

August 09, 2006

**Chairman & Managing Director/
Chief Executive Officer
All Scheduled Commercial Banks.**

Dear Sir,

**Guidelines on Relief Measures to be extended by Banks
in Areas Affected by Natural Calamities**

As you are aware, Reserve Bank of India has from time to time issued guidelines/instructions to banks in regard to relief measures to be provided in areas affected by natural calamities and these have been incorporated in the comprehensive Master Circular on natural calamities bearing Ref.No.RPCD.PLFS.BC.10/05.04.02/2006-07 dated July 10, 2006. These guidelines focus on various relief and concessions that may be extended to existing borrowers, mainly agriculturalists. As announced in the Mid-Term Review of the Monetary Policy Statement for the year 2005-06, Reserve Bank had constituted an Internal Working Group to look into the whole gamut of the issues involved and to suggest suitable revisions and additions to the existing guidelines.

2. Based on the recommendations of the Group, it has been decided that additional guidelines as indicated in the Annex may be followed by banks expeditiously especially in the context of the recent floods that have affected various parts of the country.

3. Please acknowledge receipt.

Yours faithfully

(G. Srinivasan)
Chief General Manager

A. Access to customers to their bank accounts

1. In areas where the bank branches are affected by natural calamity and are unable to function normally, banks may operate from temporary premises, under advice to RBI. For continuing the temporary premises beyond 30 days, specific approval may be obtained from the concerned regional office (RO) of RBI. Banks may also ensure rendering of banking services to the affected areas by setting up satellite offices, extension counters or mobile banking facilities under intimation to RO of RBI.

2. To satisfy customer's immediate cash requirements, banks could consider waiving the penalties related to accessing accounts such as fixed deposits.

3. Restoration of the functioning of ATMs at the earliest or making alternate arrangements for providing such facilities may be given due importance. Banks may consider putting in place arrangements for allowing their customers to access other ATM networks, Mobile ATMs, etc.

B. Currency Management

4. If the bank's currency chest branch is affected, the bank may immediately contact the nearest functioning currency chest branch of any bank which shall supply currency notes to the affected currency chest, to enable them to supply cash to the bank branches linked to them under intimation to the concerned RO of RBI. In case of need, banks whose currency chests are affected may, under intimation to the concerned Regional Office of the Reserve Bank, open repositories for a temporary period, with a view to meeting their day to day cash requirements.

C. KYC Norms

5. To facilitate opening of new accounts by persons affected by natural calamities especially for availing various reliefs given by Government/other agencies, banks may open accounts with –

- a. introduction from another account holder who has undergone full KYC procedure, or

- b. documents of identity such as Voter's Identity Card or a driving license, identity card issued by an office, company, school, college, etc. along with a document indicating the address such as Electricity Bill, Ration Card etc. or
- c. introduction by two neighbours who have the documents as indicated in para 5(b) above or
- d. in the absence of the above, any other evidence to the satisfaction of the bank.

The above instructions will be applicable to cases where the balance in the account does not exceed Rs. 50,000/- or the amount of relief granted (if higher) and the total credit in the account does not exceed Rs. 1, 00,000/- or the amount of relief granted, (if higher) in a year.

D. Clearing and Settlement Systems

6. To ensure continuity in clearing service, RBI has advised the banks for 'on-city back-up centres' in 20 large cities and effective low-cost settlement solution for the remaining cities. The banks in a clearing area could meet with a view to providing flexible clearing services where normal clearing services are disrupted. However, notwithstanding these arrangements, banks may also consider discounting cheques for higher amounts to meet customers' requirement of funds. Banks could also consider waiver fees for EFT, ECS or mail services so as to facilitate inward transfer of funds to accounts of persons affected by a natural calamity.

E. Issuance of fresh loans and restructuring existing loans

7. The financial assistance required by borrowers in the event of natural calamity would include:

- (i) consumption loans
- (ii) fresh loans for resumption of normal business
- (iii) restructuring of the existing loans.

(i) Consumption Loans

As per extant instructions, loans up to Rs. 250/- could be sanctioned to existing borrowers for general consumption purposes and the limit could be enhanced to Rs. 1,000/- in the States where the State Governments have constituted risk funds for such lending. The present limits may be enhanced to Rs. 10,000/- without any collateral and such loans may be provided even if no risk fund has been constituted. Further, the limit may be enhanced beyond Rs.10,000/- at the discretion of the bank.

(ii) Fresh Loans

Timely fresh financial assistance to resume productive activities may be provided not only to the existing borrowers, but also to other eligible borrowers. Notwithstanding the status of the existing account, fresh loans granted to the borrowers will be treated as current dues.

(iii) Restructuring of existing loans

As the repaying capacity of the people affected by natural calamities gets severely impaired due to the damage to the economic pursuits and loss of economic assets, relief in repayment of loans becomes necessary in areas affected by natural calamity and hence, restructuring of the existing loans will be required. The principal amount outstanding in the crop loans and agriculture term loans as well as accrued interest thereon may be converted into term loans.

The repayment period of restructured term loans may vary depending on the severity of calamity and its recurrence, the extent of loss of economic assets and distress caused. Generally, the restructured period for repayment may be 3 to 5 years. However, where the damage arising out of the calamity is very severe, banks may, at their discretion, extend the period of repayment ranging up to 7 years and in extreme cases of hardship, the repayment period may be prolonged up to a maximum period of 10 years. In all cases of restructuring, moratorium period of at least one year should be considered. Further, the banks should not insist for additional collateral security for such restructured loans. The asset classification status of the restructured term loan and other dues will be as under:

- a) The restructured crop loans may be treated as current dues and need not be classified as NPA. The asset classification of the restructured term loans would thereafter be governed by the revised terms and conditions and would be treated as NPA if interest and / or installment of principal remain overdue for two crop seasons for short duration crops and for one crop season for long duration crops. Depending upon the duration of crops raised by an agriculturist, the above norms would also be made applicable to the restructured agricultural term loans.
- b) The above norms will be applicable to all direct agricultural advances as listed at Annex II of Master Circular RBI No.2006-07/31 DBOD No. BP. BC. 15 / 21.04.048 / 2006-07 dated July 1, 2006 on Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to advances.
- c) Additional finance, if any, may be treated as “standard asset” and its future asset classification will be governed by the terms and conditions of its sanction.

Lending and other norms may be relaxed by banks, at their discretion, for the Self Help Groups affected in a natural calamity. Similarly, in retail or consumer loans segment, the banks may restructure the loans in a manner suitable to the borrowers on a case-to-case basis.

F. Special SLBC Meeting

8. Immediately upon occurrence of a natural calamity, special SLBC meeting may be convened to review the position in the affected areas and ensure speedy formulation and implementation of suitable relief measures by banks.

The banks may also give adequate publicity to their disaster management arrangements, including the helpline numbers. The relief measures initiated and undertaken may be reviewed periodically in the weekly/fortnightly meetings of specially constituted Task Forces or sub Committees of the SLBC till such time as conditions are normalized.

G. Business Continuity Planning

9. In the backdrop of increased leveraging of technology in banking system, Business Continuity Planning (BCP) has become a key pre-requisite for minimizing business disruption and system failures. As a Business Continuity Planning (BCP) strategy, banks may identify alternate branches for branches located in areas prone to natural

calamities. As per the extant instructions, the Boards of banks are required to approve a policy on BCP, allocate sufficient resources and provide clear guidance and direction in this regard to the Top Management. Banks may formulate full-fledged comprehensive BCP rather than having only Disaster-Recovery (DR) arrangements. The banks may also focus on keeping the DR site current, to test them comprehensively and synchronize the data between the primary and secondary sites.