RBI Press Releases

Report of the Committee on Fuller Capital Account Convertibility: RBI sets up Task Force

September 1, 2006

The Reserve Bank of India has today constituted an internal task force to re-examine the extant regulations and make recommendations to remove the operational impediments in the path of liberalisation already in place.

The Task Force will be convened by Shri Salim Gangadharan, CGM In-Charge, Foreign Exchange Department, Reserve Bank of India and will have the following terms of reference:

(a) Undertake a review of the extant regulations that straddle current and capital accounts, especially items in one account that have implication for the other account, and iron out inconsistencies in such regulations.

(b) Examine existing repatriation/surrender requirements in the context of current account convertibility and management of capital account.

(c) Identify areas where streamlining and simplification of procedure is possible and remove the operational impediments, especially in respect of the ease with which transactions at the level of authorized entities are conducted, so as to make liberalisation more meaningful.

(d) Ensure that guidelines and regulations are consistent with regulatory intent.

(e) Review the delegation of powers on foreign exchange regulations between Central Office and Regional offices of the RBI and *inter alia*, examine, selectively, the efficacy in the functioning of the delegation of powers by RBI to Authorised Dealers.

(f) Consider any other matter of relevance to the above.

The Task Force is empowered to devise its work procedure, constitute working groups in various areas, co-opt permanent/special invitees and meet various trade associations, representative bodies or individuals to facilitate its work. It will make recommendations on an ongoing basis to rectify the anomalies and remove operational impediments. The processes are expected to be completed by December 4, 2006.

The report submitted by the Committee on Fuller Capital Account Convertibility (Chairman, Shri S.S. Tarapore) has been placed on the RBI website today. The Committee had, while considering fuller capital account convertibility, incidentally observed that though the overall regime had undergone a significant degree of liberalisation, in practice, some regulations relating to an earlier period of tight controls continued to remain, giving rise to a disconnect between the regulatory intent and the procedure in use. It has, *inter alia*, recommended that a Reserve Bank of India task force should be set up immediately to identify the anomalies in the present regulatory framework for current and capital accounts and that rectification should be undertaken within a period of three months.

RBI Announces Constitution of a Committee on Financial Sector Assessment

September 14, 2006

Building up resilient, well-regulated financial systems is essential for macroeconomic and financial stability. This is being increasingly recognised as an integral part of financial sector reforms in India. Following the initiation of the Financial Sector Assessment Programme (FSAP) in 1999 by the World Bank and the International Monetary Fund in the aftermath of the Asian financial crisis, and their experience in the conduct of assessment in member countries, the two institutions have jointly brought out in September 2005, a comprehensive *Handbook on Financial Sector Assessment*. The Handbook is designed for use in financial sector assessment, whether conducted by country authorities themselves or by World Bank and IMF teams. The Handbook, available to the public, is intended to serve as an authoritative source on the objectives, analytical framework, and methodologies of financial sector assessment as well as a comprehensive reference book on the techniques of such assessments.

It may be recalled that India, besides being one of the earliest member countries participating voluntarily in the FSAP assessment, has been a forerunner in comprehensive self assessment of various international financial standards and codes. The Reserve Bank has also released a Synthesis Report in May 2002 and a Progress Report in January 2005. The experience has thus far been very encouraging and the financial sector reforms have progressed well in recent years, enhancing the soundness of the financial system and promoting financial stability.

Consistent with this approach, it would be appropriate and expedient for India to undertake a self assessment of financial sector stability and development, using the new Handbook as the base as also any other pertinent documents for financial sector assessment. Accordingly, the Government of India has decided in consultation with the Reserve Bank of India to constitute a "Committee on Financial Sector Assessment" with the following terms of reference:

(i) To identify the appropriate areas, techniques and methodologies in the Handbook and also in any other pertinent documents for financial sector assessment relevant in the current and evolving context of the Indian financial sector;

(ii) To apply relevant methodologies and techniques adapted to Indian system and attempt a comprehensive and objective assessment of Indian financial sector, including its development, efficiency, competitiveness and prudential aspects;

(iii) To analyse specific development and stability issues as relevant to India; and

(iv) To make available its report(s) through Reserve Bank of India/Government of India websites.

The Committee may co-opt members depending upon the subject area of assessment under consideration and may also constitute Technical/Advisory groups to study and report on specific areas of assessment.

The Committee will be chaired by Dr. Rakesh Mohan, Deputy Governor, Reserve Bank of India, with Shri Ashok Jha, Secretary (Economic Affairs) as Co-Chairman. Dr.Ashok Lahiri, Chief Economic Adviser and Shri Madhusudan Prasad, Joint Secretary (Fund Bank), Government of India will be its members. The Secretariat will be provided by the Reserve Bank of India.

The Committee will review its own status and report the progress to the Government of India/Reserve Bank of India in six months from commencement of its work.

RBI releases Report of the Working Group to formulate a Scheme for ensuring Reasonableness of Bank Charges

September 15, 2006

The Reserve Bank of India (RBI) today placed on its website (www.rbi.org.in) the report of the Working Group to formulate a Scheme for ensuring Reasonableness of Bank Charges. Views/suggestions on the recommendations of the Working Group may please be sent to the Reserve Bank by email at kazasudhakar@rbi.org.in or can be faxed to 022-22630482.

The practice of Indian Banks' Association fixing the benchmark service charges on behalf of the member banks was discontinued in 1999 and the decision to prescribe service charges was left to the discretion of the boards of individual banks. Banks were then advised that they should ensure that the charges were reasonable and not out of line with the average cost of providing the services and that the customers with low volume of activities were not penalised. However, the Reserve Bank has continued to receive representations from the public regarding unreasonable and non-transparent service charges. The plethora of complaints received indicated that the issue of fairness in fixing the service charges by the banks needed to be examined.

Accordingly, as announced in the Annual Policy Statement 2006-07, the Reserve Bank constituted a Working Group to formulate a scheme for ensuring reasonableness of bank charges, and to incorporate it in the Fair Practices Code, the compliance of which would be monitored by the Banking Codes and Standards Board of India (BCSBI). The Working Group, chaired by Shri N.Sadasivan, Banking Ombudsman, Maharashtra and Goa had, among others, Shri H.N.Sinor, Chief Executive Officer, Indian Banks' Association and Shri S. Divakara, Joint Secretary, All India Bank Depositors' Association and Member, Governing Council of BCSBI as members.

The Working Group examined various issues, such as, basic banking/financial services to be rendered to individual customers, the methodology adopted by banks for fixing the charges and the reasonableness of such charges. It also examined the possibility of making suitable additions in this regard to the Fair Practices Code and also the measures needed for monitoring compliance by the Banking Codes and Standards Board of India.

The Working Group has enumerated twenty-seven services related to deposit accounts, loan accounts, remittance facilities and cheque collection as basic banking services and has defined low value transactions for cheque collection and remittance upto Rs. 10,000 in each case and upto $500 for forex transactions. The Working Group has concluded that the reasonableness of service charges of banks cannot be tested on the basis of cost as, in general, banks were not using cost to fix their charges.

The cost as a pricing methodology is confined only to a small number of banks that do not represent a significant share of the banking business. A few banks that use ‘cost’ tend to offer ‘bundled’ products (accounts with add-on services) that require a higher level of average minimum balance maintenance in the account and this methodology implies an element of financial exclusion (though not by design). The Working Group has, accordingly, recommended that the Reserve Bank may take suitable steps to determine and evaluate the costs to banks for providing basic services.

The Working Group has indicated broad principles of reasonableness for bank charges. For basic charges rendered to individuals, banks will levy charges ad valorem subject to a cap. It has recommended fixing of lower rates for individuals as compared to non-individual entities, lower rates for special categories of individuals such as senior citizens, rural customers, pensioners and the like.

The Working Group has also recommended banks should provide to individual customers complete information on all charges applicable to basic services and any proposed changes in charges in a timely manner. Banks may be required to inform the customers in an appropriate manner recovery of service charges. Banks may also be required to inform customers in all cases when a transaction initiated by the bank itself results in or likely to lead to a shortfall in the minimum balance required to be maintained.

As regards monitoring of compliance to the Code by banks, the Working Group has recommended that BCSBI may collect from the member banks details of complaints relating to the service charges. The Working Group also suggests that BCSBI may track the changes in the levels of the service charges to identify any abnormal increases. BCSBI may look to feedback from consumer organisations and customer surveys to identify areas of significant non-compliance.