

Regulatory and Other Measures

December 2010

RBI/2010-11/303 DBOD. AML. BC. No. 65/14 .01.001/2010-11 dated December 7, 2010

Operation of Bank Accounts & Money Mules

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

With a view to preventing banks from being used, intentionally or unintentionally, by criminal elements for money laundering or terrorist financing activities Reserve Bank of India has issued guidelines on Know Your Customer (KYC) norms/Anti-Money Laundering (AML) standards/ Combating of Financing of Terrorism (CFT) that are consolidated in the Master Circular DBOD.AML.BC.No.2/14.01.001/ 2010-11 dated July 01, 2010.

2. It has been brought to our notice that 'Money mules' can be used to launder the proceeds of fraud schemes (e.g., phishing and identity theft) by criminals who gain illegal access to deposit accounts by recruiting third parties to act as 'money mules.' In some cases these third parties may be innocent while in others they may be having complicity with the criminals.

3. In a money mule transaction, an individual with a bank account is recruited to receive cheque deposits or wire transfers and then transfer these funds to accounts held on behalf of another person or to other individuals, minus a certain commission payment. Money mules may be recruited by a variety of methods, including spam e-mails, advertisements on genuine recruitment web sites, social networking sites, instant messaging and advertisements in newspapers. When caught, these money mules often have their bank accounts suspended, causing inconvenience and potential financial loss, apart from facing likely legal action for being part of a fraud. Many a times the address and contact details of such mules are found to be fake or not up to date, making it difficult for enforcement agencies to locate the account holder.

4. The operations of such mule accounts can be minimised if banks follow the guidelines contained in the Master Circular on Know Your Customer (KYC) norms/Anti-Money Laundering (AML) standards/ Combating of Financing of Terrorism (CFT)/Obligation of banks under PMLA, 2002. Banks are, therefore, advised to strictly adhere to the guidelines on KYC/AML/CFT issued from time to time and to those relating to periodical updation of customer identification data after the account is opened and also to monitoring of transactions in order to protect themselves and their customers from misuse by such fraudsters.

RBI/2010-11/305 RPCD.SME & NFS.BC.No. 35 /06.02.31 (P)/2010-11 dated December 6, 2010

Ownership of Units – Two or more Undertakings Under the same Ownership: Status of the Unit

The Chairman / Managing Director
All Scheduled Commercial Banks
(excluding RRBs)

Please refer to our circular RPCD. No. PLNFS. No. BC.67/06.03.01/93-94 dated November 22, 1993 on the captioned subject wherein banks were advised to follow the guidelines outlined in Notification No. S.O.2 (E) dated 1 January 1993 issued by Government of India, Ministry of Industry for the purpose of determining Small Scale Industries status of the units.

2. As the MSMED Act, 2006 does not provide for clubbing of investments of different enterprises set up by the same person/company for the purpose of classification as micro, small and medium enterprises, Government of India, vide office memorandum No.5(10)2007 MSME/POL dated April 15, 2009, have intimated that the provision, as notified in Gazette Notification No. S.O.2 (E) dated January 1, 1993 of clubbing of investments of two or more enterprises under the same ownership for the purpose of

classification of industrial undertakings as SSI (further notified in the principal notification No. S.O.857 (E) dated December 10, 1997), has been rescinded vide Notification No. S.O.563 (E) dated February 27, 2009. Copies of the Notifications are enclosed.

3. You are advised to issue suitable instructions to your branches/controlling office and accord wide publicity to the same.

RBI/2010 -11/307 RPCD.CO.RCB.AML.BC. No.37/07.40.00/2010-11 dated December 10, 2010

Know Your Customer (KYC) Guidelines – Salaried Employees

The Chief Executives of
all State and Central Co-operative Banks

Please refer to Annex-II to the Guidelines on 'Know Your Customer' Norms and Anti-Money Laundering Measures' enclosed to our circular RPCD.AML.BC.No.80/07.40.00/2004-05 dated February 18, 2005 wherein 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 35A of the Banking Regulation Act, 1949 (As applicable to Co-operative Societies) 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 provisions of the Act.

RBI/2010-11/314 RPCD.GSSD .BC.No.30 /09.01.01/2010 -11 dated December 15, 2010

Swarnajayanti Gram Swarozgar Yojana (SGSY) – Group Life Insurance Scheme

The Chairman /Managing Director
All Scheduled Commercial Banks
(Excluding RRBs)

Please refer to Para 9 of our Master Circular RBI/2010-11-56-RPCD.SP.BC.No.7/09.01.01/2010 - 11 dated July 1, 2010 on Priority Sector Lending - Special Programmes - Swarnajayanti Gram Swarozgar Yojana (SGSY) and para 4.36 of the SGSY guidelines issued by the Government of India.

2. Government of India have revised para 4.36 of the guidelines in terms of which under the Group Life Insurance Scheme ₹6,000 shall become payable by LIC to the nominee of the deceased in case of natural death. In the event of death due to accident a sum of ₹12,000 shall become payable by LIC. Instructions of Master Circular also stand amended.

3. You are advised to issue suitable instructions to your controlling offices and branches, in this regard.

RBI/2010-11/316 DBOD.Ret.BC. 67/12.02.001/2010-11 dated December 16, 2010

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

All Scheduled Commercial Banks
(excluding Regional Rural Banks)

Please refer to our circular DBOD. No. Ret. BC. 51/12.02.001/2009-10 dated October 28, 2009 on the captioned subject.

2. As announced in the Mid-Quarter Review of Monetary Policy released on December 16, 2010, it has been decided to reduce the Statutory Liquidity Ratio (SLR) for Scheduled Commercial Banks from 25 per cent of their Net Demand and Time Liabilities (NDTL) to 24 per cent with effect from December 18, 2010.

3. A copy of the relative notification DBOD. No. Ret. BC.66/12.02.001/2010-11 dated December 16, 2010 is enclosed

Ref. DBOD. No. Ret. BC. 66/12.02.001/2010-11 dated December 16, 2010

Notification

In exercise of the powers conferred by sub-section (2A) of Section 24 of the Banking Regulation Act, 1949 (10 of 1949) as amended from time to time and, in partial modification of the Notification DBOD.No.Ret. BC. 50/12.02.001/2009-10 dated October 28, 2009, the Reserve Bank of India hereby specifies that with effect from December 18, 2010, every Scheduled Commercial Bank shall maintain in India assets as detailed in notification DBOD No Ret BC 40/12.02.001/ 2009-10 dated September 08, 2009, the value of which shall not at the close of business of any day be less than 24 per cent of the total net demand and time liabilities in India as on the last Friday of the second preceding fortnight.

RBI/2010-11/323 A.P. (DIR Series) Circular No. 29 dated December 22, 2010

Use of International Debit Cards/ Store Value Cards/Charge Cards/Smart Cards by resident Indians While on a Visit Outside India

All Banks authorised to deal in Foreign Exchange

Attention of all the banks authorised to deal in foreign exchange is invited to paragraph 4 of the A.P.(DIR Series) Circular No. 46 dated June 14, 2005 in terms of which they are required to submit a statement as on December 31, each year in case the aggregate forex utilisation by the International Debit Card holders exceeds USD 100,000 in a calendar year.

2. It has been decided to discontinue the submission of the statement mentioned above to the Reserve Bank. Accordingly, all the banks authorised to deal in foreign exchange are advised to discontinue the submission of the afore-mentioned statement from the calendar year 2010 onwards.

3. All other instructions of A.P. (DIR Series) Circular No. 46 dated June 14, 2005 shall continue to remain the same.

4. The directions contained in this circular have been issued under sections 10(4) and 11(1) of the Foreign Exchange Management Act (FEMA), 1999 (42 of 1999) and are without prejudice to permissions / approvals, if any, required under any other law.

RBI No.2010-11/324 DBOD.No.BP.BC. 69 /08.12.001/ 2010-11 dated December 23, 2010

Housing Loans by Commercial Banks – LTV Ratio, Risk Weight and Provisioning

The Chairmen and Managing Directors/ Chief Executive Officers of All Commercial Banks (excluding Regional Rural Banks)

Please refer to paragraphs 104 to 106 of the Second Quarter Review of Monetary Policy 2010-11 (extracts enclosed), proposing certain measures in regard to housing loans by commercial banks. Accordingly, banks are advised as under:

1. Loan to Value (LTV) Ratio

At present, there is no regulatory ceiling on the LTV ratio in respect of banks' housing loan exposures. In order to prevent excessive leveraging, the LTV ratio in respect of housing loans hereafter should not exceed 80 per cent. However, for small value housing loans, *i.e.* housing loans up to ₹20 lakh (which get categorised as priority sector advances), it has been decided that the LTV ratio should not exceed 90 per cent.

2. Risk Weight

In terms of circular DBOD.No.BP.BC.83/21.06.001/ 2007-08 dated May 14, 2008 the risk weights on residential housing loans with LTV ratio up to 75 per cent are 50 per cent for loans up to ₹30 lakh and 75 per cent for loans above that amount. In case the LTV

ratio is more than 75 per cent, the risk weight of all housing loans, irrespective of the amount of loan, is 100 per cent. Henceforth, the risk weight for residential housing loans of ₹75 lakh and above, irrespective of the LTV ratio, will be 125 per cent to prevent excessive speculation in the high value housing segment.

3. Provisioning

It has been observed that some banks are following the practice of sanctioning housing loans at teaser rates *i.e.* at comparatively lower rates of interest in the first few years, after which rates are reset at higher rates. This practice raises concern as some borrowers may find it difficult to service the

loans once the normal interest rate, which is higher than the rate applicable in the initial years, becomes effective. It has been also observed that many banks at the time of initial loan appraisal, do not take into account the repaying capacity of the borrower at normal lending rates. Therefore, in view of the higher risk associated with such loans, the standard asset provisioning on the outstanding amount has been increased from 0.40 per cent to 2.00 per cent with immediate effect. The provisioning on these assets would revert to 0.40 per cent after 1 year from the date on which the rates are reset at higher rates if the accounts remain 'standard'.