AIRRBOF News Letter May, 2013
Sky is not the limit, we cover it...
The Voice of All India RRB Officers' Federation
Vol - XX SILIGURI No. 04

EDITORIAL

MORE FREEDOM FOR CASH

The banking industry is justified in seeking a one percentage point cut in the cash reserve ratio (CRR) — the proportion of deposits required to be compulsorily maintained with the Reserve Bank of India. True, the present CRR requirement, at 4 per cent of banks' net liabilities, is already a 40-year-low. The demand for pegging the CRR still lower at three per cent, however, has the merit of being in line with the wisdom that regarded it as the bare minimum level necessary for the purposes of prudent banking. This was so until as recently as in 2006, when the concept of a band for a lower and an upper limit of the CRR was altogether done away with.

But that apart, there are two other reasons supporting the case for a further lowering of the CRR. The first, and the one having immediate relevance, is the slowdown in general deposit growth, coupled with a large portion (78 per cent) of such monies already being lent out. A high credit-deposit ratio not only constrains banks from expanding credit further, but also makes it difficult to undertake reductions in interest rates on deposits. That, in turn, undermines their ability to bring down lending rates as well. A one per cent CRR cut will help free up some Rs 70,000 crore of deposits that the banks could potentially lend out. To the extent these additional lendable resources earn interest —

which they wouldn't otherwise, when kept with the RBI — it also reduces their effective cost of funds. Since the lower CRR rate will apply on incremental deposits, too, the overall 'transmission impact' on credit availability and lending rates would possibly be much more than what mere cuts in the 'repo' rate – which banks pay for borrowing overnight money from the RBI — can achieve.

The second reason for significantly paring down the CRR has to do with its utility as a monetary policy tool for inflation control. Very few central banks today employ reserve requirements — extending to even the portion of deposits to be statutorily parked in government bonds (SLR) — for controlling loan growth or money supply creation in the economy. The only major exceptions are the People's Bank of China, which has historically impounded a very large portion of deposits as part of reserve requirements. Most other central banks, instead, use tariff-based instruments such as the repo rate or engage in open-market operations (buying and selling of bonds) for controlling liquidity in the system. Physical reserve requirements, if at all, are applicable only on current/demand deposit accounts — that too, as a prudential liquidity measure as protection against overdrafts or deposit withdrawal contingencies. The RBI needs to likewise move away from reliance on prescriptive impounding of bank funds, whether for conducting monetary policy or facilitating the Government's borrowing programme. These objectives are more efficiently realized through the repo rate and open market operations route.

ENRICH YOUR KNOWLEDGE

CTS-2010 STANDARD" FOR CHEQUE FORMS – SPECIFICATIONS

1. **Mandatory features**

2. **Paper (At Manufacturing Stage) :** Status quo shall be maintained in relation to paper specifications as it exists currently. Details of current specifications are contained in the document '***Mechanised cheque processing using MICR technology – Procedural Guidelines***', available at - http://www.rbi.org.in/scripts/PublicationsView.aspx?id=4551Additionally, paper should be image friendly and have protection against alterations by having chemical sensitivity to acids, alkalis, bleaches and solvents giving a visible result after a fraudulent attack. CTS-2010 Standard paper should not glow under Ultra-Violet (UV) light i.e., it should be UV dull. This shall ensure that the feel of cheques is uniform across banks.

3. **Watermark (At Manufacturing Stage) :** All cheques shall carry a standardized watermark, with the words "CTS-INDIA" which can be seen when held against any light source. This would make it difficult for any fraudster to photocopy or print an instrument since this paper would be available only to security printers handling cheque printing. The watermark should be oval in shape and diameter could be 2.6 to 3.0 cms. Each cheque must hold atleast one full watermark. Sample watermarks that would be used in CTS will be finalised in consultation with Indian Banks' Association (IBA) / National Payments Corporation of India (NPCI) and could (illustratively) appear as under –

4. **VOID pantograph (At Printing Stage):** Pantograph with hidden / embedded "COPY" or "VOID" feature shall be included in the cheques. This feature should not be visible on the scanned image at the resolution specified in CTS but should be clearly visible in photocopies and scanned colour images as resolution used in such cases would be above the prescribed CTS standards. This would act as a deterrent against colour photocopy or scanned colour images of a cheque.

5. **Bank's logo printed with invisible ink (ultra-violet ink) (At Printing Stage) :** Bank's logo shall be printed in ultra-violet (UV) ink. The logo will be captured by / visible in UV-enabled scanners / lamps. It will establish genuineness of a cheque.

6. **Field placements of a cheque :** Placement of significant fields on the cheque forms shall be mandated. However, placement of additional fields shall be left to banks. This will enable data capturing by Optical / Image Character Recognition (OCR / ICR) engines in offline mode and help banks in automating their payment processes. A sample cheque with recommended field placements is placed at 4 below.

7. **Mandating colours and background :** Light / Pastel colours shall be mandated for cheques so that Print / Dynamic Contrast Ratio (PCR / DCR) is more than 60% for ensuring better quality and content of images. The colours will be finalised in consultation with IBA / NPCI.

8. **Clutter free background:** Background of cheques shall be kept as clutter free as possible for improving quality and clarity of images.

9. **Prohibiting alterations / corrections on cheques:** No changes / corrections should be carried out on the cheques (other than for date validation purposes, if required). For any change in the payee's name, courtesy amount (amount in figures) or legal amount (amount in words), etc., fresh cheque forms should be used by customers. This would help banks to identify and control fraudulent alterations.

10. **Printing of account field :** All cheques should, as far as possible, be issued with the account number field pre-printed. This should be considered must for current account holders and corporate customers.

11. **Use of UV feature on cheque images:** Though bank's logo in UV ink is a strong deterrent for forgery and duplicate cheques, there are challenges in terms of increased image size, stabilisation of UV technology in CTS environment, availability of UV-enabled scanners, etc., in implementing this feature. However, the benefits outweigh the limitations and hence this feature shall be incorporated. Presenting banks can subject instruments beyond a threshold value to UV verification using the UV lamps currently available for currency note verification. In case UV technology stabilises in future, the UV image view could be incorporated in CTS as an additional image view or by dropping one of the existing image views.

12. **Desirable features** In addition to the mandatory security features as above, banks can consider including additional security features as per their risk perception like (i) supplementary watermark containing their own logo, (ii) embedded fluorescent fibres, (iii) fugitive ink, (iv) secondary fluorescent ink, (v) micro-lettering, (vi) toner fusing, (vii) check-sum, (viii) patterns, (ix) floral designs, (x) bleeding ink, (xi) structural magnetics,

(xii) security thread, (xiii) hot stamped holograms on multi-city cheques and demand drafts, (xiv) auto-detection tools, (xv) use of UV band on sensitive and key areas of interest on a cheque such as Legal Amount Recognition (Amount in Words), Courtesy Amount Recognition (Amount in Figures), Signature, Beneficiary Name, (xvi) pre-encoding of amount field on the MICR band for demand drafts / pay orders (above a self-decided cut-off) before issue to customers, (xvii) use of check-sum on the face of demand drafts / pay orders (other than the MICR band), etc.

13. Use of additional features by banks will be subject to the features being compatible with CTS requirements. While incorporating additional features, banks should take care that –

a. The additional security features do not overlap or be very close or clash against the prescribed minimum security features.
b. The features are compatible with CTS specifications.
c. The features are not image heavy, i.e., increase the image size.
d. They should not block any important data on images or hinder payment processing.
e. Presenting banks are not expected to verify the additional features.

14. **Implementation modality** IBA and NPCI shall be jointly vested with the task of certifying additional / optional security features. IBA and NPCI would ensure that the additional / optional features are compatible with CTS and MICR clearing schemes before releasing them to banks.

15. IBA and NPCI shall be entrusted with the responsibility for empanelment of vendors with capability to provide the new security standards.

16. Use of UV image view in CTS is being kept on hold for the present. The decision would be revisited in future once UV technology stabilises.

e-Bay

e-Bay Inc. (stylized as **ebay**) is an American multinational internet consumer-to-consumer corporation, headquartered in San Jose, California. It was founded in 1995, and became a notable success story of the dot-com bubble; it is now a multi-billion dollar business with operations localized in over thirty countries.[4][5] The company manages eBay.com, an online auction and shopping website in which people and businesses buy and sell a broad variety of goods and services worldwide. In addition to its auction-style sellings, the website has since expanded to include "Buy It Now" standard shopping; shopping by UPC, ISBN, or other kind of SKU (via Half.com); online classified advertisements (via Kijiji or eBay Classifieds); online event ticket trading (via StubHub); online money transfers (via PayPal)[6] and other services.

HEDGE FUND

A hedge fund is an investment type that uses a wide range of strategies designed to protect investors from downturns in the market while still participating in positive market environments. Hedge funds are offered to private investors and are not publicly offered on an exchange or required to follow the same legal rules as publicly traded funds, such as mutual funds.

By design, hedge funds attempt to have positive returns regardless of what is happening in the stock market. To achieve this low correlation with mainstream investments, such as mutual funds, that tend to move in step with the overall stock market, hedge funds use complex and risky strategies.

For example, a hedge fund might use speculative investments, such as futures contracts (a type of derivatives), that are not different than gambling on certain market outcomes. By selling a futures contract, the hedge fund is "betting" that the stock market will fall. Therefore, if the hedge fund's other investments fall with the market, their futures contracts will have positive returns and therefore protect the hedge fund investors from excessive losses. This is where the "hedging your bets" phrase applies.

FINANCIAL INCLUSION AS DEFINED BY RBI

Financial Inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players

EXCERPTS FROM AIRRBOF CIRCULARS

Circular # 11:2013 08th April, 2013

5th TRIENNIAL CONFERENCE OF KALINGA GRAMYA BANK OFFICERS' ASSOCIATION & FOUNDATION CONFERENCE OF ODISHA GRAMMYA BANK OFFICERS' ASSOCIATION HELD ON 7TH APRIL, 2013 AT CUTTACK

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The roads leading to Kala Vikas Kendra, the venue of the conference, was busy from the early morning on 7th April, 2013 as the officers & members of the Association are marching towards the conference venue in orderly manner to participate in the foundation conference of Odisha Gramya Bank Officers' Association. Odisha Gramya Bank came into being by merger &amalgamation of Kalinga Gramin Bank, Neelanchal Gramya Bank and Baitarani Gramya Bank in the state of Odisha. The new RRB is sponsored by Indian Overseas Bank with HO at State Capital, Bhubeneshwar.

Kala Vikas Kendra was tastefully decorated with festoons, flags, banners and flowers. The arrival of guests and dignitaries was greeted by full throated slogans to welcome them. Indeed a galaxy of leaders and the Executives of the Bank attended the conference. The leadership of IOBOA led by Com. J. D. Sharma (President), Com. V. Kumareshwan, Vice-President attended. Com. S. K. Bhattacharjee, General Secretary, Com. C. S. Pal, Vice-President represented AIRRBOF. Com. R. Elakuvuan, General Secretary and Com. Subramanium, President represented Pandyan Grama Bank Officers' Association, another RRB sponsored by Indian Overseas Bank from the State of Tamilnadu, AIBOC. Odisha State Unit was represented by Com. Sambit Mishra, State Secretary and Com. N. Jogania, President. The Bank Management was represented by Shri D. K. Nanda, Chairman and Shri K. N. Das, Chief General Manager, Shri Bibhu Prasad Tarai, Member of Parliament (Loksabha) and Shri Samir Dey, Former Minister, Govt. of Odisha made it conspicuous by their gracious presence.

With Com. D. Lenka, General Secretary, Kalinga Gramya Bank Officers' Association and Convener of the Foundation Conference rendering his welcome address the open session commenced. The disguised leaders and Executives were led to the podium by the activists and floral tributes were offered. The invocation was offered by local artistes with the entire participants giving standing ovation. Thereafter, the traditional lamp was lighted by the dignitaries.

Shri Bibhu Prasad Tarai, M.P. (Loksabha) in his short but spirited speech highlighted the issues confronting the Public Sector Banks and the challenges before the Officers & employees to fight the onslaught of reform process initiate by Govt. of India at the behest of Foreign Economic Powers. He assured to render all help to the fighting comrades to tide over the problem.

The conference was felicitated by host of dignities and luminaries notable among them are Com. C. S. Pal, Com. R. Ellakuvan, Com. Bhabani Mishra, Shri K. N. Das, Com. Sambit Mishra, Shri D. K. Nanda, Shri Samir Dey and Com. V. Kumareshwan. All the speakers eloquently spoke on the different aspects of development of the Bank and the role of the Trade Union.

Com. S. K. Bhattacharjee, General Secretary, All India RRB Officers' Federation and Jt. General Secretary, All India Bank Officers' Conference rendered his short but highly enriched and re-vigorating address to the participants. He recounted the role played by AIRRBOF, the need for involvement of the newly recruited officers and employees and preparation of a road map for the battle to ensure pension at par.

Com. J. D. Sharma, President, IOBOA and Dy. General Secretary, All India Bank Officers' Confederation in his inimitable style came out with the story of evolution of Indian Overseas Bank Officers' Association. He placed much emphasis on development of the Bank as well as the Officers' organization. He called for membership enrollment and development of their skills for leadership both in Bank and Organization. He assured to extend all help to the new organization which had been founded today, on World Health Day.

Com. R. K. Das, President placed his Presidential address. The open session of the conference was concluded by rendering of Vote of Thanks by Com. Aniya Das, Dist. Secretary, Kalinga Grammya Bank Officers' Association.

Post Lunch the delegates session commenced with calling the house to order by the President First of all, General Secretary Com. D. Lenka placed his voluminous report. He read out the excerpts of the report for the benefit of the participants. After the report was presented the same was adopted unanimously. The Statement of Accounts was placed thereafter and same was also passed. Thereafter several resolutions were marshaled by the General Secretary so as to amend the constitution to pave the way for formation of Odisha Grammya Bank Officers' Association.

General Secretary, AIRRBOF, Com. Bhattacharjee thereafter shared with the audience the genesis of the Pension Parity and the recent development as well as the legal efforts taken by the Foundation. He also shared the strategy thought out by Federation to win the Pension Case.

Shri C. S. Pal, General Secretary, Utkal Grammya Bank Officers' Association conducted the election for the next Triennial Period of the new organization. The office bearers and the Executive committee members were elected unanimously. Com. Duryodhan Lenka was elected as Chairman with Com.
Dibakar Nayak as President and Com. Amiya Das as General Secretary. AIRRBOF extend its support and pledge full help to the office bearers of the new organization in their efforts to clinch the different issues.

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Circular # 12:2013 25th April, 2013

BILL INTRODUCED TO ENHANCE CAPITAL OF REGIONAL RURAL BANKS

With an aim to strengthen regional rural banks (RRBs), the government on 22nd April, Monday introduced a Bill in the Lok Sabha to raise their authorized capital by 100 times to Rs. 500 crore.

Currently, the authorized capital of RRBs is Rs. 5 crore and as per the proposed Bill raising it to Rs. 500 crore would help them widen banking services in rural areas.

The Regional Rural Banks (Amendment) also Bill, 2013, also seeks to allow RRBs to raise capital from sources other than the Central Government or the State Government or the Sponsor Bank.

However, the shareholding of the Central Government and the sponsor bank should not be less than 51 percent, said the Bill introduced by Minister of State for Finance Namo Narain Meena.

The centre holds 50 percent stake in RRBs, while 35 percent and 15 percent are with the sponsor banks and State Governments, respectively.

"In view of growing business of the Regional Rural Banks and expansion of their role in both qualitative as well as quantitative terms in extending banking services in rural areas, a need was felt to amend the Regional Rural Banks Act, 1976 to strengthen their capital base and improve their overall capabilities," it said.

The Bill also seeks to provide for the managerial and financial assistance from sponsor banks to be continued beyond the first five years of functioning of the RRBs.

"The State Government concerned shall be consulted if its shareholding is reduced below 15 percent and the Central Government may raise or reduce the shareholding of the Central Government, State Government concerned and the sponsor bank, by notification, with prior consultation with the State Government concerned," the Bill proposed.

It also proposes to bring uniformity in accounting year, which is the date of closure of accounts, from December, 31 to March 31.

The Bill has been introduced in accordance with the recommendation of Dr. KC Chakraborty, Dy. Governor, Reserve Bank of India

With the introduction of the Bill and its likely passage the share holding of Central Government and the Sponsor Bank can be reduced to 51% and that of the State Government reduced or totally abolished. This is dangerous as the RRBs shall have private equity holding in the near future. The Central Government, Sponsor Bank and the State Government shall try to reduce their holding to the maximum extent of 51% in the guise of providing resources to RRBs.

AIRRBOF opposes the move totally and shall consider appropriate action.

BANKING NEWS

REPO AND REVERSE REPO RATES

RBI has decided to reduce the Repo rate under the Liquidity Adjustment Facility (LAF) by 25 basis points from 7.75 per cent to 7.50 per cent with immediate effect. The Reverse Repo rate under the Marginal Standing Facility (MSF) rate will stand automatically adjusted to 6.50 per cent and 8.50 per cent respectively with immediate effect.

KYC NORMS – NORMS FOR SELF HELP GROUPS

In under to address the difficulties faced by Self Help Group (SHGs) complying with KYC norms while opening savings bank accounts and credit linking of their accounts, RBI has simplified certain norms for SHGs. Accordingly, KYC verification of all the members of SHG need not be done while opening the savings bank account of the SHG and KYC verification of all the office bearers would suffice. At the time of credit linking of SHGs, no separate KYC verification of the members of office bearers is necessary since KYC would have already been verified while opening the savings bank account and the account continues to be in operation and is to be used for credit linkage.

LEAD BANK SCHEME – STRENGTHENING OF MANAGEMENT INFORMATION SYSTEM (MIS)

Priority sector guidelines are being revised from time to time. However, annual Credit Plans of States and Districts continue to be prepared based on the old sub sector classification of Agriculture, SSI, Other priority sector and Non Priority sector. Due to lack of regular data on sect oral deployment of credit, the review of Annual Credit Plans in the SLBC and DCC meeting has not been found to be meaningful. Since data on annual Credit Plan (ACP), is an important element to review the flow of credit in the state, RBI has reviewed the existing ACP formats for target (ACP Statement I) and achievement (ACP Statement II) in such a way that Annual Credit Plans are prepared with the sub sectors Agriculture & allied activities, Micro and Small Enterprises, Education, Housing and other under priority sector and Medium Industries, Large industries, Education, Housing and other in the non priority sector. Accordingly, the statement for ACP target would be LBS-MIS-I, statement for disbursement and outstanding LBS-MIS-II and ACP achievement vis-a-vis ACP target LBS-MIS-III.

In order to maintain consistency and integrity of data with the all India data of scheduled commercial banks and meaningful review/analysis of data, the ACP and FIP data needs to be grouped separately for Scheduled Commercial Banks and other banks like State Cooperative Banks & DCCBs etc. while being presented in the DCC/SLBC meeting and submitting to regional office of RBI. The data of Scheduled Commercial banks needs to be further grouped into Public Sector Banks, Private Sector Banks and Regional Rural Banks to know the bank group wise position.

BRANCH AUTHORISATION POLICY – INFORMATION ALONG WITH ANNUAL BRANCH EXPANSION PLAN

As per extant guidelines, branch authorization would be based on critical assessment of bank's performance in financial inclusion, priority sector lending and customer service, etc. To ensure comprehensive assessment of bank's performance in the above parameters, RBI has decided to inter alia call for the following information along in with ABEP:

1) Measures to promote financial inclusion: (a) If the bank has implemented BC model, the functioning of the BC model; (b) Whether bank has a multilingual website?; (c) Setting up of Rural Development and self

Employment Training Institutes (RUDSETIs) and other financial Literary and credit Counseling initiatives; (d) SHG linkage; (e) Other ICT enabled Financial Inclusion initiatives like Micro ATMs, Kiosks, etc. (f)Initiatives/progress in respect of any other latest developments in the Financial Inclusion area; (g) Average number of Basic Savings Bank Accounts/small accounts per branch; (h) Average number of General Credit Card or overdraft against Basic Saving Bank Accounts; (i) Average number of Smart Cards issued per branch.

2) Schedule of Charges of Products & Service Offered: Minimum balance required of opening of various accounts, charges for non-maintenance of minimum balance, etc.

3) Number of complaints received and disposed of by the bank during last two years (Major areas/ types of complaints) may be mentioned.

4) Position regarding priority sector advances: Sector wise breakup and percentage of priority sector advances i.e. ratio of priority sector advances (PSA) to Adjusted Net Bank Credit (ANBC) may be furnished.

5) List of branches opened by the bank during the previous one year in Tier 2 to 6 centres and North Eastern States & Sikkim.

PERFORMANCE AUDIT OF AGRICULTUREAL DEBT WAIVER AND DEBT RELIFE SCHEME, 2008

Considering the serious nature of observations made by the Comptroller and Auditor General, it has been inter alia, desired by the Government of India that: (1) The beneficiaries' lists need complete verification with priority being given to areas where indebtedness was high.

(2) Administrative/accounting lapses on the part of the officials, internal auditors and statutory auditors who were responsible for verification, certification, or for passing the claims be identified and accountability fixed for the lapses. Action needs to be initiated and full responsibility be fixed at the earliest with no exceptions.

(3) Cases of extending of benefits to ineligible beneficiaries must be dealt with on top priority and full recoveries as per law must be made to ensure no loss to the exchequer. It will be the personal responsibility of the institutional Heads to ensure that such recoveries effected in full.

(4) All cases of tampering of records or alteration, etc. most be indentified and scrutinized by higher authority. A decision on each such cases in the form of speaking orders must be taken. Stringent action under relevant sections of law against those responsible must be initiated. This would be monitored by the CVOs of the concerned institutions regularly.

(5) Debt waiver\Debt relief certificates must be issued in all eligible cases immediately and full records of such issuance may be kept ready for inspection.

(6) A list of eligible beneficiaries who were not extended benefits to be drawn up and may be examined qualitatively to establish the reasons for such denials. Action may be initiated in all cases were maladies or carelessness appears likely.

Source – Latest Banking & Financial Awareness: April 2013.

PRESS CORNER

BILL PROPOSES MARKET ACCESS TO REGIONAL RURAL BANKS FOR RAISING CAPITAL

A new regional rural banks bill has proposed to allow lenders to raise capital from the market provided the combined shareholding of the central government and sponsor banks will not go below 51%.

The central government holds 50% in each RRB while sponsor banks and state governments hold 35% and 15% respectively.

Finance Minister P Chidambaram tabled the Regional Rural Banks (Amendment) Bill 2013in Lok Sabha on April 22 to deal about RRBs' capital concerns.

The Bill proposes to enhance RRBs' authorised capital to Rs 500 crore from the current Rs 5 crore to clear the way for their additional capital mop up.

Officers association in these banks opposed this move. ""We apprehend that in the guise of providing capital to RRBs, the government shall offload capital contributed by it, sponsor banks and state government to 51%,"" SK Bhattacharya, general secretary of All India Regional Rural Bank Officers Federation.

"This shall lead to commercialisation and privatisation of RRBs,"" he said.

RRBs provides banking facilities in the country's rural belt since 1976 and play a crucial role in the government's financial inclusion drive.

Source : THE ECONOMIC TIMES, 24 Apr, 2013,

KYC SETS OFF A KBC-TYPE RUSH AS BANKS GO ADDRESS HUNTING

Banks asking customers to resubmit ID & address proofs as RBI cracks whip
If you get a phone call from your longtime banker asking you to resubmit your name and address proofs, don't be surprised or irritated. It is the fallout of the Reserve Bank going beyond the cobrapost.com expose on unethical practices of banks, forcing them to go back to the drawing boards to weed out bogus and wrong documentation that allowed many people to open accounts and launder money.

RBI, which probed the cobrapost.com charges of bank staff helping in tax avoidance and money laundering, has stumbled upon incidents beyond what the sting operation revealed. It has widened the probe to cover social media such as Facebook and Twitter. Also, the central bank is asking banks to submit all adverse reports about them in print to probe into specific events. "Although RBI audits and supervises banks, it wants to ensure that it does not receive any more shock or surprises," said a banker who has received a letter from RBI seeking details of complaints in other media.
The RBI probe found that staff at ICICI Bank, HDFC Bank and Axis Bank may have violated norms and helped clients evade taxes. "There are aberrations that have been discovered," said Rajiv Takru, secretary, banking services. These will be addressed both in terms of systemic factor and in individual cases."
The banking regulator has started conducting random audit of banks on whether they are following norms for opening bank accounts. While private banks, particularly the new private banks, have started conducting fresh

round of, state-run banks may also begin soon. RBI has also asked banks to provide information on 'fraud and scam-related statements' they have issued to media, and suggested tightening employees' incentive structure to prevent them from going overboard in selling financial products. "Audit report has come. On the basis of the report, banks would be asked for their version. Once that comes in, we will take a decision," said Takru after a meeting with RBI deputy governors KC Chakrabarty and Anand Sinha.

Source : The Economic Times: 19th April, 2013

FINANCIAL INCLUSION LIKELY TO BE PART OF BANKING CODE: CHAKRABARTY

The Reserve Bank of India is exploring the possibility of enshrining financial inclusion in the Code of Bank's Commitments to Customers, according to K.C. Chakrabarty, Deputy Governor.

The Code, which is voluntary, sets minimum standards of banking practices for banks to follow when they are dealing with individual customers. It provides protection to customers and explains how banks are expected to deal with them.

Financial Inclusion is the process of ensuring access to appropriate financial products and services – deposit accounts, payment services, micro-credit and micro-level insurance – to vulnerable groups such as weaker sections and low income groups by mainstream institutional players.

"In India, we have been proactively pursuing the holy trinity – financial inclusion, financial education and consumer protection.

"We are even exploring the possibility of enshrining financial inclusion in the Code of Banking Practices (referred to as the Code of Commitments in India)," said Chakrabarty in a speech at a recent seminar in Pune.

The extent of financial exclusion in the country is staggering. Out of the 6 lakh habitations in the country, only about 36,000 have a commercial bank branch. Just about 40 per cent of the population across the country has bank accounts.

The proportion of people having any kind of life insurance cover is as low as 10 per cent and the proportion having non-life insurance is abysmally low at 0.6 per cent. People having debit cards comprise only 13 per cent, and those having credit cards only a marginal 2 per cent of the population.

"With nearly 4.5 billion people on this planet owning a mobile phone, there is a very strong likelihood of financial inclusion being pushed through the mobile phone and mobile payment medium.

"This is more so in the developing countries where mobile phone penetration is 8-10 times the penetration of the basic bank account," said the Deputy Governor.

Chakrabarty observed that rather than treating mobile payments as a threat, banks need to see it as an opportunity to access low-income segments of the market.

The Deputy Governor said retail distribution, as is now being carried out, may not necessarily be in the best interest of the consumers.

There are certain issues, particularly from the perspective of incentive structures for sale of financial products, monitoring of anti-money laundering requirements, risks of mis-selling, and inadequate understanding of risks by the sales persons, etc.

Hence, it is important that financial service providers and regulators have a closer look at the practices followed in retail distribution of financial products.

As regards regulating the activities of financial advisers, Chakrabarty said it is very important that people with limited means get proper advice at the right time and at least cost.

"The regulators, perhaps, have to take this responsibility (regulating the activities of the financial advisers) upon themselves with a view to empowering the consumers and helping them protect their life savings," said Chakrabarty.

The Deputy Governor said "If an institution is in the wrong, why should it wait for the consumer to approach it for compensation?

"Would it not be righteous if the bank or financial institution on its own initiates action to undo the wrong inflicted on customers, some of whom may have not even complained?"

Chakrabarty felt that such an approach would enhance the faith and confidence of the consumers in the financial system.

Source: The Hindu Business Line: Saturday, March, 30, 2013

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12 COMPANIES AUTHORISED TO OWN, OPERATE ATMS, SAYS RBI OFFICIAL

The Reserve bank of India has given in-principle approval to seven companies to roll out White Label ATMs last month.
White Label ATM (WLA) operator is a non-bank entity which can set up, own and operate an automated teller machine (ATM) as extended delivery channels. The RBI gave final guidelines for prospective WLA operators in August last year.

"Seven companies have been given authorisation (to set up WLAs) while five were given in December last year, taking the total to 12. As soon as they get their act together, they will be in operation," said Vijay Chugh, Chief General Manager, Reserve Bank of India, at the sidelines of a conference hosted by Discover Financial Services and National Payments Corporation of India.

"Of the total 19 applicants, 17 have been found eligible, 12 have been given the authorisation. We expect one or two operators to kick-start business in the next few months. One of them is Tata (Communications Banking InfraSolutions)," Chugh said.

About 1.5 lakh ATMs can be rolled out in the next three years and two million PoS (Point-of-Sale) terminals in two years if all the 17 companies start functioning. That is the expectation, he added.

Under the RBI guidelines, the authorisation for setting up a WLA operation would be initially valid for a period of one year under three schemes — A, B and C — which specify the rural to semi-urban ATM ratio for network expansion. WLA operators are allowed to charge their customers as per the banks' charges. Currently, banks are not allowed to charge the customers for the first five transactions in other bank ATMs. Above that, banks levy Rs 15 for cash withdrawal and Rs 5 for balance enquiry.

Source: The Hindu Business Line: Saturday, April, 06, 2013

GOLD LOAN FIRMS ASKED TO REDUCE MAXIMUM LENDING RATE

The Association of Gold Loan Companies has asked its members to reduce the maximum lending rate in the light of falling gold prices.

The Association is closely monitoring the gold price movements and will advise its members of any further change in the maximum rate of loan per gram of gold, George Alexander Muthoot, President, AGLOC, said.

After taking feedback from its members on current development of falling gold prices and its impact on their loan portfolios, AGLOC has asked member-companies to review its existing collection mechanism and further strengthen it.

There should be regular monitoring of overdue and high loan-to-value accounts. Companies should auction defaulted and abandoned loan accounts with due compliance to the fair practice code stipulated by the RBI, he said.

Members confirm that loan demand continues to be robust in spite of reduction in amount lent per gram of gold. It is also noticed that there is regular redemption of earlier loans sanctioned at higher amount per gram of gold, he added.

AGLOC, a self-regulatory organisation, was formed in April 2011 to promote and safeguard the interests of gold loan companies registered with the RBI.

The Association believes that a 15-20 per cent price fluctuation in gold prices will not have any significant impact on the gold loan portfolios of member-companies as they have already factored in such fluctuations in the business model.

Though gold price is an important factor, the business model should not be misunderstood as a business of financing of gold bullion or shares wherein mark-to-market valuation could affect the repayment behaviour of the borrower.

Gold loan companies lend mainly against household jewellery where the impact of such temporary fluctuations on the business model are minimum. These loans are of short duration of 3-6 months. Compared to the disbursements, the NPA (non-performing asset) levels are low, he said.

Source: The Hindu Business Line: Tuesday, April, 23, 2013

REGIONAL RURAL BANKS MAY BE ALLOWED TO TAP PRIVATE CAPITAL

Regional rural banks may be allowed to get listed on stock exchanges if Parliament approves the Regional Rural Banks (Amendment) Bill.

The Bill, introduced by Finance Minister P. Chidambaram in the Lok Sabha on Monday, aims to amend the Regional Rural Banks Act 1976. One of the proposed amendments seeks "to make provisions for raising capital by regional rural banks from sources other than the Central Government, the State Government and the sponsor bank." However, there is one condition — in no event should the combined shareholding of the Central Government and the sponsor bank go below 51 per cent.

At present, there are 82 RRBs in the country. These banks were created as an alternative channel to the co-operative credit structure and to ensure sufficient institutional credit for the rural and agriculture sectors.

RRBs are jointly owned by the Centre, the State Government concerned and sponsor banks, with the issued capital shared in the ratio 50:15:35, respectively.

According to the the RRB Act, 1976 the authorised capital of each such bank is Rs 5 crore and the issued capital, a maximum of Rs 1 crore.

It has now been proposed to enhance the authorised capital of each RRB to Rs 500 crore and the issued capital to not less than Rs 1 crore. The new Bill also aims to make provision for shareholders to elect directors in view of the proposed provisions for raising private capital by RRBs.

The Bill also talks about the need for the Central Government to consult the State Government if the level of shareholding of the latter in a RRB drops below 15 per cent.

In such a situation, “the Central Government may, in consultation with the sponsor bank and the State Government, either raise or reduce the limit of shareholding of the Central Government, the State Government or the sponsor bank,” it says.

The Bill prescribes that the term of non-official directors appointed by the Central Government will not exceed two years. Such directors can be re-nominated, but the total term should not exceed four years. Another key provision talks about bringing uniformity in the date of closure of account to March 31 from December 31.

The Bill also mentions that managerial and financial assistance from the sponsor bank to an RRB can be continued beyond the first five years of functioning.

Source: The Hindu Business Line: Tuesday, April, 23, 2013

GET CRACKING ON REDUCING BAD LOANS, FINMIN TELLS GOVT BANKS

The Finance Ministry has asked all public sector banks to reduce their bad loans, or non-performing assets, to one per cent of their total advances by the end of the current financial year (March 31, 2014).

A senior Finance Ministry official hoped there will be "significant improvement" in the gross and net NPA position for fiscal 2012-13, which ended on March 31.

Talking especially about the nation's biggest lender State Bank of India, the official said, it had managed to reduce its NPA by over 1 per cent in March alone.

That still leaves SBI with a fair bit to do to achieve its new NPA target. As of end-December 2012, SBI's bad loans were at over 6 per cent (gross NPAs) of its advances.

The final figure will emerge when the bank announces its annual financial result for 2012-13.

With the economy registering the lowest growth in a decade, public sector banks have seen their NPAs go up significantly.

According to data collected for a meeting between Finance Ministry and public sector bank officials last month, bad loans with respect to the priority sector, which include agriculture and medium and small enterprises, had gone up during the quarter ended December 31 *vis-à-vis* the previous quarter.

Interestingly, however, the NPA position in relation to retail and real estate loans improved during the period.

Another highlight is that the top 30 non-performing accounts made up close to half (around 44 per cent) the bad loans of the 19 nationalised banks. While for the SBI group, this was around 19.3 per cent, for public sector banks as a whole they were around 34 per cent.

Banks have been advised to adopt a multi-pronged strategy for loan recovery.

This includes constitution of a board-level committee for monitoring recovery, review of NPA accounts of Rs 1 crore and above by the board of directors, and the top 300 NPA accounts by the management committee of the boards, and guidelines for NPA management as part of an early-warning system.

Apart from restructuring, banks have been advised to initiate penal measures against wilful defaulters.

These include not granting them additional facilities and debarring the entrepreneurs/promoters of defaulting companies from getting institutional finance for floating new ventures for a period of five years.

Banks have also been asked to lodge a formal complaint against the auditors of the borrowers with the Institute of Chartered Accountants of India, if it is observed that there was negligence or deficiency in the conduct of audit.

Source: The Hindu Business Line: Monday, April, 15, 2013

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