

Regulatory and Other Measures

August 2012

RBI/2012-13/156 RPCD.MSME & NFS.BC.No.20/06.02.31/2012-13 dated August 1, 2012

The Chairman/Managing Director
Chief Executive Officer
All Scheduled Commercial Banks
(excluding Regional Rural Banks)

Micro and Small Enterprises Sector – The imperative of Financial Literacy and consultancy support

It is observed from the Fourth Census on MSMEs, that the extent of financial exclusion in the MSME sector is very high (92 per cent). It is, therefore, imperative for banks that the excluded units are brought within the fold of the formal banking sector.

2. Studies have revealed that lack of financial literacy, operational skills, including accounting and finance, business planning *etc.* represent formidable challenge for MSE borrowers underscoring the need for facilitation by banks in these critical financial areas. Moreover, MSE enterprises are further handicapped in this regard by absence of scale and size.

3. To effectively and decisively address these handicaps, bank branches need to have a more proactive role in the affairs of their MSE clients by providing them with financial literacy and consultancy support. For this, banks could either separately set up special cells at their branches, or vertically integrate this function in the Financial Literacy Centres (FLCs) set up by them, as per their comparative advantage. The bank staff should also be trained through customised training programs to meet the specific needs of the sector.

4. Please acknowledge receipt and forward an Action Taken report by August 24, 2012.

RBI/2012-13/157 RPCD.CO.RRB.BL.BC.No.18/03.05.90/2012-13 dated August 1, 2012

All Regional Rural Banks

Simplification of the Procedure for Branch Licensing

Please refer to our circular RPCD.CO.RRB.BL.BC.No.90/03.05.90-A/2011-12 dated June 13, 2006, liberalising and simplifying the procedure for opening, shifting or merger of branches.

2. As per extant general policy on branch licensing the applications for opening, shifting, merger or conversion of branches, have to be submitted by Regional Rural Banks (RRBs) to the respective Regional Office of NABARD with an advance copy to the concerned Regional Office of Reserve Bank of India. The Empowered Committee (EC) on RRBs constituted by the Reserve Bank at its Regional Offices deliberates and makes recommendations on such applications. The Reserve Bank takes into account the EC's recommendations and disposes off the applications.

3. In order to expedite the process of disposal of applications it has been decided to delegate powers to the Regional Offices of the Reserve Bank to take a decision on the applications of RRBs for opening, shifting, merger or conversion of branches without reference to the concerned Empowered Committees. RRBs may continue to submit applications to the concerned Regional Office of the Reserve Bank, through the respective Regional Office of NABARD which will give its comments on the merits of the application, with an advance copy being forwarded to the concerned Regional Office of the Reserve Bank. If required, the Regional Offices of the Reserve Bank may consult the concerned State Government. The approval of the subgroup of the District Consultative Committee (DCC) will be required, as hitherto, for shifting, merger and conversion of branches.

4. All other instructions remain unchanged.

RBI/2012-13/158 RPCD.CO.RRB.BL.BC.No. 19/03.05.90/2012-13 dated August 1, 2012

All Regional Rural Banks

Relaxation in Branch Licensing Policy – Tier 2 Centres

Please refer to our circular RPCD.CO.RRB.BC.No.28/03.05.90-A/2011-12 dated November 18, 2010, permitting Regional Rural Banks (RRBs) to open branches in Tier 3 to Tier 6 centres (with population up to 49,999 as per Census 2001), without having the need to take permission from Reserve Bank of India in each case, subject to reporting, provided they fulfil certain conditions.

2. In order to enhance the penetration of banking services in Tier 2 centres it has been decided to allow RRBs to open branches in Tier 2 centres on par with the policy for Tier 3 to 6 centres.

3. Accordingly, RRBs will be allowed to open branches in Tier 2 centres (with population of 50,000 to 99,999 as per Census 2001) without the need to take permission from the Reserve Bank in each case, subject to reporting, provided they fulfil the following conditions, as per the latest inspection report:

- i. CRAR of at least 9 per cent;
- ii. Net NPA less than 5 per cent;
- iii. No default in CRR SLR for the last year;
- iv. Net profit in the last financial year;
- v. CBS compliant.

4. RRBs not fulfilling the conditions stated at paragraph 3 will have to continue to approach RBI NABARD, as hitherto. Opening of branches by RRBs in Tier 1 centres (centres with population of 100,000 and above as per Census 2001) will also continue to require prior permission of Reserve Bank of India.

5. A report on the details of the branches opened in Tier 2 to 6 centres should be submitted, within a fortnight of the end of the quarter, in the format contained in our circular RPCD.CO.RRB.BC.No.56 03.05.90A 2011-12 dated March 29, 2011, to the

concerned Regional Office of RBI. RRBs may approach the Regional Office of RBI for, post-facto, automatic issue of the licence/s. The licence should be displayed in the premises of the branch so opened for information of its customers public to instil confidence in them that the branch is authorised to conduct banking business.

6. All other instructions remain unchanged.

RBI/2012-13/159 RPCD.CO.RRB. BC. No.22/03.05.28(B)/2012-13 dated August 01, 2012

All Regional Rural Banks

Section 24 of the Banking Regulation Act, 1949 – Maintenance of Statutory Liquidity Ratio (SLR)

Please refer to our circular RPCD. CO. RRB. BC. No. 43 03.05.28(B) 2010-11 dated December 27, 2010, on the captioned subject.

2. As announced in the First-Quarter Review of the Monetary Policy 2012-13 on July 31, 2012, it has been decided to reduce the Statutory Liquidity Ratio (SLR) for Regional Rural Banks from 24 per cent of their Net Demand and Time Liabilities (NDTL) to 23 per cent with effect from the fortnight beginning August 11, 2012.

RBI/2012-13/163 DPSS.CO.CHD.No.274/03.01.02/2012-13 dated August 10, 2012

The Chairman and Managing Director

Chief Executive Officer

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

Issue of multicity payable at all branches cheques by CBS enabled banks

As you are aware, various Core Banking Solutions (CBS) implemented in banks marked a paradigm shift in Customer Services. Customers of a branch are now the bank's customers as they can access their accounts from any branch for defined purposes. The new

opportunities offered by CBS have enhanced customer service by way of offering various payment products and channels resulting in speedy movement of funds across the country. Leveraging the CBS, banks have started issuing 'payable at par' 'multi-city' cheques to select customers with separate transaction codes (29, 30 and 31) by putting in place infrastructure for processing such cheques at all CBS enabled branches.

2. In this regard, Reserve Bank of India had suggested vide its circular DPSS. CO. No. 644 03.01.02 2007-08 dated October 31, 2007, that the facility of 'payable at par' 'multi-city' cheques should be made available by all the CBS enabled banks to all the eligible and requesting customers taking into consideration the availability of CBS in more than 35, 000 bank branches at that time.

3. On a review of the practice followed by banks in this regard, it has been observed that banks are issuing these types of cheques differently. While a few banks are issuing 'payable at par' 'multi-city' cheques with value cap, some other banks issue these cheques as per category of account (High Net-worth Customers). Instances of levying intersol charges when such cheques are cleared at other than the base branch city have also come to our notice.

4. Taking into consideration the availability of processing infrastructure for clearing outstation cheques at all clearing locations across the country and to bring about further efficiency in cheque clearing, all CBS enabled banks are hereby advised to issue only 'payable at par' 'multi-city' CTS 2010 Standard cheques to all eligible customers. Appropriate Board approved risk management procedures based on risk categorisation of accounts may also be put in place. Since such cheques (payable at par) are cleared as local cheques in clearing houses, customers should not be levied extra charges. The updated Board approved policy of banks in this regard may be placed on the web-site of banks, customers notified and a copy thereof forwarded to us.

5. The above instructions are issued under Section 18 of the Payment and Settlement Systems Act, 2007 (Act 51 of 2007).

RBI/2012-13/164 DBOD.No. Leg. BC.35/09.07.005/2012-13 dated August 10, 2012

All Scheduled Commercial Banks
(excluding RRBs)

Financial Inclusion- Access to Banking Services – Basic Savings Bank Deposit Account

Please refer to paragraphs 88 and 89 of Monetary Policy Statement for the year 2012-13 announced on April 17, 2012.

2. Banks were advised in November 2005 to make available a basic banking 'no-frills' account either with 'nil' or very low minimum balance as well as charges that would make such accounts accessible to vast sections of population. With a view to doing away with the stigma associated with the nomenclature 'no-frills' account and making the basic banking facilities available in a more uniform manner across banking system, it has been decided to modify the guidelines on opening of basic banking 'no-frills' accounts. Accordingly, in supersession of instructions contained in circular DBOD.No.Leg.BC. 44/09.07.005/2005-06 dated November 11, 2005 on Financial Inclusion, banks are advised to offer a 'Basic Savings Bank Deposit Account' which will offer following minimum common facilities to all their customers:

- i. The 'Basic Savings Bank Deposit Account' should be considered a normal banking service available to all.
- ii. This account shall not have the requirement of any minimum balance.
- iii. The services available in the account will include deposit and withdrawal of cash at bank branch as well as ATMs; receipt/credit of money through electronic payment channels or by means of deposit/collection of cheques drawn by Central/State Government agencies and departments;

- iv. While there will be no limit on the number of deposits that can be made in a month, account holders will be allowed a maximum of four withdrawals in a month, including ATM withdrawals; and
 - v. Facility of ATM card or ATM-cum-Debit Card;
3. The above facilities will be provided without any charges. Further, no charge will be levied for non-operation/activation of in-operative 'Basic Savings Bank Deposit Account'.
 4. Banks would be free to evolve other requirements including pricing structure for additional value-added services beyond the stipulated basic minimum services on reasonable and transparent basis and applied in a non-discriminatory manner.
 5. The 'Basic Savings Bank Deposit Account' would be subject to RBI instructions on Know Your Customer (KYC) Anti-Money Laundering (AML) for opening of bank accounts issued from time to time. If such account is opened on the basis of simplified KYC norms, the account would additionally be treated as a 'Small Account' and would be subject to conditions stipulated for such accounts as indicated in paragraph 2.7 of Master Circular DBOD. AML. BC. No. 11/14.01.001/2012-13 dated July 02, 2012 on 'KYC norms/AML standards/Combating of Financing of Terrorism (CFT)/Obligation of banks under PMLA, 2002'.
 6. Holders of 'Basic Savings Bank Deposit Account' will not be eligible for opening any other savings bank deposit account in that bank. If a customer has any other existing savings bank deposit account in that bank, he/she will be required to close it within 30 days from the date of opening a 'Basic Savings Bank Deposit Account'.
 7. The existing basic banking 'no-frills' accounts should be converted to 'Basic Savings Bank Deposit Account' as per the instructions contained in para 2 above.

RBI/2012-13/165 DPSS.CO.CHD.No.284/03.06.03/2012-13 dated August 13, 2012

The Chairman and Managing Director
Chief Executive Officer

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

Stipulation of compensation for delay in Clearance of Local Cheques

As you may be aware, banks are required to specify the time line for realisation of local and outstation cheques in their Cheque Collection Policies (CCP) including the compensation payable for delayed credit, if any. However, on perusal of the Cheque Collection Policies (CCPs) and Compensation Policies of various banks, it is observed that there is no mention about the compensation in respect of the delay in realisation of local cheques. Instances of delayed credit to customers' accounts without any compensation for the delayed period beyond the time line indicated in the CCPs, in respect of local cheques, have been brought to our notice.

2. In this regard, a reference is invited to our circular DPSS. CO. (CHD) No. 873/03.09.01/2008-09 dated November 24, 2008, in terms of which, banks are required to specify the time line for realisation of cheques, including local cheques, in their respective CCPs. Paragraph 4(ii) of the circular also states that in case of local cheques, banks shall permit usage of the shadow credit afforded to the customers' account immediately after closure of relative return clearing and in any case, withdrawal shall be allowed on the same day or maximum within an hour of the commencement of business on the next working day, subject to usual safeguards.

3. In view of the above, banks are advised to reframe their CCPs to include compensation payable for the delayed period in the case of collection of local cheques as well. In case, no rate is specified in the CCP for delay in realisation of local cheques, compensation at savings bank interest rate shall be paid for the corresponding period of delay.

4. As regards the realisation period and compensation for delayed credit pertaining to outstation cheques, the instructions contained in paragraph 4(iii) of our circular dated November 24, 2008 remain unchanged.

5. Banks may note to give publicity to their revised CCPs through display board in branches and on their website for better customer service and dissemination of information. A copy of revised CCPs formulated may also be forwarded to us.

6. The above instructions are issued under Section 18 of the Payment and Settlement Systems Act, 2007 (Act 51 of 2007).

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RBI/2012-13/168 DBOD No. Leg. BC. 37/09.07.005/2012-13 dated August 16, 2012

All Scheduled Commercial Banks
(excluding RRBs)

Premature Repayment of Term/Fixed Deposits in banks with 'Either or Survivor' or 'Former or Survivor' mandate – Clarification

Please refer to para 4 of our circular DBOD No. Leg BC 46/09.07.005/2011-12 dated November 4, 2011 whereby we had advised that in case joint depositors of term/fixed deposits with 'Either or Survivor' or 'Former or Survivor' mandate intend to allow premature withdrawal of their deposits by one of the joint depositors on the death of the other, it would be open for banks to allow the same, provided they have taken a specific joint mandate from the depositors for the said purpose. In this regard you may also refer to Para 3 of our circular DBOD.No.Leg.BC.95/09.07.005/2004-05 dated June 9, 2005 in terms of which, banks were advised to incorporate a clause in the account opening form itself to the effect that in the event of death of the depositor, premature termination of term deposits would be allowed subject to the conditions which they may specify therein. Banks were also advised to give wide publicity to the above and provide guidance to deposit account holders in this regard.

2. It is reiterated that in case of term deposits with 'Either or Survivor' or 'Former or Survivor' mandate, banks are permitted to allow premature withdrawal of the deposit by the surviving joint depositor on the death of the other, only if, there is a joint mandate from the joint depositors to this effect.

3. It has come to our notice that many of the banks have neither incorporated such a clause in the account opening form nor have they taken adequate measures to make the customers aware of the facility of such mandate, thereby putting the 'surviving' deposit account holders(s) to unnecessary inconvenience. Banks are, therefore, advised to invariably incorporate the aforesaid clause in the account opening form and also inform their existing as well as future term deposit holders about the availability of such an option.

4. The joint deposit holders may be permitted to give the mandate either at the time of placing fixed deposit or anytime subsequently during the term/tenure of the deposit. If such a mandate is obtained, banks can allow premature withdrawal of term/fixed deposits by the surviving depositor without seeking the concurrence of the legal heirs of the deceased joint deposit holder. It is also reiterated that such premature withdrawal would not attract any penal charge.

5. The clarification provided in this circular would supersede para 3 of circular DBOD.No.Leg.95/09.07.005/2004-05 dated June 9, 2005.

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RBI/2012-13/169 UBD.BPD.Cir.No. 5/13.01.000//2012-13 dated August 17, 2012

The Chief Executive Officer
All Primary (Urban) Co-operative Banks

Financial Inclusion- Access to Banking Services – Basic Savings Bank Deposit Account

Please refer to paragraphs 88 and 89 of Monetary Policy Statement for the year 2012-13 announced on April 17, 2012.

2. The Urban Co-operative Banks were advised in November 2005 to make available a basic banking 'no-frills' account either with 'nil' or very low minimum balance as well as charges that would make such accounts accessible to vast sections of population. With a view to doing away with the stigma associated with the nomenclature 'no-frills' account and making the basic banking facilities available in a more uniform manner across banking system, it has been decided to modify the guidelines on opening of basic banking 'no-frills' accounts. Accordingly, in supersession of instructions contained in circular No.UBD.BPD.Cir.No.19 13.01.000/2005-06 dated November 24, 2005 on Financial Inclusion, Urban Co-operative Banks are advised to offer a 'Basic Savings Bank Deposit Account' which will offer following minimum common facilities to all their customers:

- i. The 'Basic Savings Bank Deposit Account' should be considered a normal banking service available to all.
- ii. This account shall not have the requirement of any minimum balance.
- iii. The services available in the account will include deposit and withdrawal of cash at bank branch as well as ATMs; receipt/credit of money through electronic payment channels or by means of deposit/collection of cheques drawn by Central/State Government agencies and departments;
- iv. While there will be no limit on the number of deposits that can be made in a month, account holders will be allowed a maximum of four withdrawals in a month, including ATM withdrawals; and
- v. Facility of ATM card or ATM-cum-Debit Card;

3. The above facilities will be provided without any charges. Further, no charge will be levied for non-operation/activation of in-operative 'Basic Savings Bank Deposit Account'.

4. The Urban Co-operative Banks would be free to evolve other requirements including pricing structure for additional value-added services beyond the stipulated basic minimum services on reasonable and transparent basis and applied in a non-discriminatory manner.

5. The 'Basic Savings Bank Deposit Account' would be subject to RBI instructions on Know Your Customer (KYC) Anti-Money Laundering (AML) for opening of bank accounts issued from time to time. If such account is opened on the basis of simplified KYC norms, the account would additionally be treated as a 'Small Account' and would be subject to conditions stipulated for such accounts as indicated in paragraph 2.6 (iii) of Master Circular UBD.BPD. (PCB).MC.No. 16/12.05.001/2012-13 dated July 2, 2012 on Know Your Customer (KYC) Norms/Anti-Money Laundering (AML) Measures/Combating of Financing of Terrorism (CFT) Obligations of banks under Prevention of Money Laundering Act (PMLA), 2002.

6. Holders of 'Basic Savings Bank Deposit Account' will not be eligible for opening any other savings bank deposit account in that bank. If a customer has any other existing savings bank deposit account in that bank, he/she will be required to close it within 30 days from the date of opening a 'Basic Savings Bank Deposit Account'.

7. The existing basic banking 'no-frills' accounts should be converted to 'Basic Savings Bank Deposit Account' as per the instructions contained in para 2 above.

RBI/2012-13/177 RPCD.CO.RCB.BC.No.26/07.38.01/2012-13 dated August 28, 2012

The Chairmen CEOs of
All State and Central Co-operative Banks

Interest Rate on Deposits

Please refer to our circular RPCD.No.RF.BC.39/07.38.01/98-99 dated December 4, 1998 whereby State and Central Co-operative Banks were permitted to offer, at their discretion, differential rates of interest on single term deposits of ` 15 lakh and above, subject to the condition that the schedule of interest rates payable on deposits, including deposits on which differential interest is paid, is disclosed in advance and not subject to negotiation between the depositor and the bank.

2. In this connection, attention is invited to paragraphs 84 and 85 of the Monetary Policy Statement 2012-13 announced on April 17, 2012 (extract enclosed) on Variation in Interest Rates on Deposits. It has been observed that there are wide variations in the interest rates offered by banks on single term deposits of ` 15 lakh and above and those offered on other deposits (*i.e.* deposits less than ` 15 lakh) of corresponding maturities. Further, banks are offering significantly different rates on deposits with very little difference in maturities. This suggests inadequate liquidity management system and inadequate pricing methodologies. Banks are, therefore, advised to put in place a Board approved transparent policy on pricing of liabilities. The Board/ALCO should ensure that the variation in interest rates on single term deposits of ` 15 lakh and above and other term deposits (*i.e.* deposits less than ` 15 lakh) is minimal for corresponding maturities.

RBI/2012-13/183 DPSS.CO.PD. No.391/02.10.002/2012-13 dated August 31, 2012

The Chairman and Managing Director
Chief Executive Officers
All Scheduled Commercial Banks including RRBs/
Urban Co-operative Banks State Co-operative Banks/
District Central Co-operative Banks
Authorised ATM Network Operators/
Card Payment Network Operators
Prospective White Label ATM Operators.

White Label ATMs (WLAs) in India – Guidelines

Please refer to the guidelines issued vide DPSS.CO.PD. No.2298/02.10.002/2011-2012 dated June 20, 2012 on the captioned subject.

2. We have been receiving queries from non bank entities, whether infusion of capital to satisfy the criteria of net worth of ` 100 crore would be considered if the capital is infused after the entities' balance sheet have been audited while seeking authorisation from RBI under the PSS Act, for setting up White Label ATMs.

3. It is clarified that such non-bank entities that wish to infuse capital can do so provided they submit a certificate to this effect from a Chartered Accountant that additional capital has been infused to satisfy the criterion of net-worth of ` 100 crore. The certificate to this effect may be submitted from its existing Chartered Accountant who has audited the entity's last balance sheet or a Chartered Accountant who has conducted a limited review of the accounts of the last quarter half-year along with the application seeking authorisation as per the stipulated guidelines.