Rbi Press Release

Draft Guidelines for Entry of NBFCs in Insurance on RBI Website
(May 15, 2000)

In view of the wide interest in the subject and in order to invite suggestions from market participants, the Reserve Bank of India has today published on its website draft guidelines for diversification of Non-Banking Financial Companies into insurance business.

The comments may be sent to the Chief General Manager-in-Charge, Department of Non-Banking Supervision, Reserve Bank of India, World Trade Centre, Centre I, Cuffe Parade, Colaba, Mumbai - 400 005. Fax 2162768, E-Mail: rbidnbs@vsnl.com

Draft Guidelines for Entry of NBFCs in Insurance

1. Any Non-Banking Financial Company (NBFC) registered with the RBI having net owned fund of Rs. 500 lakh as per the last audited balance sheet would be permitted to undertake insurance business as agent of insurance companies on fee basis, without any risk participation.

2. All NBFCs registered with the RBI which satisfy the eligibility criteria given below will be permitted to set up a joint venture company for undertaking insurance business with risk participation, subject to safeguards. The maximum equity contribution that an NBFC can hold in the joint venture company will normally be 50 per cent of the paid-up capital of the insurance company. On a selective basis, the Reserve Bank of India may permit a higher equity contribution by a promoter NBFC initially, pending divestment of equity within the prescribed period [see Note (1) below]. The eligibility criteria for joint venture participant will be as under, as per the latest available audited balance sheet.

   (i) The net worth of the NBFC should not be less than Rs. 500 crore,

   (ii) The CRAR of the NBFC engaged in loan and investment activities holding public deposits should be not less than 15 per cent and for other NBFCs at 12 per cent irrespective of their holding public deposits or not,

   (iii) The level of non-performing assets should be not more than 5 per cent of the total outstanding leased/hire purchase assets and advances taken together,

   (iv) The NBFC should have net profit for the last three continuous years,

   (v) The track record of the performance of the subsidiaries, if any, of the concerned NBFC should be satisfactory,

   (vi) Regulatory compliance and servicing public deposits, if held.

   The provisions of the RBI Act would be applicable for such investments while computing the net owned funds of the NBFC.

3. In case where a foreign partner contributes 26 per cent of the equity with the approval of Insurnace Regulatory and Development Authority/ Foreign Investment Promotion Board, more than one NBFC may be allowed to participate in the equity of the insurance joint venture. As such participants will also assume insurance risk, only those NBFCs which satisfy the criteria given in paragraph 2 above, would be eligible.

4. No NBFC would be allowed to conduct such business departmentally. A subsidiary or company in the same group of an NBFC or of another NBFC engaged in the business of an non-banking financial institution or banking business will not normally be allowed to join the insurance company on risk participation basis.

5. NBFCs registered with RBI which are not eligible as joint venture participant, as above can make investments up to 10 per cent of the owned fund of the NBFC or Rs. 50 crore, whichever is lower, in the insurance company. Such participation shall be treated as an investment and should be without any contingent liability for the NBFC. The eligibility criteria for these NBFCs will be as under :

    (i) The CRAR of the NBFC (applicable only to those holding public deposits) should not be less than 12 per cent if engaged in equipment leasing/hire purchase finance activities and 15 per cent if it is a loan of investment company;

    (ii) The level of NPA should be 5 per cent of total outstanding leased/hire purchase assets and advances;

    (iii) The NBFC should have net profit for the last three continuous years.

6. All NBFCs registered with the RBI entering into insurane business will be required to obtain prior approval of the Reserve Bank. The Reserve Bank will give permission to NBFCs on case to case basis keeping in view all relevant factors. It should be ensured that risks involved in insurance business do not get transferred to the NBFC and that the NBFC business does not get contaminated by any risks which may arise from insurance business.

Notes:

(1) Holding of equity by a promoter NBFC in an insurance company or participation in any form in insurance business will be subject to compliance with any rules and regulations laid down by the IRDA/Central Government. This will include compliance with Section 6AA of the Insurance Act as amened by the IRDA Act, 1999, for divestment of equity in excess of 26 per cent of the paid up capital within a prescribed period of time.

(2) For applications received during the financial year 2000-2001, any fresh capital infused after the audited balance sheet date for 1999-2000 would also be taken into account. The unaudited and certified balance sheet as on a latest date may be reckoned for determining the eligibility criteria and the audited balance sheet for the above date would be submitted to

RBI as soon as possible. For subsequent years, the eligibility criteria would be reckoned with reference to the latest available audited balance sheet for the previous year.

Hoare Govett (India) Securities Ltd. No Longer a Satellite Dealer (May 23, 2000)

The Reserve Bank of India has cancelled the registration given to M/s. Hoare Govett (India) Securities Ltd., Mumbai as Satellite Dealer in government securities market. The Reserve Bank of India had registered M/s. Hoare Govett (India) Securities Ltd., Mumbai as a satellite dealer in government securities market. Subsequently, due to acquisition by another group, change of name and reorganization of the business of the group, M/s. Investsmart India Ltd. has taken over the business activities of the company. M/s. Investsmart India Ltd. has been advised to submit a fresh application for satellite dealership. The Reserve Bank will consider the application keeping in view the requirements specified in the "Guidelines for Satellite Dealers in Government Securities Market" issued by the Reserve Bank of India.

Reserve Bank of India’s Statement on Forex Markets (May 25, 2000)

In the past four weeks or so, for reasons which are not entirely clear (and which may presumably be related to prevailing conditions in the international equity and currency markets), foreign exchange markets in India have shown considerable uncertainty and exaggerated speculation about the RBI’s intentions regarding the level of the exchange rate of the rupee. In order to reduce these uncertainties, as in similar situations in the past, RBI has decided to introduce some measures. It may also be appropriate to clarify the RBI stand on some of the issues that have figured prominently in the recent comments about the RBI’s intention.

Despite explanations by the RBI in its annual and half-yearly Policy Statements as well as in previous statements on exchange rate matters, there is some speculation among commentators and market participants about RBI "targeting" a specific exchange rate and what that rate is. The RBI would reiterate once again that it does not, **repeat** it does not, target a particular value of the rupee in relation to the US dollar. The often cited round numbers, such as, "Rs. 42", "Rs. 43", or "Rs. 44" simply have no significance for the management of the exchange rate by the RBI. Nor does the RBI recognise any level such as "lowest ever reached in the past" or "lowest last year" or any such dividing line. While these concepts have some popular and journalistic appeal, it simply has no relevance for the management of exchange rate or any other economic variable. For example, even during period of very low inflation, every week, WPI and CPI could be projected to have reached the "highest level" even though the incremental change may be very small but this is meaningless. Unfortunately, in regard to exchange rates, it is not unusual to project even a minor change of say, a few paise, or even less than 0.25 per cent, as a major movement with important implications for future trends. This naturally affects the sentiments and behaviour of other market participants and non-experts. This excessive sensitivity to minor changes in value of the currency is unwarranted and inconsistent with the significance attached by commentators to such marginal movements in exchange rates of other international currencies.

The exclusive focus by expert commentators and media on US dollar exchange rate gives a misleading impression of what is happening to the value of the rupee in relation to other key currencies. For example, in the last one month, Rupee has actually strengthened by 3.3 per cent against Euro, and by 5.2 per cent against Pound Sterling. In relation to Japanese Yen, it depreciated only by 1.4 per cent, which was similar to the movement in relation to US dollar. Over the calendar year, however, rupee strengthened against yen by 3.4 per cent. The excessive focus on US dollar is unwarranted in considering the behaviour of the rupee (Please see Annexure for movements of rupee in relation to major currencies for various periods last year).

Similarly, clarity is warranted in viewing movements in the level of foreign exchange reserves. RBI's foreign currency assets are held in different convertible currencies such as US dollar, Euro, Pound Sterling and Japanese Yen. These reserves are converted into US dollar at the end of every week by using closing exchange rates prevailing in the New York market for that week. Thus, as per best international practice, valuation loss/gain is fully reflected every week in the reserve movements. It is, therefore, not correct to look at this movement and derive conclusion about RBI's exchange rate intentions. The figures for net purchases and sales are published in RBI bulletin every month.

For the convenience of experts and commentators and to encourage informed judgement and debate on the external sector issues, the RBI provides as much information as possible on currency movements of the rupee vis-a-vis all major currencies on a daily basis as well as the RBI operations and liabilities in forex reserves through its regular weekly and monthly publications. The Reserve Bank's policy approach on various relevant issues is also articulated through its annual/half yearly monetary policy statements as well as annual publications. Experts, commentators and others interested in forex markets and the RBI operations are encouraged to refer to these publications which are also available on the RBI Website which is updated everyday.

The Reserve Bank's total foreign exchange reserves are US $ 37.6 billion as on May 12, 2000. In the financial year 1999-2000. India's foreign exchange reserves increased by US $ 5,546 million (or more than US $ 5.5 billion) despite several uncertainties including sharp increase in oil prices and Kargil developments. At their current levels country's foreign exchange reserves are comfortable and more than adequate to meet any genuine requirements of foreign exchange.

Measures

In the light of recent developments in the foreign exchange market, as on some perevious occasions, the Reserve Bank of India has decided to take the following actions:

(i) It has been decided, as a temporary measure, to impose interest rate surcharge of 50 per cent of the lending rate on import finance with effect from May 26, 2000. The interest rate surcharge will be phased out as early as possible. As in the past, essential categories such as export-related imports, bulk imports in respect of crude oil, petroleum products, fertilisers, edible oil and other essential commodities imported through Government agencies will be exempted from interest surcharge.

(ii) The Reserve Bank of India will meet partially or fully the Government debt service payments directly, as considered necessary.

(iii) Arrangements are also being made to meet, fully or partially, the foreign exchange requirements for import of crude oil by the Indian Oil Corporation.

(iv) Further, the Reserve Bank will continue to sell dollars through SBI in order to augment supply in the market, or intervene directly, as considered necessary to meet any temporary demand-supply imbalances. All the transactions by Reserve Bank of India will be at the prevailing market rate.

(v) Exporters are advised not to delay repatriation of export proceeds beyond the due date. In order to discourage any delay in realisation of export proceeds, it has been decided that in respect of overdue export bills, banks will charge, with effect from May 26, 2000, interest at 25 per cent per annum (minimum) from the date the bill falls due for payment.

(vi) As per usual market practice, FIIs will no doubt continue to take their own decisions in regard to reducing or increasing their stake in India's equity markets. While the RBI welcomes these flows, it would also like to ensure that those Flls which wish to reduce their investments can do so as easily as possible at prevailing market rates. As in the past, Authorised Dealers, acting on behalf of these Flls are free to approach RBI to procure foreign exchange at the prevailing market rate. Depending on market conditions, the RBI would either sell the foreign exchange directly or advise the concerned bank to buy it in the market.

(vii) Banks are advised to enter into transactions in the forex market only on the basis of genuine requirements and not for the purpose of building up speculative positions. The RBI would monitor the position closely.

At present no further monetary tightening or administrative measures are being contemplated

Annexure

Movement in the Value of the Indian Rupee

Year to Year (Over May 21, 1999)	:	The Rupee appreciated 4.8 per cent against the Pound sterling. It appreciated 13.9 per cent against the Euro. It depreciated 2.8 per cent against the US dollar. It depreciated 16.0 per cent against the Japanese Yen.
Calendar Year (Over December 31 1999)	:	The Rupee appreciated 7.1 per cent against the Pound sterling. It appreciated 10.2 per cent against the Euro. It appreciated 3.4 per cent against the Japanese yen. It depreciated by 1.1 per cent against the US dollar.
Financial Year (Over March 31, 2000)	:	The Rupee appreciated 6.0 per cent against the Pound sterling. It appreciated 5.0 per cent against the Euro. It appreciated 0.9 per cent against the Japanese yen. It depreciated by 0.8 per cent

against the US dollar.

Month on Month Over April 20, 2000)	:	The Rupee appreciated 5.2 per cent against the Pound sterling. It appreciated 3.3 per cent against the Euro. It depreciated by 0.8 per cent against the US dollar. It depreciated 1.4 per cent against the Japanese yen.