

RBI Press Release

Working Group on Bills Discounting (February 4, 2000)

The Reserve Bank of India had constituted a Working Group on Bills Discounting under the Chairmanship of Shri K. R. Ramamoorthy, Chairman, Vysya Bank Ltd. The following were the terms of reference of the Working Group:

- (a) To examine the feasibility and suggest measures to strengthen the existing Bills Discounting mechanism as an instrument for facilitating financing, in particular trade and services sectors, including discounting of Trade Bills against letters of credit opened by banks.
- (b) To examine the role and scope for introducing "Bankers' Acceptance" facility.
- (c) To examine all critical and relevant issues including the necessary safeguards to be put in place before extending Bills Discounting to new areas like services and introduction of "Bankers' Acceptance" facility.
- (d) Any necessary changes in the existing legal/ regulatory framework that may be needed.
- (e) Any other issue relevant/incidental to the subject which the Group considers necessary.

The group has devised a 'Questionnaire on Bills Discounting' addressed to customers for getting their response pertaining to the terms of reference. The Questionnaire has been published on the Reserve Bank website (www.rbi.org.in). The responses may be sent to mpdrbi6@bom7.vsnl.net.in.

Certificate of Registration Mandatory for NBFCs/RNBCs (February 8, 2000)

The Reserve Bank of India has certified that it is mandatory for all the non-banking financial companies (NBFCs), including residuary non-banking companies (RNBCs) to obtain a Certificate of Registration from the RBI under Section 45-IA of the Reserve Bank of India Act. This requirement is mandatory even for those NBFCs which do not hold/ accept deposits from public or which are holding companies or investment companies not trading in the shares held by them, etc.

The Reserve Bank of India has also advised that the Notification issued on January 13, 2000 exempts only the companies engaged in micro finance activities from the requirement of registration, one of the conditions being that the company should be licenced under Section 25 of the Companies Act. The Reserve Bank of India has also reiterated that other companies cannot commence the business of non-banking financial institution (NBFI) without obtaining a Certificate of Registration from the Reserve Bank of India failing which appropriate penal action would be taken against the defaulters.

The Reserve Bank of India has reiterated that all the NBFCs including RNBCs having net owned fund below Rs. 25 lakh should immediately intimate to the RBI if they have attained the minimum net owned funds (NOF) as on January 9, 2000 so that their application for issue of Certificate of Registration can be considered. All other NBFCs which have failed to attain the minimum NOF as on

January 9, 2000 should not accept public deposits or renew such maturing deposits in any manner. The companies which have not requested the RBI for extension of time to reach the minimum NOF, should immediately stop doing NBFI business. However, they should repay the deposits as per terms and conditions of the deposits.

Reserve Bank of India Announces Steps to Revitalise the Treasury Bills Market (February 12, 2000)

In the current year, the Treasury Bills (T-Bills) market has been characterised by lower primary market response and reduced secondary market activity even though the yields offered on such Bills were attractive. For example, when compared to bank deposit rates, the Treasury Bills consistently offered better returns. Moreover, while reasonably good liquidity and steady call rates fuelled strong buying interest in medium to long dated government paper, the T-bills market continued to remain dormant. Several market players have also been complaining about the lack of liquidity in an otherwise very liquid instrument. The Technical Advisory Committee on Financial Markets deliberated upon these issues on September 18, 1999. A suggestion was also made that the Reserve Bank of India should consider secondary market operations in the T-bills market. Against this background, the constitution of an Internal Working Group to go into the various aspects relating to operations by the Reserve Bank of India in the Treasury Bills market was announced in the "Mid-Term Review of Monetary and Credit policy for the year 1999-2000" on October 29, 1999.

The Group submitted its report in December 1999. Among other things, it is felt that there was a case for two-way operations by the Reserve Bank in the T-bills market. This would not only narrow down the short-run divergences between the primary and secondary markets but also enable the Reserve Bank to provide "exit" to the market participants at market related rates. Once the players were assured of an exit at times of need, voluntary holding and trading in bills would automatically increase.

The Report of this Group was deliberated upon by the Technical Advisory Committee in the meeting held on December 16, 1999 and also discussed with several market participants including representative bodies such as the Primary Dealers Association of India (PDAI) and the Fixed Income Money Market and Derivatives Association of India (FIMMDA). Based on the deliberations and the feedback received from them, it is felt that it is worthwhile implementing the following measures to impart liquidity in the secondary market in T-Bills.

* As and when considered necessary, the Reserve Bank of India would operate in the secondary market in Treasury Bills through Primary Dealers.

* Reserve Bank of India would either issue a price list with one/two way quotes or act on quotes made by the Primary Dealers in the market.

The operation of the measures will be reviewed from time to time in consultation with the market participants.

Micro Credit to be Part of Banks' Priority Sector Lending (February 25, 2000)

Micro credit extended by the banks to individuals borrowers directly or through intermediary would be reckoned as part of their priority sector lending. This was stated by the Reserve Bank of India in a circular prescribing guidelines for micro credit. The circular was issued recently by the Reserve Bank to all scheduled commercial banks.

In the circular, micro credit has been defined as the provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve living standards. Micro credit institutions are those which provide these facilities.

The Reserve Bank guidelines intend to provide maximum flexibility to the banks in regard to micro lending in order to enable them to evoke their own model(s) or choose any conduit/intermediary keeping in view the prevalent local conditions and the need for provision of finance to the poor. The guidelines have, therefore, not specified any interest rate nor have they prescribed any targets to be achieved for micro lending. According to the Reserve Bank guidelines, banks can devise their own model(s), prescribe their own criteria for selection of micro credit organisation and lending norms as also interest rates for micro lending.

While not prescribing any criteria for selection of micro credit organisations, the Reserve Bank guidelines have, however, indicated to banks that it might be desirable for them to deal with micro credit organisations having proper credentials, track record, system of maintaining accounts and records with regular audits in place and manpower for closer supervision and follow-up.

The Reserve Bank has also advised banks to formulate their own model(s) or choose any conduit/ intermediary for extending micro credit. Banks may choose suitable branches/pockets/areas where micro credit programmes can be implemented. The Reserve Bank has, however, suggested that it might be useful for banks to start with a selected small area and concentrate fully on the poor in that area and then with the experience gained replicate the arrangements in other selected areas.

Similarly, the Reserve Bank has asked the banks to prescribe their own lending norms keeping in view the ground realities. The banks have, however, been asked to devise appropriate loan and savings products and the related terms and conditions including the size of the loan, unit cost, unit size, maturity period, grace period, margins, etc. The Reserve Bank has indicated that such credit should cover not only consumption and production loans for various farm and non-farm activities of the poor but also include their other credit needs, such as, housing and shelter improvements.

The Reserve Bank has left the interest rates applicable to loans extended to micro credit organisations or by the micro credit organisations to self-help groups/member beneficiaries to the discretion of the banks. It has, however, stated that the interest rate ceiling applicable to direct small loans given by banks to individual borrowers would continue to remain in force.

The Reserve Bank has asked banks to include micro credit in branch credit plan, block credit plan, district credit plan and state credit plan. While no target has been prescribed for micro credit, banks are required to accord utmost priority to the micro credit sector in preparation of these plans. As per the Reserve Bank guidelines, micro credit should also form an integral part of the bank's corporate credit plan and should be reviewed at the highest level on a quarterly basis. For augmenting flow of micro credit, banks have been asked to remove all operational irritants and make arrangements to expeditiously sanction and disburse micro credit by delegating adequate sanctioning powers to branch managers. Banks have also been asked to simplify the loan application forms, procedures and documents to provide prompt and hassle-free micro credit. Banks have to furnish a statement to the Reserve Bank on a half-yearly basis indicating the amount of micro credit disbursed by the bank.

It may be recalled that a Micro Credit Special Cell was set up in the Reserve Bank to suggest measures for augmenting flow of micro credit. A Task Force on Supportive Policy and Regulatory Framework for Micro Credit was also set up by the National Bank for Agriculture and Rural Development. Both the groups have since submitted their reports.