Capital adequacy and provisioning requirements
for export credit covered by insurance / guarantee

RESERVE BANK OF INDIA
CENTRAL OFFICE
DEPARTMENT OF BANKING OPERATIONS AND DEVELOPMENT
CENTRE - 1, WORLD TRADE CENTRE
CUFFE PARADE, COLABA, MUMBAI - 400 005

DBOD No.BP.BC. 23 / 21.01.002 / 2002-03

August 29, 2002

All Scheduled Commercial Banks
(excluding RRBs and LABs)

Dear Sir,

<u>Capital adequacy and provisioning requirements</u>
<u>for export credit covered by insurance / guarantee</u>

Please refer to item I.A.III.7 of Annexure 2 to our Master circular DBOD No. BP.BC.2/ 21.01.002/2002-2003 dated July 5, 2002 on Prudential Norms on Capital Adequacy, in terms of which advances covered by DICGC/ECGC guarantees should be assigned a risk weight of 50 per cent to the extent of amount guaranteed and 100 percent on the outstanding in excess of the amount guaranteed. Banks were also advised with an example vide paragraph 5.8.6 of our Master circular DBOD No. BP.BC.1/ 21.04.048/2002-2003 dated July 4, 2002 on Prudential Norms on income recognition, asset classification and provisioning pertaining to advances that in the case of advances guaranteed by ECGC/DICGC, provision should be made only for the balance in excess of the amount guaranteed by these corporations.

2. You may be aware that new products are being developed by insurance companies and it has been brought to our notice that the New India Assurance Company Ltd. (NIA) has developed a product called Business Credit Shield (BCS). It has been decided, in consultation with Insurance Regulatory and Development Authority (IRDA), to extend regulatory treatment to export credit covered by the BCS of NIA on par with the treatment available to advances covered by ECGC guarantee for export credit. In this connection we have advised NIA that they should comply with the provisions of the Insurance Act, 1938, the Regulations made thereunder - especially those relating to

Reserves for unexpired risks and the Insurance Regulatory and Development Authority (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000 and any other conditions / regulations that may be prescribed by IRDA in future, if their insurance product - Business Credit Shield - is to qualify for the above treatment.

3. To be eligible for the above regulatory treatment in respect of export credit covered by BCS policy of NIA, banks should ensure that

i) The BCS policy is assigned in its favour, and

ii) NIA abides by the provisions of the Insurance Act, 1938 and the regulations made thereunder, especially those relating to Reserves for unexpired risks and the Insurance Regulatory and Development Authority (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000, and any other conditions / regulations that may be prescribed by IRDA in future.

4. Banks should maintain separate account(s) for the advances to exporters, which are covered by the insurance under the "Business Credit Shield" to enable easy administration/ verification of risk weights/ provisions.

5. Please acknowledge receipt.

Yours faithfully,

(B. Mahapatra)
General Manager