Charges for Cheque Collection – Local, Outstation and Speed Clearing

Given the advantages of using electronic modes for initiating payments, especially for large value transactions, Reserve Bank of India has been taking concerted steps towards increasing the acceptability, reach and efficiency of electronic transactions. Paper-based instruments, however, continue to account for a significant volume of payments in the country. Reserve Bank has, therefore, been encouraging the use of technology and the core-banking infrastructure of the banking system for reducing the clearing cycle and movement of cheques, both local and outstation.

2. In this regard, attention of banks is invited to our circulars DPSS.CO.No.611/03.01.03(P)/2008-09 dated

October 8, 2008 and DPSS.CO.No.829/03.01.03(SC)/2008-09 dated November 17, 2008 in terms of which, charges for Outstation Cheque Collection as also cheques collected under the Speed Clearing arrangement were mandated by the Reserve Bank for different value bands.

3. On a review of the developments in this regard, it has been decided to revise the charges structure. While Reserve Bank would continue to mandate charges for smaller value transactions relating to savings account customers, greater freedom is being accorded to banks to determine charges for larger value transactions, subject to such charges being levied by the banks in a fair and transparent manner. These measures are expected to hasten the migration of transactions to electronic mode.

4. Accordingly, the following service charge structure will come into effect from April 1, 2011.

(a) Service (Processing) Charges for Local Clearing (by Clearing Houses from Member Banks) –

| System | Existing (₹) | | Revised (₹) | |
|-----------------------|-----------------|-------------|-----------------|-------------|
| | Presenting Bank | Drawee Bank | Presenting Bank | Drawee Bank |
| Clearing at MICR-CPCs | 1.00 | 1.00 | 1.00 | 1.50 |
| Cheque Truncation | 0.50 | 0.50 | 0.50 | 1.00 |

(b) Service Charges for Outstation Cheque Collection–

| Existing (₹) | | Revised (₹) | |
|---|-----------------------------------|---|---|
| Value | Service charge from all customers | Value | Service charge from Savings a/c customers |
| Up to and including 10,000 | 50 | Up to and including 5,000 | 25 ^ |
| | | Above 5,000 and up to and including 10,000 | 50* ^ |
| Above 10,000 and up to and including 1,00,000 | 100 | Above 10,000 and up to and including 1,00,000 | 100* ^ |
| Above 1,00,000 | 150 | Above 1,00,000 | Left to the banks to decide |

* : No change.
^ : All inclusive maximum amount chargeable by banks to the customers.

(c) Service Charges for Cheque Collection under Speed Clearing (by Collecting Banks from customers) –

| Existing (₹) | | Revised (₹) | |
|------------------------------|-----------------------------------|------------------------------|---|
| Value | Service charge from all customers | Value | Service charge from Savings a/c customers |
| Up to and including 1,00,000 | Nil | Up to and including 1,00,000 | Nil* |
| Above 1,00,000 | 150 | Above 1,00,000 | Left to the banks to decide |

* No change.

5. Banks are free to fix charges for collection of instruments for credit to other types of accounts.

6. While fixing service charges not mandated herein, banks may note the following –

- The service charge structure put in place by the bank should have the approval of the Board of Directors.
- Charges fixed should be reasonable and computed on a cost-plus-basis and not as an arbitrary percentage of the value of the instrument. The service charges-structure should not be open-ended and should clearly specify the maximum charges that would be levied on customers including charges if any, payable to other banks.
- While sharing service charges, banks may be guided by the provisions of circular CIR/RB-I/CCP/64 dated April 8, 2010 issued by the Indian Banks' Association.
- Banks may note to ensure that collection charges fixed for instruments of any value is lower under Speed Clearing *vis-a-vis* Outstation Cheque Collection so as to encourage the use of Speed Clearing.
- The service charges mandated/fixed by banks are inclusive of all charges (postal, courier, handling, etc.) other than service tax.

7. Banks shall use electronic modes like RTGS/NEFT to remit clearing proceeds to the collecting bank branch availing of Outstation Cheque Collection facility.

8. These directions are issued by the Reserve Bank of India in exercise of the powers conferred by Section 18 of the Payment and Settlement Systems Act, 2007 (Act 51 of 2007).

RBI/2010-11/385 DBOD.FID.FIC.No.10 /01.02.00/2010-11 dated January 25, 2011

The CEOs of select All-India Term Lending and Refinancing Institutions (Exim Bank, NABARD, NHB and SIDBI)

Prudential Guidelines on Restructuring of Advances by select All-India Financial Institutions (AIFIs): Credit Support to MFIs

In continuation of our letter DBOD.No.FID.FIC.6/01.02.00/2010-11 dated October 14, 2010 on the captioned subject, please find enclosed DBOD.BP.BC.No. 74/21.04.132/2010-11 dated January 19, 2011 on 'Credit Support to Micro Finance Institutions (MFIs)' issued to scheduled commercial banks. In this connection, it is advised that these guidelines, shall apply *mutatis mutandis* to the select All-India Financial Institutions (AIFIs)

2. However, certain activities are generally not undertaken by FIs, such as extending working capital, overdrafts and personal loans, *etc.* The provision of the circular relating to such activities shall not be applicable to the AIFIs.

RBI/2010-11/389 DBOD.AML.No. 77/14.01.001/2010-11 dated January 27, 2011

Opening of "Small Account"

The Chairmen/CEOs of all Scheduled Commercial Banks (Excluding RRBs)/Local Area Banks/All India Financial Institutions

Please find enclosed a copy of the Government of India, Notification No. 14/2010/F.No.6/2/2007-E.S. dated December 16, 2010, amending the Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of the Banking Companies, Financial Institutions and Intermediaries) Rules, 2005.

A. Small Accounts

2. In terms of Rule 2 clause (fb) of the Notification 'small account' means a savings account in a banking company where

- (i) the aggregate of all credits in a financial year does not exceed rupees one lakh;
- (ii) the aggregate of all withdrawals and transfers in a month does not exceed rupees ten thousand; and
- (iii) the balance at any point of time does not exceed rupees fifty thousand .

3. Rule (2A) of the Notification lays down the detailed procedure for opening 'small accounts'. Banks are advised to ensure adherence to the procedure provided in the Rules for opening of small accounts.

B. Officially Valid Documents

4. The Notification has also expanded the definition of 'officially valid document' as contained in clause (d) of Rule 2(1)of the PML Rules to include job card issued by NREGA duly signed by an officer of the State Government or the letters issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number.

5. It is further advised that where a bank has relied exclusively on any of these two documents, viz. NREGA job card or Aadhaar letter, as complete KYC document for opening of an account (ref. paragraph 2.4 (f) of the Master circular dated July 1,2010) the bank account so opened will also be subjected to all conditions and limitations prescribed for small account in the Notification.

6. Accordingly, all accounts opened in terms of procedure prescribed in Rule 2A of the Notification enclosed and all other accounts opened ONLY on the basis of NREGA card or Aadhaar letter should be treated as 'small accounts' subject to the conditions stipulated in clause (i) to (v) of the sub-rule (2A) of Rule 9.

RBI/2010-11/390 DBOD.No.BL.BC. 78/22.01.001/2010-11 dated January 27, 2011 7 Magha, 1932 (Saka)

Section 23 of the Banking Regulation Act, 1949 Relaxations in Branch Authorisation Policy

All Scheduled Commercial Banks (excluding RRBs)

In terms of Circular DBOD.No.BL.BC. 65/22.01.001/2009-10 dated December 1, 2009, general permission was granted to domestic scheduled commercial banks (other than RRBs) to open branches in Tier-3 to Tier-6 centres (with population upto 49,999 as per Census 2001) and in rural, semi-urban and urban centres in the North-Eastern States and Sikkim, subject to reporting.

2. We have been receiving queries from banks regarding applicability of distance criteria envisaged in paragraph 6.3(b) of the Master Circular on Branch Authorisation DBOD.No. BL.BC. 8/22.01.001/2010-11 dated July 1, 2010 for opening of branches under general permission. It is clarified that conditions mentioned at paragraph 6.3 (b) of the Master Circular referred to above is not applicable to opening of branches under general permission.

3. Further, it has been decided to grant general permission to domestic scheduled commercial banks (other than RRBs) to open Administrative Offices and Central Processing Centres (CPC)/service branches in Tier- 3 to Tier- 6 centres (with population upto 49,999 as per census 2001) and in rural, semi urban and urban centres in the North Eastern States and Sikkim, subject to reporting. Administrative Office (Controlling Offices) would be carrying out administrative work. Central Processing Centres (CPCs)/Service branches would exclusively attend to back office functions. These Central Processing Centres (CPCs)/Service branches should not have direct interface with customers.

4. Banks should ensure that the centres where the branches are opened under general permission are not the outgrowth (locality developed around bigger centre) of a bigger centre. Department of Statistics and Information Management (DSIM) has clarified that outgrowth of a bigger centre would have the same population group classification as that of the bigger centre.

5. Details of Administrative Offices and Central Processing Centres (CPC)/service branches opened by banks under general permission should be reported to the Reserve Bank in terms of the existing reporting system envisaged in paragraph 19 of the Master circular on Branch Authorisation dated July 1, 2010.

RBI/2010-11/391 DNBS.CC.PD.No.208/03.10.01/2010-11 dated January 27, 2011

Services to Persons with Disability – Training Programme for Employees All NBFCs

In terms of DNBS.CC.PD.No. 191/03.10.01/2010-11 dated July 27, 2010, NBFCs were advised that there shall be no discrimination in extending products and facilities including loan facilities to the physically/visually challenged applicants on grounds of disability and that they may also advise their branches to render all possible assistance to such persons for availing of the various business facilities.

2. In continuation to the above, NBFCs are advised that they may include a suitable module containing the rights of persons with disabilities guaranteed to them by the law and international conventions, in all the training programmes conducted for their employees at all levels. Further, NBFCs may ensure redressal of grievances of persons with disabilities under the Grievance Redressal Mechanism already set up by them.

RBI/2010-11/393 RPCD.CO.Plan.BC. 49/04.09.01/2010-11 dated January 28, 2011

Annual Financial Inspection – Priority Sector Loans – Mis-classification by Banks

The Chairman/Managing Director/
Chief Executive Officer

All scheduled commercial banks (excluding Regional Rural Banks)

The Annual Financial Inspection conducted by the Department of Banking Supervision, Reserve Bank of India, *inter-alia*, reports cases of misclassification of loans under priority sector and/or its sub-sectors.

2. It has been decided that henceforth the amount of loans wrongly classified under priority sector identified and reported by Principal Inspecting Officers (PIOs) during Annual Financial Inspection of banks will be taken into account for arriving at the shortfall under priority sector lending targets.

3. Accordingly, to begin with, such misclassifications reported during the current year will be added to the shortfall reported by banks as on the last reporting Friday of following year, for allocation to various funds.

4. Besides, it has also been reported that typically when banks buy loans from intermediaries like MFI/NBFCs given to eligible priority sector borrowers, they reckon the present value of the loans arrived at by discounting at their rate of lending which is typically much lower than the actual rate charged to end-borrowers by such intermediaries. This has the effect of overstating the actual amount of priority sector loans to the extent of premium paid by banks to such intermediaries. Banks must, therefore, report the nominal amount actually disbursed to end-priority sector borrowers and not the premium-embedded amount paid to the intermediaries.