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M S Sahoo
IBBI chief

"Merger of banks will strengthen the lending capacity. It has been ensured that no person loses job. The employees of merging banks will benefit the maximum."

Anurag Singh Thakur
Minister of State for Finance

"We have taken an initiative to buy back some of the securities maturing in 2021. We will be buying back bonds worth Rs 1,000-2,000 crore between now to January. "

Gagan Banga
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BANKING FINANCE

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From The Desk Of
Editor-in-Chief

The Editorial Team of Banking Finance wishes a very very Happy New Year, 2020 to all its Subscribers, Advertisers, Authors, and readers. May this New Year bring new opportunities and help you to exceed your goals.

Stock market is ever rising high inspite of economic slowdown as well as political unrest in the country. It is observed that mainly Blue-chip company shares are going up where as the normal share is still not performing well.

Disputed Income Tax claims have surged to Rs.10 Lakh crore mark which is an increase of Rs.3.7 Lakh crores since the end of F.Y.18 due to frivolous rise in demand.

Prime Minister on 22.12.2019 announced the CAB has nothing to do with the existing citizen of the country of any religion since this law is for giving the citizenship to the eligible people already residing in the country and not for taking away the right of any existing citizenship.

The disturbance in the country in respect of CAA and NRC is a hoax created by the opposition Parties to destabilize the country and gain political mileage.

It is important that foreign exchange reserve with RBI is ever increasing inspite of a bit slow economy of the country due to general recession. Export and import are slightly low due to global slowdown. However during January 20 to March 20 the slow down in GDP may recover due to new agriculture crops coming up.

The IMF has retained India's growth forecast at 6.1% for F.Y.2020 adding that risks to the outlook are tilted to downward side. RBI, Moody's and Fitch are also optimistic about the GDP growth in India during the year 2020.

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BANKING NEWS

SBI to withdraw magnetic strip credit/debit cards from Jan 1

SBI will discontinue its old magnetic strip-based credit and debit cards from January 1. Through a tweet, the SBI said that it has proposed to deactivate all old magnetic strip-based cards by December 31, 2019, irrespective of the card's validity period. As per RBI guidelines, the SBI has replaced all old magnetic strip-based ATM-cum-debit and credit cards of its customers with EMV chip and PIN-based hi-security cards.

"Apply now to change your Magnetic Stripe Debit Cards to the more secure EMV Chip and PIN-based SBI Debit card at your home branch by 31st December 2019. Safeguard yourself with guaranteed authenticity, greater security for online payments and added security against fraud,'' the bank said in a tweet

The SBI has also urged its customers and cardholders to replace the old magnetic strip-based credit and debit cards with high-security EMV Chip-based cards.

Fin Min allows 78% of PMC Bank depositors to withdraw entire cash

The Union Finance Minister Nirmala Sitharaman said in Lok Sabha that around 78% depositors of the scam-hit PMC Bank can withdraw their entire deposits even though the ceiling of Rs 50,000 on withdrawal continues.

Sitharaman also said that in case of medical emergencies, marriages and other crisis situations, a depositor of the Maharashtra-based PMC Bank can withdraw upto Rs 1 lakh by invoking the 'hardship provisions' of the RBI. "Nearly 78 depositors are now allowed to withdraw their entire account balance. They are small depositors. With this, the concerns of all small depositors are take care of," she said during Question Hour.

Citibank increases interest rate on credit card

Citibank India has increased the interest rate on credit card outstandings by up to 480 basis points from 37.2% to 42% per annum.“We wanted to inform you that the interest rate on your Citi credit cards would change effective January 2020 statement and will be applicable on opening balance and further transactions including cash withdrawals,” the bank said in a communiation to its customers. “As you know only if customers choose to pay less than the full amount of the monthly bill or does cash withdrawal transactions, interest rate for using the revolving facility applies,” it said.

Karnataka Bank introduces KBL Xpress Car Loan

Karnataka Bank as part of its digital initiative on 13 December 2019 has launches KBL Xpress Car Loan, a digitized version of Car Loan Finance. Introduction of KBL Xpress Car Loan allows in-principle sanctions under 20 minutes at customers choice of place and time. This technology enabled solution has additional digital capabilities to provide end-to-end best in class customer experience. Customers KYC authentication, Bureau score , Income , Risk assessment etc will be performed on real time basis which enables a hassle free and complete digital loan sanction.

RBL Bank opens 26 service branches all over India

RBL Bank has recently announced that it is opening 26 full services branches across various states while simultaneously achieving a milestone of 1,600 offices across India.

The Bank plans to open 150 more offices (28 Branches & 122 BC Branches) this fiscal, taking the count of offices to 1,750 by March 2020. The Bank's branches are primarily located in metro, urban locations while the BC Branches are primarily engaged in delivering banking solutions to the rural and semi-urban areas.

RBL Bank currently serves 7.3 million customers for a variety of retail as well as wholesale offerings. All the branches opened today will be full service branches offering a comprehensive portfolio of banking product including loans, working capital, current & savings accounts, credit cards, fixed deposits as well as locker facilities.

Surinder Chawla, Head, Retail Liabilities and Wealth Management, RBL Bank said, "This expansion marks a milestone of 1,600 offices for RBL Bank and with these 26 full service branches going live today, we are ready to serve new customers from these new locations. This is a step in the right direction in order to further enhance our customer centric and relationship based approach. Our branches play a significant role in growing our customer base and strengthening our business franchise."

SBI strengthens customer relationship with 'Atoot' scheme

In a bid to strengthen its long-term relationship with employees, State Bank of India (SBI) has introduced a scheme, 'Atoot', to provide immediate relief to the family of an employee dying in harness. This scheme includes financial support for the funeral expenses to the next of kin (NOK); support, including embalming cost, cost of coffin, transportation cost, in case death occurs at other places; and non-financial support, including arranging for the stay of family members; keeping the body in mortuary/ arrange for preservation of the body till NOK comes; and making necessary arrangements for the processing and transportation of the body.

In case of sudden demise of employees, the bereaved family needs immediate support, financial as well as for taking care of last rites/ funeral, which may also involve transportation of the mortal remains of the deceased employee, the bank said in a circular. "In the bank, apart from the superannuation benefits (pension, PF, gratuity) we also have provisions for ex-gratia (there is provision for providing Rs 1 lakh ex-gratia in advance), compassionate appointment (if eligible under the scheme), and cash compensation (in case of accidental death while on duty).

"However, these benefits take time to reach the needy family .... The bank is committed to take care of our employees and their family members, while they serve it and also after it," according to the circular. The scheme will be applicable to all regular employees of the bank.

Fin Min directs Central, state depts continue to do business with IDBI

Keeping the concern over the Central and state departments withdrawing deposits from IDBI Bank and also not offering fresh business to the LIC-owned lender, the finance ministry has suggested these departments to continue to do business with IDBI Bank. The finance ministry has assured them of the bank's ability to serve them as before because the present promoter LIC is fully owned by the government, and the national insurer along with the government holds as much as 97.46% in the bank.

"It has been brought to the notice of the department that pursuant to the 51% stake acquisition in IDBI Bank by LIC, many Central/state government departments and government agencies/institutions have either withdrawn their funds or deposits from the bank or have not invited the bank to offer bids for deposits, or have expressed inability to continue grant of government business to the bank," the department of financial services said in a letter, dated December 17 (RPT 17), to all the Central and state departments.

The letter, seen by PTI, said LIC is wholly-owned by the government and together with the government's holding of 46.46%, the direct and indirect government holding in the bank is 97.46%, making it a quasi-sovereign entity.

Complaints to banking ombudsman rose by 20% in FY19'

Complaints to banking ombudsman increased by nearly 20% to over 1.96 lakh during 2018-19, with non-adherence to fair practices accounting for the highest number of cases, RBI data revealed. Non-observance of fair practices code accounted for a maximum number of complaints, the Reserve Bank of India (RBI) said in the Annual Report of Ombudsman Schemes for 2018-19.

The complaints received at Offices of Banking Ombudsman (OBOs) rose by 32,311, taking the total to 1,95,901 complaints in 2018-19 over the previous year (1,63,590), recording a year-on-year increase of 19.75%, the Reserve Bank said. Even as complaints related to unfair practices topped the list, the percentage share came down to 19.17% in 2018-19 from 22.10% a year ago.

Complaints on ATM and debit card issues increased from 15.08% in 2017-18 to 18.65% in 2018-19; while those related to pension, levy of charges without notice, credit card related issues and remittance declined during the year, the RBI said. The number of complaints pertaining to mis-selling has gone up from 579 complaints in 2017-18 to 1,115 in 2018-19, an increase of 92.57%.

"The average cost of handling a complaint came down from Rs 3,504 in 2017-18 to Rs 3,145 in 2018-19," it said. The disposal rate for 2018-19 was 94.03% as against 96.46% in 2017-18.

ICICI Bank opens second service centre in Bahrain

ICICI Bank said India's Ambassador to Bahrain Alok Kumar Sinha inaugurated its new 'service center' in Bahrain, making it the bank's second physical touch point in the country. The bank already has a retail branch at the local Manama Centre, it said in a statement. The new service center will provide services for all products offered by the Manama branch, except cash deposit and withdrawal.

The bank offers retail, private banking and corporate banking services in Bahrain, the statement said. It offers products, especially designed for customers in Bahrain, such as savings and current account, fixed deposits and global money transfer, life insurance products and general insurance products, it said.

Banks writes to RBI to extend deadline for inter-creditor pacts

Leading banks have written to the Reserve Bank of India (RBI) asking it to extend the deadline for signing intercreditor agreements (ICAs) by another three months so that cases close to resolution are not referred to the National Company Law Tribunal (NCLT) as the January 7 deadline approaches.

"We have written to RBI seeking extension of inter-creditor agreement deadline of January 7 by three months so that cases are not referred to NCLT," said a senior public sector banker. Banks are willing to make the additional 20% provision that breaching the deadline entails but want the window of resolution open until the March 31 financial year end to avoid the value destruction that they say would follow by taking the NCLT route as prescribed by the Insolvency and Bankruptcy Code (IBC). The ICA mechanism was established in order to arrive at a resolution plan within a specific period (30+180 days) for bad loans without entering the NCLT process.

Lenders need to come up with an ICA resolution plan for loans worth Rs 3 lakh crore by January 7- the deadline for most stressed accounts - failing which they have to make a 20% provision and refer cases to the NCLT within 30 days. "Value destruction happens when cases are sent to NCLT."

ICICI Bank, Axis Bank to close operations in Sri Lanka

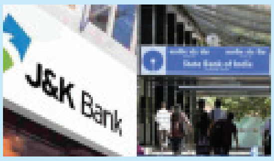
The Central Bank of Sri Lanka has permitted Indian private sector lenders Axis Bank and ICICI Bank to close their operations in the island nation, according to online news portal of Sri Lanka.

This follows requests by their parent banks. The licenses issued to them will be cancelled once the winding-up operations are complete. The news portal said the two banks are no longer permitted to carry on banking operations, including accepting deposits from the public.

RESERVE BANK NEWS

RBI appoints J&K Bank as lead banker for J&K, SBI for Ladakh

The RBI appointed Jammu & Kashmir Bank as the lead banker for the newly carved out union territory of Jammu and Kashmir. State Bank of India (SBI) will be the lead convenor bank for union territory of Ladakh.



The government through a gazette notification on August 9, 2019 had reorganised the erstwhile Jammu and Kashmir state under the Jammu and Kashmir Reorganisation Act, 2019, into union territories of Jammu and Kashmir and Ladakh with effect from October 31, 2019.

"In view of the above, it has been decided to assign the UTLBC (Union Territory Lead Bank Convenor) Convenorship of the Union Territory of Jammu and Kashmir to Jammu & Kashmir Bank Ltd and the Union Territory of Ladakh to State Bank of India," the RBI said. “There is no change in the SLBC/ UTLBC convenorship of other states and UTs,” it added.

RBI likely to give fintech, insurance cos access to NEFT and RTGS clearing systems

The RBI is taking under consideration the possibility of giving fintech and insurance companies, direct access to processing RTGS and NEFT transactions in line with global best practices. While citing the examples of the banking regulators of England and Switzerland, the RBI said in its Financial Stability Report that an easing of access to Centralised Payments Systems (CPS) to nonbanks in India will reduce costs and make market access to funds easier.

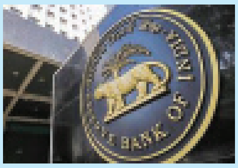
“The Reserve Bank will examine the case for increased participation of non-banks in CPS,” the RBI said in the biannual report. “Internationally, central banks are expanding access to payment systems by enabling various types of non-banks to become members.” Currently only standalone primary dealers, clearing corporations, central counterparties, retail payment system organizations, select financial institutions such as NABARD, Export-Import Bank of India (EXIM Bank) and Deposit Insurance and Credit Guarantee Corporation (DICGC) can access these systems.

RBI directs banks to reduce stake in insurers at 30%

The RBI has directed banks to reduce their stakes in insurers to 30%, since the central bank attempts to shield banks from risks arising out of their non-banking businesses. The RBI also tries to focus on boosting credit growth in a slowing economy, according to the inside source.

In a meeting, RBI informed the bankers that it will soon introduce norms to cap their holdings in an insurance company to 30%, the sources further informed. The holding limit will be 50% for non-banking financial companies such as Housing Development Finance Corp. that have insurance units, they said. Banks have been told to await RBI’s official communication on the new rules.

Asset quality of commercial banks can be worsen in 2020: RBI



Mainly due to the economic slowdown, asset quality of commercial banks can be worsen in 2020 as well as due to increase in slippages and declining credit growth, warned the RBI. The gross non-performing assets (GNPA) ratio may increase to 9.9% by September 2020 from 9.3%.

"The RBI's macro-stress tests for credit risk show that under the baseline scenario, schedule commercial banks GNPA ratio may increase from 9.3% in September 2019 to 9.9% by September 2020 primarily due to change in macroeconomic scenario, marginal increase in slippages and the denominator effect of declining credit growth," said the RBI in the 20th issue of the Financial Stabillity Report.

Among the bank groups, state-owned banks GNPA ratios may increase to 13.2% by September 2020 from 12.7% in September 2019 whereas for private banks it may increase to 4.2% from 3.9%; and for foreign banks, to 3.1% from 2.9%.

"Continuing the trend witnessed in the previous half-year, the banking sector has shown signs of stabilisation. That said the performance of public sector banks (PSBs) needs to improve and they need efforts to build buffers against disproportionate operational risk losses. Private sector banking space also needs to focus on aspects of corporate governance," wrote Shaktikanta Das, governor of RBI, in the foreword to the report.

RBI introduces new prepaid payment instrument

The RBI has recently introduced a new semi-closed prepaid payment instrument (PPI) which can be used for transaction of goods and services up to a limit of Rs 10,000. The loading facility of the instrument will be linked only from a bank account.

"To give impetus to small value digital payments and for enhanced user experience, it has been decided to introduce a new type of semi-closed PPI," RBI said in a notification. The main features of these instruments are: such PPIs will be issued by bank and non-bank PPI issuers after obtaining minimum details of the PPI holder. The minimum details will necessarily include a mobile number verified with one time pin (OTP) and a self-declaration of name and unique identity/identification number, among others.

"These PPIs shall be reloadable in nature and issued in card or electronic form. Loading/reloading shall be only from a bank account. The amount loaded in such PPIs during any month shall not exceed Rs 10,000 and the total amount loaded during the financial year shall not exceed Rs 1,20,000. The amount outstanding at any point of time in such PPIs should not exceed Rs 10,000," RBI said, adding these PPIs will be used only for purchase of goods and services and not for funds transfer. "The instrument issuers will provide an option to close the PPI at any time and also allow to transfer the funds back to source (payment source from where the PPI was loaded) at the time of closure," it added.

RBI red-flags banks' reliance on retail loans

The RBI has warned banks for its reliance of retail loans over slowing economic activity and negative consumer sentiment. The central bank called for a granular lending strategy to offset risk concentration in its annual publication on trends and progress of banking in India.

"Lenders have been shifting their focus away from large industrial loans towards retail loans, as bad loans of the latter have traditionally been low," RBI noted in the report. "This diversification strategy, while helpful as a risk mitigation tool, has its own limitations: the slowdown in consumption and overall economic growth may affect the demand for and the quality of retail loans."

"Household leverage and indebtedness need to be kept in focus in the context of overall financial stability," it further said. With corporate loans rigidly at multi-year lows, risk-averse banks lapped up retail credit.

"Some sector-specific pockets of stress will need policy attention. Proper risk pricing in lending is of prime importance so that the health of the banking sector is not compromised while ensuring adequate credit to the productive sectors of the economy," it said. The RBI said that slowing credit growth was an area of concern. Banks' credit grew 8.07% to Rs 98.47 lakh crore in the fortnight-ended Nov 6. In the previous fortnight ended Oct 25, bank credit had grown by 8.90% to Rs 98.39 lakh crore.

GST NEWS

GST growth records 6% rise crossing 1 lakh crore mark

The GST revenue in November registers Rs. 1,03,492 crore, crossing the Rs. 1 lakh crore mark once again, having dipped below it for three successive months. Average collections in the financial year 2019-20 so far stand at Rs. 1,00,646 crore. The collections in November 2019 are the third highest since the GST was introduced, next only to April, 2019 and March, 2019.

"The gross GST revenue collected in November, 2019 is Rs. 1,03,492 crore, of which the CGST is Rs. 19,592 crore, the SGST is Rs. 27,144 crore, the IGST is Rs. 49,028 crore and the cess is Rs. 7,727 crore," the government said in a release. "After two months of negative growth, GST revenues witnessed an impressive recovery, with a positive growth of 6% in November, 2019 over the November, 2018 collections," the release added.

According to the government, the GST from domestic transactions saw a growth of 12%, the highest during the year. The GST collections from imports continued to contract, by 13%, compared with a contraction of 20% in the previous month.

Govt to relieve GST for companies under IBC process

The Centre likely to give allowance companies undergoing resolution under the Insolvency and Bankruptcy Code (IBC) to pay current levies of goods and services tax (GST) without the mandatory payment of past dues.

According to sources, Ministry of Corporate Affairs and Department of Revenue (DoR) officials have begun talks on the matter and a framework is likely to be unveiled soon.

"The issue is under discussion... A procedure will be worked out," said one of them, adding that the officials are expected to meet this week to finalise the contours. Tax authorities are treated on a par with operational creditors and eligible to receive payments with others.

However, GST framework currently doesn't allow a firm to file current tax dues if it has past dues. Penal action has been initiated for noncompliance even in cases where the insolvency resolution process has been initiated or GST registration has been cancelled. This comes in the way of efforts to revive a company under IBC process. Industry organisations have lobbied the government on the issue, asking it to accept current GST dues while giving a moratorium on past ones. Experts said there's a need to align GST and IBC.

"It is important that the period during which the corporate insolvency resolution process (CIRP) takes place is insulated from the past GST compliances of the company," said Pratik Jain, indirect taxes leader, PwC. Industry backs immunity for corporate debtors from penalties or prosecution for noncompliance under the GST regime. "There is a need to recognise the fact that there could be several cases of default in GST filings/payments due to genuine reasons," said MS Mani, partner, Deloitte India. "Such defaults should be condoned, possibly with a small penalty and the focus should be to avoid business disruptions," he added.

Govt committee recommends 2 GST slabs instead of 5

The government may consider collapsing the five GST slabs into two and address inverted duty structure distortions in order to simplify the system and combat a shortfall in collections. As per sources, a committee of officials from the Centre and the states on GST revenue augmentation recommends these measures. According to the presentation, there could be a shortfall of Rs 63,200 crore in GST collections in the current financial year and as much as Rs 2 lakh crore by 2021.

The panel suggested two slabs of 10% and 20%. Alternatively, some goods could be moved from the 18% slab back to 28%, the panel said in a presentation to Bihar deputy CM Sushil Modi in Bengaluru. The GST Council had, at its recent meeting, asked Modi to look into revenue augmentation measures. Modi, Bihar finance minister and head of the group of ministers (GoM) on integrated GST (IGST), had ruled out the possibility of changes to the rate structure at a time when revenues have moderated due to the economic slowdown.

"I want to assure you that not a single state... (or) the Union government are ready to raise tax rates," Modi had said. The panel highlighted the issue with 23 items besides some miscellaneous ones to drive home the point about the need to correct inverted duty structure distortions that mean inputs are taxed at a higher rate than finished products.

Govt. likely to restructure GST on mobiles, footwear, fertiliser

The government is planning to rework the GST structure for some products, ranging from footwear and fertiliser to mobile phones and medical equipment and tractors and textiles. The levy on the final product of these products is lower than the inputs and raw material. This results in a situation where the government has to annually refund taxes of around Rs 20,000 crore, while industry has to queue up to get the money back.

"It creates unnecessary litigation and distortions," said an official, pointing out that manufactured goods in the lower rate slabs of 5% and 12% suffer from what is called inverted duty structure. To tackle this, the government can either raise the GST on the finished product or lower levy on inputs and raw material. But lowering of rate may not be possible in case of items in the 5% slab. A presentation shared with the states has listed close to two dozen items, including LED lights, renewable equipment, tractors, generators and inverters, agarbatti, agriculture machinery, bicycles, utensils and water pumps. In several cases, the inverted duty structure is the result of tinkering with the rates over the last two-and-a-half years.

A panel of officers looking at reworking GST flagged the issue in a presentation for the GST Council and pointed out that tax liability on certain finished products remain lower than what is paid on raw materials and services and companies claim refund of the extra taxes paid. A decision could not be taken as the ministers wanted a more in-depth analysis of the issues that were raised.

Grievance redressal mechanism for taxpayers soon: GST Council

The GST Council will set up a grievance redressal mechanism for taxpayers. The decision was taken at the 38th meeting of the GST Council. It has decided that a structured grievance redressal mechanism should be established for the taxpayers under GST to tackle grievances on GST-related issues of specific and general nature, an official statement said. The council will set up the Grievance Redressal Committee (GRC) at zonal and state levels consisting of central tax and state tax officers, representatives of trade and industry and other goods and services tax (GST) stakeholders.

The committee will be constituted for a period of 2 years and the term of each member will be for likewise, said the statement. "For time-bound handling of grievances and accountability, GSTN shall develop a portal for recording all such grievances (including their scanned images) and their disposal. "It shall be the responsibility of the co-chairs of the grievance redressal committees to ensure timely entry of the grievances and updating the status of their disposal on the portal," the statement said. The details of action taken on all issues will be displayed on the portal, which shall be available for viewing to all stakeholders to check the status of the resolution, it added.

GST officials can seize property, bank accounts in case GST returns not filed

With over 1 crore GST-registered entities failing to file return on time, the new

set of rules enable GST-authorities to seize their property and banks accounts in case despite repeated reminders you fail to file tax returns. Top officials of the Central Board of Indirect Taxes and Customs have been told to go hard on defaulters. The process to nudge the entity and its officials will begin three days ahead of the deadline for filing GSTR-3A of the final returns. The due date for the same is by the 20th of every month. Post the due date, a system-generated message will be sent to all the defaulters asking.

All the authorised signatories of the entity, proprietor of the entity, partners of a firm, directors of companies or the kartas in case of HUFs will also receive the system generated message. If the entity fails to comply, five-days after the due date, an electronic notice will be served, giving it 15 days to furnish the returns. If the notice elicits no response, tax officials have been told to undertake an assessment of the tax liability after factoring in the available data.

The CBIC, in the three-page standard operating procedure issued on Tuesday has decided to go strong against "defaulters". The SOP issues states, "For the purpose of assessment of tax liability... the proper officer may take into account the details of outward supplies available in the statement furnished under section 31 (Form GSTR-1), details of supplies auto-populated in FORM GSTR-2A, information available for e-way bills, or any other information available for any other source, including from inspection."

GST officials rescues Rs 241-cr tax evasion through fake invoicing

GST officials have unearthed a racket involving fake invoicing worth Rs 1,600 crore that resulted in tax evasion of Rs 241 crore, an official release said. The racket was busted by the anti-evasion wing of CGST Delhi South Commissionerate.

The main culprit was arrested and remanded to 10 days of judicial custody by a local court, the release by finance ministry said. The alleged racketeer had created several firms on the basis of unauthorised access to identity documents of various persons.

The ministry said the Commissionerate discovered the case of fake invoicing and GST fraud alongside a "new modus operandi" of defrauding the exchequer by exploiting the facility of refunds given for inverted duty structure. "Over 120 entities who are involved in the transactions have come to light so far, involving fake invoicing of Rs 1,600 crore and tax evasion of Rs 241 crore," it added.

It further said investigations in the case have unearthed a well organised racket of creating bogus firms, issuing fake invoices and bogus e-way bills to generate and encash tax credits.

Govt to discuss GST overhaul after Budget

Finance ministers from the Centre and

states will reportedly discuss an overhaul of the GST slabs and rates. Officials will also discuss methods to stem the shortfall in revenue collection and GST compensation to states for the next fiscal, a source said.

A rate hike on items such as perfumes, cosmetics and vacuum cleaners, which were recently moved from the 28 percent slab to the 18 percent slab, may be discussed in future.

The Centre and some states have been locked in a tussle over payout of GST compensation cess. The Centre is expected to face a shortfall of Rs 63,200 crore in GST compensation cess collection, according to a media report. Two days before the GST Council's meet on December 18, the Centre had released Rs 35,298 crore to states and Union Territories as compensation cess.

15th Finance Commission (FFC) Chairman NK Singh recently highlighted the need to simplify the GST structure. The Budget will most likely include the recommendations of FFC, which submitted an interim report to President Ram Nath Kovind and Finance Minister Nirmala Sitharaman earlier in December.

The Centre wants states to take a cut in their compensation dues, which is currently at 42 percent, a move that states have opposed. A similar suggestion made by the FFC in September did not get a favourable response from states. Resolution of the issue between the Centre and states will have a bearing on the final FFC report for five-years ending FY26.

INDUSTRY NEWS

Personal insolvency framework to be "beginning of a new learning": M S Sahoo

Personal insolvency framework will be the "beginning of a new learning" and the next big thing in insolvency reforms, IBBI chief M S Sahoo has said. The framework under the Insolvency and Bankruptcy Code (IBC) for personal guarantors to corporate debtors has come into force from December 1.

Sahoo, Chairperson of the Insolvency and Bankruptcy Board of India (IBBI), emphasised that insolvency resolution of personal guarantors complements insolvency resolution of corporate debtors. "It (personal insolvency) is the next big thing in insolvency reforms. It will be beginning of a new learning," he told PTI in a recent interview.

In the last three years, Sahoo said it was learning about corporate insolvency and in the next three years, "we will invest in learning personal insolvency". The IBC came into effect from December 2016.

Govt gives premature retirement to 96 corrupt officers

As informed by the Rajya Sabha, the centre has given premature retirement to 96 corrupt officers in the last five years. From July 2014 to October 2019 (as on November 21, 2019), Fundamental Rules 56(j) has been invoked against a total number of 96 Group 'A' officers of different ministries/departments, Minister of State for Personnel Jitendra Singh said in a written reply. The government has the absolute right to retire government officials prematurely on the ground of lack of integrity and ineffectiveness, in public interest, under the provisions of Fundamental Rules (FR) 56(j)/(l), Rule 48 of Central Civil Services (CCS) Pension Rules, 1972, he said.

Govt issues uniform stamp duty structure across states

In order to curb the menace of different states flexing muscle on stamp duty collection in equity, currency and commodity markets, the Central Government has issued a uniform stamp duty structure across states. The Gazette notification for uniform stamp duty would be effective from January 2020.

Currency traders in Mumbai, a city which generates largest trading volume in the segment, will have to pay a stamp duty of only Rs. 10 per crore against Rs. 200 they pay as of now. The same is for Delhi. Details of stamp duty charged is based on traded volume and is mentioned in a contract note. Brokers collected it and passed it on to the respective states where the trading volumes came from.

Stamp duty of around Rs. 250 to 300 has been levied by many states on per Rs. 1 crore worth of intra-day and derivative trades. This has now been fixed at Rs. 300 for intra-day, and Rs. 200 for derivative on every Rs. 1 crore worth of volumes.

On delivery based trades, the stamp duty has been fixed at Rs. 1,500 per crore on buy side. This is instead of Rs. 750 on each buy and sell side. The same for options trading is Rs. 300 and Rs. 10 for currency segment trading on every crore.

15th Fin Commission recommends performance based incentives

15th Finance Commission has recommended performance based incentives in the form of additional grants to states based on the agricultural reforms undertaken by them after a series of efforts by the centre failed because of reluctance at the state level to adopt these laws. Several persons aware of the deliberations expressed that the proportion of grants for overall transfer to states for specified purposes may go up to 25% against 12-19% now and linked to the adoption and implementation of model the Contract Farming Act, 2018 and the model Agricultural Produce Market Committee (APMC) Act, 2017 among others.

4 medical devices included in national list of essential medicines

Four medical devices — cardiac stents, drug eluting stents, condoms and intra uterine — have been included in the national list of essential medicines and ceiling on their prices have been fixed, Union Minister Mansukh L. Mandaviya said in the Lok Sabha. Mandaviya said the maximum retail prices of 20 other medical devices are monitored by the National Pharmaceutical Pricing Authority (NPPA) to ensure that no manufacturer increases the maximum retail price of a drug more than 10 per cent of the MRP during preceding 12 months.

Govt. targets highway projects worth Rs. 50,000-cr

A target to award highway projects worth Rs 50,000 crore in the next three months has been set by the government, Parliament was informed. The projects will cover a length of 4,471 km of highways. "Award of road projects covering a length of 4,471 km with an approximate cost of Rs 50,000 crore has been targeted during next three months," Road Transport and Highways Minister Nitin Gadkari told Lok Sabha in a written reply. He added 168 road projects covering length of 3,215 km have been awarded since April 2019 till date.

PMO directs road transport ministry to rank NHs on quality, safety

The road transport ministry has been directed by the prime minister's office (PMO) to formulate and implement a policy for quality and safety ranking of national highways using automated data collection and to put in place a mechanism. The PMO further asked to implement these while continuing its current rate of highway construction. The directions come at the backdrop of PM Narendra Modi's chairing the review meeting of secretaries from transport sectors. It has also set a target of raising Rs 12,000 crore by monetising completed projects during 2020-21 and constructing 11,000 km in the same time period. The targets have been set well in advance so that agencies can prepare their roadmap.

No job losses after PSBS merger: Govt

It has been assured by the government to the Rajya Sabha that merger of 10 public sector banks will not lead to any job losses and employees' interest will be protected.

Minister of State for Finance Anurag Singh Thakur during the question hour said lending and other banking services to eastern states will be improved after two Kolkata-based banks are merged.

While United Bank of India will be merged with Punjab National Bank, Allahabad Bank will be amalgamated with Indian Bank. These two banks are headquartered in Kolkata.

"Merger of banks will strengthen the lending capacity. It has been ensured that no person loses job. The employees of merging banks will benefit the maximum.," he said.

"We have taken enough precaution," he said, adding that Narasimham Committee in 1998 and Leeladhar Committee in 2008 recommended amalgamation of the banks. "Amalgamating banks was advised to duly factor in and draw road maps for converging IT systems and HR and to put in place institutional arrangements to ensure expeditious integration," Thakur said.

HOUSING NEWS

India's buildings sector to expand by 6.6% next year driven by fiscal support, govt policies: Fitch

Fitch Solutions said it expects the country's residential and non-residential buildings sector to expand by 6.6 per cent, in real terms, next year, driven by fiscal support and a continued focus on the provision of affordable housing in urban areas.

"Short-term expansion of India's building sector will be driven by a mixture of fiscal support and government policies supporting the housing market, as well as heightened activity within the logistics, retail and industrial buildings sectors," it said in a statement. Long-term growth, on the other hand, will mainly be driven by country's massive population, which requires continued investments into residential building construction sector, the statement said.

Instances of stalled housing projects have been on the rise over the course of 2019, due to a credit crunch sparked by a series of defaults by non-bank financial companies, resulting in a decreased access to funding for both developers and homebuyers.

MahaRERA high on registration, low on grievance redressal

Maharashtra may enjoy the top slot among states when it comes to registration of real estate projects and also in terms of complaints it has disposed off. But that is where the distinction ends. The state has no information that will help make the consumers' buying decision easier. The action-taken-report remains missing and the consumers and lawyers are mostly unhappy with the implementation of those orders.

This also emerges from a basic duality in the intent of the law that mandates that the authority play a regulatory as well as a developmental role. "We cannot punish a developer completely, as he is already struggling. People think Maharashtra Real Estate Regulatory Authority (MahaRERA) is a consumer forum, where we also have to make sure that the industry flourishes," a senior MahaRERA official said on being asked why the penalty is not imposed on the errant developers as provided for in the law.

Sources in the industry said it's mostly known where and with which developers the faults lie. "Even disclosures on MahaRERA website are full of inconsistencies," a source said.

The Rise Of Buy-To-Let Properties

At an uncertain time like this, buy-to-let properties present a window of opportunity for realty developers and investors. These can include family rental homes, student accommodation facilities and co-living spaces. The skyrocketing property prices make homeownership out of reach for a large percentage of India's population. Millennials and Gen Z, in particular, prefer to take property on rent, rather than buying. This has resulted in heightened demand for rental houses, subsequently promoting more realtors to turn towards the buy-to-let model.

India ranks 47th out of 56 countries in housing price appreciation: Report

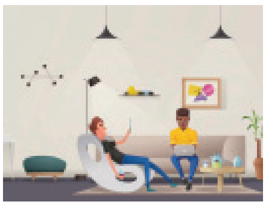
The report ranked India at the 47th spot among the 56 countries/territories tracked, in terms of appreciation in residential real estate prices, with a marginal 0.6 per cent year-on-year (YoY) rise in home prices. Knight Frank released its latest report -- Global House Price Index Q3 2019 -- that tracks the movement in mainstream residential prices across 56 countries and territories worldwide using official statistics.

The report ranked India at the 47th spot among the 56 countries/territories tracked, in terms of appreciation in residential real estate prices, with a marginal 0.6 per cent year-on-year (YoY) rise in home prices. "Slow sales, high inventory and lack of liquidity with developers have restricted rise in home prices," the report said.

The regulations imposed by the government to ensure accountability in the system such as the Real Estate (Regulations and Development) Act, 2016, Goods and Services Tax Act and the Benami Transactions (Prohibition) Amendment Act, 2016 have laid the foundation for a healthy end-user market.

The Buy-To-Let Model Can Breathe New Life Into India's Dwindling Real Estate Sector

Finance Minister NirmalaSitaraman has recently announced the setting up of an INR 25,000 Cr alternative investment fund (AIF) for stalled projects in the affordable and middle-income housing segment. This comes as a welcome respite for India's ailing real estate developers, who have been struggling with unfinished projects owing to the severe liquidity crunch.



The government has earmarked INR 10,000 Cr towards the fund, and the State Bank of India and Life Insurance Corporation (LIC) will contribute the remaining amount. According to government estimates, 1509 housing projects comprising of approximately 4.58 lakh housing units fall in the stalled category, of which around 90% should be eligible or the new fund.

Challenges Plaguing India's Real Estate Industry

The establishment of this crisis fund is a positive move, but it fails to address the multitude of challenges plaguing the real estate space. Especially, the residential real estate sector has witnessed a decline in sales and investments due to weak demand, high taxation, defaults and the rippling effect of the NFBC crisis.

Adding to this is the fears of an impending economic slowdown, which can worsen the skewed demand-supply balance. As per industry experts, even if the AIF fund is utilized efficiently and it can cover only a fraction of India's total stalled instruction. Another area of concern is that if the majority of these projects get completed but remain unsold, they will just add to the inventory of unsold housing units in India.

Indiabulls Housing rallies for 3rd straight session on timely payment of interest/principal

Shares of Indiabulls Housing Finance gained for the third consecutive session on December 31 following timely payment of interest/principal related to NCDs. The stock gained more than 5 percent in three consecutive days and climbed over 2 percent intraday January 1. It was quoting at Rs 310.70, up Rs 3.95, or 1.29 percent on the BSE at 1047 hours IST.

The housing finance company on December 27 and December 30 said it made timely payment of interest/ principal (as the case may be) in respect of the secured redeemable non-convertible debentures (NCDs) issued by itself on private placement basis. Towards the end of last month and earlier this month, the company redeemed (bought back) secured, redeemable, non-convertible debentures of face value Rs 10 lakh each.

"We have taken an initiative to buy back some of the securities maturing in 2021. We will be buying back bonds worth Rs 1,000-2,000 crore between now to January while we will be rolling back wholesale book between now to March 2020 by Rs 7,000 crore or $1 billion," Gagan Banga, Vice Chairman and Managing Director at Indiabulls Housing Finance told CNBC-TV18.

He feels the worst for the housing finance sector is behind. "Operating profit continues to remain around Rs 800 crore. Gross NPA will be between 1.5-2 percent," said Gagan Banga.

MUTUAL FUND NEWS

Aditya Birla Sun Life allows lumpsum investment via WhatsApp

Aditya Birla Sun Life Mutual Fund has decided to allow investors to make lump sum investment through WhatsApp.

"Considering that WhatsApp is one of the most widely used application, the service provides convenience and ease of access to investors. It also automates the entire service process for them and gives a seamless experience. This is yet another initiative of understanding investor service needs and using digital capabilities to offer best-in-class services to our investors," said A Balasubramanian, MD & CEO, Aditya Birla Sun Life AMC.

The mutual fund house was already offering an array of services to investors through WhatsApp.. The AMC also allows to register a new SIP via WhatsApp. Investors can also get their portfolio valuation and avail other non-financial services through the widely used messaging app. Existing investors can also get their account statements through the App.

SBI Mutual Fund IPO to come before SBI general insurance: SBI chief

SBI Chairman Rajnish Kumar said his bank is confident of absorbing any shock, thanks to its resilient balance sheet. He reiterated that he has no intention of helping out private lender YES Bank.

Kumar said SBI Mutual Fund IPO will come before SBI General Insurance's issue. He further said that banks are in the business of taking risks, but such risks should be priced correctly. The difference between private sector banks and public sector banks lies in pricing this risk, he said. Kumar said his bank has also lost money in the telecom sector, but insisted that the banks has diversified its risk well.

"What is not very large for SBI, could be large for others. Telecom sector was one of the stories, which was most sought out sector when we lent to the sector. But people burnt their fingers or even body with it," he said.

"We are a large bank. We have a certain responsibility. A private bank has a choice in selecting their business, but State Bank does not have a choice," he said. SBI is capable of change and managing change well, Kumar. It's a leader in digital transformation, he said.

SBI chairman said that it is the responsibility of a bank's management to deliver value to the shareholders. Globally, he said, the process is shifting to the value of stakeholders and not shareholders. While SBI is seeing some requests for project funding, it still does not have large projects, he added.

"Our working capital funds are lying idle. Demand is yet to pick up," Kumar said. According to him, availability of debt is not a problem. "Problem is availability of equity and confidence" Kumar insisted that one must not be pessimistic about the future even in a slowdown. "We need to improve productivity to achieve $5 trillion economy goal."

Sebi releases norms for mutual fund investment in minors' name

Sebi has recently brought a framework for making investment in mutual funds in the name of minor through guardian and to ease the process for transmission of such schemes. The move is aimed at bringing uniformity in such investment process across asset management companies (AMCs).

The regulator said payment for investment by means of cheque, demand draft or any other mode will be accepted from the bank account of the minor or from a joint account of the minor with the guardian only. For existing folios or investor accounts, AMCs need to insist upon a change of pay-out bank mandate before redemption is processed.

Upon the minor attaining the status of major, the minor in whose name the investment was made, shall be required to provide all the KYC details, updated bank account details including cancelled original cheque leaf of the new account.

Further, no further transactions shall be allowed till the status of the minor is changed to major, the regulator noted. Sebi has asked AMCs to build a system control at the account set-up stage of Systematic Investment Plan (SIP) and Systematic Transfer Plan (STP) on the basis of which, the standing instruction is suspended when the minor attains majority, till the status is changed to major.

Principal Mutual Fund introduces mid cap fund

Principal Mutual Fund has launched a new fund called Principal Midcap Fund.

The NFO of the Principal Midcap Fund closed on December 20. The scheme offers features like SMART and My Gain, a communication from the fund house said.

According to a press release, "SMART is an exclusive facility that is available during the NFO period. This facility staggers a lumpsum investment to mitigate market-timing risk. Through the SMART facility, investors can stagger their investment in Principal Midcap Fund into four equal instalments, only 25% of the application money is invested upfront in Principal Midcap Fund while the remaining 75% is invested in Principal Cash Management Fund."

If the benchmark index falls 3% from the date of allotment, the SMART facility gets activated and 25% of the initial investment is automatically shifted to Principal Midcap Fund else the switch takes place from Principal Cash Management Fund to Principal Midcap Fund at the month end. In a nutshell, this facility helps reduce the risk of timing the market.

The press release also said, "My Gain facility allows investors to set a target rate of return to activate auto trigger which automatically shifts the amount of appreciation to another fund of the investor's choice when the target return is achieved."

Motilal Oswal Mutual Fund introduces two large cap index funds

Motilal Oswal Asset Management Company has recently introduced two large cap Index funds: Motilal Oswal Nifty 50 Index Fund and Motilal Oswal Nifty Next 50 Index Fund. The NFO for these two funds opened between December 3 and December 17. Aashish Somaiyaa, MD & CEO, MOAMC said, "These launches are in continuation of our recent efforts to retailize passive investing through investorfriendly open-ended index fund formats with ability to size at a bite size as low as Rs 500."

MOTILAL OSWAL
Asset Management

"We have received enthusiastic response to our index fund launches as they have gained prominence amongst digitally savvy DIY investors as well as distributors and advisors who take low cost tools for asset allocation and financial planning very seriously," he added.

The likely performance of large cap mutual funds have been a cause for concern since the re-categorisation exercise carried out by Sebi two years ago. After the exercise, these schemes were mandated to invest in top 100 stocks by market capitalisation. Mutual fund advisors and analysts fear that the restricted investment universe would cap the alpha-generating capabilities of large cap mutual funds. The narrow rally in the market in the last one and half years also resulted in many actively-managed large cap schemes losing out to passively-managed large cap index funds by a wide margin.

CO-OPERATIVE BANK NEWS

RBI wants urban cooperative banks to focus mainly on priority sector

Reserve Bank of India (RBI) on Mondaproposed that the single and group borrower limits of urban co-operative banks (UCBs) should be brought down and half the loans given should not be of more than Rs 25 lakh, while the priority sector lending targets should be raised steeply.

UCBs' target for priority-sector lending has been proposed at 75 per cent of their credit from 40 per cent now. The target has to be reached in phases — 50 per cent by March 2021, 60 per cent by March 2022, and 75 per cent by March 2023.

The RBI proposed that the single and group borrower limits should be 10 per cent and 25 per cent, respectively, of a bank's tier-1 capital.

At present, UCBs are allowed to have exposures of up to 15 per cent and 40 per cent of their capital funds to a single borrower and a group of borrowers, respectively.

RBI issues norms to shore up governance standards at urban cooperative banks

In order to strengthen governance standards at urban cooperative banks (UCBs), the Reserve Bank of India released the final guidelines for setting up a board of management (BoM) for such banks. According to the guidelines, UCBs, with deposits of Rs. 100 crore and more, will constitute the BoM, which will be a mandatory requirement for opening new branches.

"The board of directors (BoD) of a UCB perform both the executive and supervisory roles, and has the responsibility to oversee the functioning of UCB as a cooperative society, as well as its functions as a bank. Since UCBs are accepting public deposits, it is imperative that a separate mechanism be put in place to protect the interests of depositors," said the RBI in its notification.

The BoM will comprise expert banking professionals. It will also exercise oversight on banking-related functions of the UCBs, assist the BoD on formulation of policies and any other related matter, specifically delegated to it by the board for proper functioning of the bank, it added.

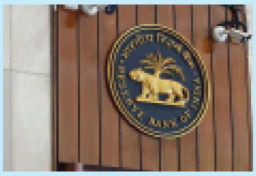
The BoM will also oversee the management of fund and borrowings, and recommend action for recovery of non-performing assets (NPAs). The BoD will continue to be the apex policy setting body and constitute various committees of the board, including the BoM, to assist the board in carrying out its responsibilities.

The BoM will be constituted by the BoD within a period of one year from the date of the circular, and have a minimum of five members and may have as many as 12 members. The CEO will be a non-voting member, the RBI said. The chairman of the BoM may be elected by the members from among themselves, or appointed by the BoD, it added.

UCBs will have to make suitable amendments to their by-laws, with the approval of the general body and registrar of cooperative societies to provide for the constitution of BoM, in addition to the BoD.

Cooperative banks will need RBI approval for CEO appointment

In order to strengthen its supervisory control over the Urban Co-operative Banks (UCBs) the RBI said that UCBs with deposit base over Rs 100 crore will requir prior approval of RBI for appointment of their CEOs.

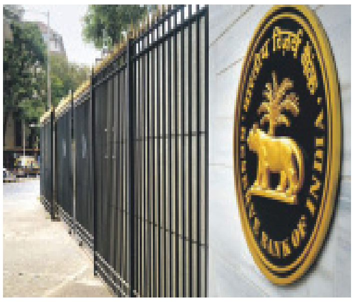


After capping lending to a single borrower and raising the priority sector lending requirements for UCBs, the RBI in its final guidelines on constitution of Board of management in UCBs, said that UCBs with deposit size of Rs 100 crore and above, will also require prior approval of RBI for appointment of their CEOs. The central bank's announcement is significant considering its supervision practices came in for criticism after a gross violation of lending norms by a better run UCB-PMC Bank as a result of which the bank is under an RBI appointed administrator with depositors also facing withdrawal restrictions.

The announcement is a part of the final guidelines on the constitution of the Board of Management (BoM), as announced in statement on developmental and regulatory policies on December 05, 2018, which was released. RBI has also decided to implement the suggestion of putting in place Board of Management in addition to the Board of directors (BoD) in UCBs with deposit size of Rs 100 crore and above. These guidelines is however not applicable to Salary Earner's Bank. It would be mandatory for the larger UCBs to constitute BoM for seeking approval to expand their area of operation and/or open new branches.

RBI considers extending bank-like vigil on NBFCs, cooperative banks

The central board of the Reserve Bank of India (RBI) on Friday discussed extending the "enforcement policy and framework", which is in place for scheduled commercial banks, to non-banking financial companies (NBFCs) and co-operative banks. Currently, NBFCs and co-operative banks have different regulations governing them. These are not as stringent as the rules for banks are.



However, the collapse of Infrastructure Leasing & Financial Services (IL&FS) last year and Punjab and Maharashtra Co-operative (PMC) Bank this year has led to concerns about regulations governing NBFCs and co-operative banks. Apart from RBI Governor Shaktikanta Das, the meeting on Friday was attended by all three deputy governors and other board members.

The central bank has created a new department of supervision to centralise vigil on all entities it regulates. It has raised a separate supervisory cadre only for this purpose. The RBI wants supervisory rules as well as penalties to be uniform.

If the policy is extended to NBFCs and co-operative banks, they will have to disclose divergence in asset classification and provisioning during RBI inspections in their audited financial reports. Till now, these entities have been exempted from this. At present, there are more than 98,000 co-operative banks and 10,000 NBFCs. Sources said the RBI would concentrate on the top 50 co-operative banks and NBFCs.

According to RBI data, there are only 54 scheduled urban cooperative banks. The RBI is already monitoring top 50 NBFCs, considered systematically important. The scrutiny regime is likely to become tougher if the norms are extended to these entities.

Most of the policy framework applicable for banks have been gradually been implemented for the NBFCs. But RBI did not have better control on cooperative banks because of dual regulation. If this is done, there will be better control and supervision of RBI on entire financial system which in turn will bring much desired financial stability. This will instill more confidence in the investors", said Deo Shankar Tripathi, CEO or Aadhar Housing Finance.

In 2017, the RBI said banks have to make adequate disclosures under two conditions: 1. If additional provisioning requirements assessed by the central bank exceeds 15 per cent of the net profit after tax of the bank; 2. If the additional gross non-performing assets (NPAs) identified by the RBI exceeds 15 per cent of the published incremental gross NPAs for the banks in a given period.

Now, statutory auditors of NBFCs and co-operative banks may be held accountable if there are any lapses on their part in giving the true picture of the financial statements of the lenders. In the past year, with the collapse of IL&FS and the Punjab and Maharashtra Co-operative Bank, questions have been raised on the quality of auditing done by the statutory auditors.

LEGAL CASES

Civic officials prosecuted for water pollution

The Supreme Court ruled that municipal commissioners and chief officers of the municipal council can be prosecuted under the Water (Prevention and Control of Pollution) Act. The Karnataka High Court had quashed prosecution against them. The State Pollution Control Board challenged that order. In this case, Karnataka Pollution Control Board vs B. Heera Naik, the complaint against the civic officials was that it had accorded consent to the officials to discharge sewage effluent after treatment which had expired in 2006 but not been renewed.

The condition that the officials should provide sewage treatment plant within six months was also violated. Instead, the accused continuously discharged untreated sewage into the water bodies. The Supreme Court stated that all companies as wells as "body corporates" could be held guilty of offences under the ACt. "There cannot be any dispute that city municipal council is a body corporate," the court ruled.

Complaint possible for Ulip claim

The National Commission had decided that disputes pertaining to unit-linked insurance plans (Ulips) would not fall within the ambit of the Consumer Protection Act since the units are investments made in the stock market and traded for speculative gains. However, in an important ruling recently, the National Commission has now distinguished that its interpretation would not apply in the case of a death benefit claim under the same policy.

Paramjit Kaur's husband, Balbir Singh, had taken a Ulip from MetLife Insurance. The policy, which was issued on February 20, 2008, was to mature after a period of 20 years. The sum assured was Rs. 4,80,000 for which the quarterly premium was Rs. 6,000. The Policy provided that in case of death before maturity, the nominee would be entitled to receive the investment value along with the sum insured. After Balbir expired on September 25, 2008, his widow Paramjit lodged a claim as the nominee. The insurer repudiated it on the ground that the policy was not in force on the date of death. It said the policy had lapsed due to non-payment of the premium instalments.

Relief more than what victim asked for

The Supreme Court has ruled that in road accidents, the tribunal has the power to grant compensation to victims more than they had asked for. Citing an earlier ruling, the judgment in the case jabbar vs Maharashtra Road Transport Corporation stated that "there is no restriction that the court cannot award compensation exceeding the claimed amount since the function of the tribunal or court under Section 168 of the Motor Vehicles Act is to award 'just compensation'". In this case, a fruit seller had to amputate his arm in a bus accident.

He wanted Rs. 9 lakh for loss of income throughout life but he reduced the demand to Rs. 3 lakh because he could not pay the necessary court fee. He further submitted that if he was granted a higher amount as compensation, he was willing to pay the difference in court fee. The tribunal granted Rs. 1.5 lakh only. The Bombay High Court raised it to Rs. 2.5 lakh. On appeals, the Supreme Court decided that Rs. 5 lakh with 9 per cent interest from the date of the accident would be just and reasonable, though he had asked for a lower amount.

Alternative remedy in income tax case

When there is an alternative remedy provided in the Income Tax Act, it should be exhausted before approaching a high court, the Supreme Court stated while dismissing the appeal Genpact India vs Deputy Commissioner, and upholding the Delhi High Court order. In this case, shares held by its sole shareholder and holding company Genpact India Investment, Mauritius, was bought back in two stages.

Meanwhile, Section 115QA of the Act, dealing with buyback of shares, was amended and an assessement order was passed according to it. This was challenged by the company. The revenue authorities mantained that the concerned provision was introduced in 2013 to counter the tax avoidance practice mainly adopted by Indian subsidiaries to distribute income among shareholders of their foreign-based holding companies under the garb of buyback of shares.

They demanded tax at the rate of 20 per cent. The company moved a writ petition before the high court arainst the demand but the revenue authorities submitted that there was an alternative remedy provided in the Act. The high court argeed and dismissed the petition. The appeal was also rejected.

Transmission lines over private property

Raising power transmission lines on private land often leads to suits involving several parties. The landowner does not want to part with his property, the beneficiary presses for the line, electricity authorities want unobstructed access and the government has to protect the public interest and economic development. In this case, Century Rayon vs IVP, the chemical company wanted a transmission line through a piece of land belonging to IVP firm. The latter moved a civil court and obtained an injunction against the construction. The Bombay High Court dismissed the writ petition of Century Rayon. The Supreme Court allowed the work to go on imposing several conditions. Century will pay the landowner Rs. 20 lakh and the electricity authorities can complete the work which had already reached an advanced stage. The civil suit involving the Telegraph Act and the Electricity Act would go on.

Trusts don't come under consumer law

The Supreme Court ruled last week that employees of ONGC, which formed a trust for their benefit, are not "consumers" of the trust for purposes of the Consumer Protection Act. The scheme is managed and run by a trust and not by ONGC. There is virtually no privity of contract for providing service between ONGC and the claimants. The scheme is also voluntary and optional. The court emphasised that there is no relationship of consumer and service provider between the claimants and ONGC. The Gujarat state consumer commission and the national commission had accepted the consumer complaints of the employees and ordered ONGC to pay amounts to the employees. On appeal (ONGC vs Consumer Education & Research Society), the court held that the employees are not consumers. However, they will be paid according to the commission orders as the public sector corporation had agreed to pay the amounts.

Arbitration of AAI replaced

The Bombay High Court, in a similar case last week, emphasised that the guiding principles in arbitration are "neutrality, independence, fairness and transparency even in the arbitral-forum selection process". In this case, Lite Bite Foods vs Airports Authority of India, disputes arose after two restaurants at Pune airport were told to change their sites. They complained that the change had caused them severe loss as they received less footfall at the new locations. The airport director of Pune appointed a retired CPWD officer the sole arbitrator. This was opposed by Lite Bite as the airport director himself was disqualified under Section 12 of the Arbitration Act and its two schedules because he was an interested party in the adudication. Therefore, he could not nominate the arbitrator. The court accepted this argument and appointed a former chief justice of the Bombay High Court the sole arbitrator in the case.

ICICI Bank inaugurates 'Service Centre' at Mannai Plaza in Juffair

ICICI Bank today inaugurated a 'Service Centre' at Mannai Plaza, near Oasis Mall, Juffair. This is the second physical touch point of the Bank in the country, the first being the existing retail branch at Manama Centre. The service centre provides services for all products offered by the Manama branch, except cash deposit and withdrawal. ICICI Bank offers retail, private banking and corporate banking services in Bahrain. H.E. Mr.Alok Kumar Sinha, Indian Ambassador to the Kingdom of Bahrain inaugurated the ICICI Bank 'Service Centre'.

Mr. Amit Bansal – Country Head (Bahrain), ICICI Bank said: "ICICI Bank has been operating in Bahrain since 2004. The Bank had received retail banking license in May 2007 to provide retail and commercial banking activities in the country. The inauguration of the 'Service Centre' is an important milestone in the Bank's journey in the country. It would help the Bank to widen its reach in the country and would offer increased convenience to the Bank's customers in the country in general and around Juffair, in particular."

The centre remains open from 8:00 am to 1:30 pm and 2:30 pm to 4:30 pm on Sunday to Thursday as well as on the first, third and fifth Saturdays of the month.

It offers products, especially designed for customers in Bahrain such as savings and current account, fixed deposits and global money transfer, life insurance products and general insurance products. Further, it caters to non-resident Indian (NRI) customers with a bouquet of products and services including opening NRI accounts & fixed deposits, loan against NRI deposits, home loan for properties in India, transactions in select mutual funds as well opening of share trading.

Bank of Baroda signsMoU with Government of Gujarat to facilitate credit flow to MSME entrepreneurs

Bank of Baroda, India's secondlargest Public Sector Bank,today signed anMoU with the Government of Gujarat to facilitate flow of credit to the MSME sectorfor Greenfield Projects, Start-Ups, Women Entrepreneurs and Entrepreneurs from backward areas of Gujarat under Gujarat Single Window Clearance Act 2017 & Ordinance Number 1 of 2019 dated 24th October 2019. In terms of the MoU, the Bank shall complete the processing of applications on priority basis and convey in-principle approval/decision of lead through the portal, District Level Nodal Agency or State Level Nodal Agency.

Speaking on the occasion, Chief Minister, Shri Vijay Rupani, said "The State Government is committed to support the MSME sector in the State for economic development and this is a major initiative taken by the Government whereby exemption has been provided to the entrepreneurs from certain approvals and inspections, before establishment of units. This MoU would speed up the process of credit offtake as well as industrial development. I am happy that Bank of Baroda has joined hands with the State Government and shown keen interest as SLBC Convener to take this initiative forward."

Yes Bank Launches 'Yes Scale Marketplace': Platform to Host Innovative Solutions Co-created with Startups

YES BANK, India's fourth largest private sector Bank announced the launch of 'YES SCALE Marketplace', an industry first online marketplace of innovative solutions, co-created with its APIs and startup partners across sectors.

The platform eases the process for startups to jointly go-to-market with YES BANK, enabling them to explore 'live' use-cases, register their solution and further assist startups in completing their solutions with banking integrations (API Sandbox) to jointly go-to-market with the Bank to 20K+ corporate & MSME clients.

While digital solutions for business needs are available across sectors, businesses especially in the MSME segment find it tedious to discover solutions, understand fitment and compare various options. This platform creates a 'one-stop-shop' experience enabling businesses to not only view and discover multiple solutions but also explore them in detail through demos and integrate banking seamlessly on their platform. Designed to mimic an online marketplace, the platform completely eases the process of selecting and using solutions through a simple register, explore and 'add to cart' process.

This platform builds on the Bank's strategy of providing comprehensive technology solutions with integrated banking, thereby addressing the business needs of both Corporate and SME clients. This features 20+ solutions for each use case across five sectors, Supply Chain & Logistics, Clean energy, Agritech, Lifesciences/Healthtech and Ed-tech.

Marketplace of Cross Sector Innovations with Plug and Play Banking for Clients

Launched in 2018 as a cross sector accelerator program, YES SCALE initially facilitated successful pilots of innovative startup led solutions for Corporate clients such as Mahindra & Mahindra, BigBasket, Schneider Electric, Godrej and ITC among others. Thereafter in early 2019, the program was further extended to the MSME segment with curated, banking integrated plug and play solutions across Ed-tech, Logistics and Clubs. These solutions include an AI enabled platform with integrated payments and collections for school management which has been deployed in 100+ schools, a fleet tracking platform with digital invoicing and collections deployed in 20+ client partners along with a Smart Hospital Management solution with booking, payments and collections among others.

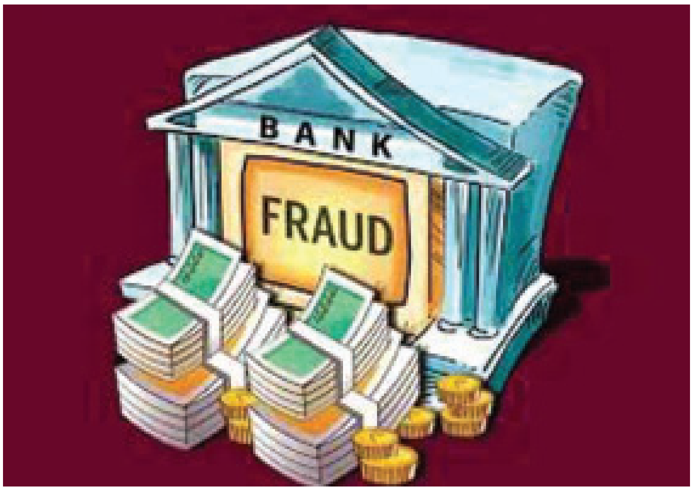
Bank of Baroda Receives Global Lowest Gross Fraud (Issuer) Award at Visa Global Service Quality Awards 2018

Bank of Baroda, the country's second largest bank, was awarded the'Global – Lowest Gross Fraud (Issuer)'by Visa at the Global Service Quality Awards 2018. Shri Murali Ramaswami and Shri S.L. Jain, Executive Directors of Bank of Baroda were felicitated by Shri Vaibhav Taranekar, Head – Client Services, India & South Asia of Visa. Global – Lowest Gross Fraud (Issuer) recognizes issuers that have the greatest reduction in gross fraud rates. The Visa Global Service Quality Awards is an annual client performance program honoring Visa's highest-performing acquirers, issuers, and issuer processors. Recipients exemplify the Visa-client relationship, fulfilling the brand promise through excellence in innovation, operational efficiency, and cardholder satisfaction.

On the occasion, Shri. Murali Ramaswami, Executive Director,Bank of Barodasaid,"It has always been our endeavour to ensure minimal frauds to accrue and provide safe banking to our customers. To achieve an award in the global - lowest gross fraud category is a testament of our collective efforts towards ensuring a clean banking environment to our valued customers."

While Shri S.L. Jain, Executive Director,Bank of Baroda said, "We are pleased that the Bank's long relationship with Visa in six geographies has led to a desired outcome through both, Debit and Credit cards. We shall work towards being the recipient of such awards in the years to come." The award has been conferred for the fiscal year October 2017 to September 2018.Receiving a Global Service Quality Award is a notable industry accolade as the award is evaluated on the measure of confirmed fraud rate on transactions over the Visa network and the sum of confirmed fraud purchase Amount (USD) / sum of settled purchases amount (USD) and is less than 1 bps.

BANK FRAUDS IN INDIA-ANALYSIS



Abstract:

The growing number of bank frauds in India is a serious matter which adversely impact the working of banks, markets and payment system. These also shake the confidence in the banking system and the integrity and stability of the economy. Besides a sharp growth in the number of frauds and the amount involved in them during the recent past, innovative approaches have been adopted by the culprits which goes difficult to detect and prevent them, Appreciating the seriousness of the issue, both the Government and RBI have been initiating steps from time to time to ensure effective detection and prevention mechanism in banks. But these need to be supplemented by strengthening professionalism and corporate governance &business ethics, besides promoting education and training in banks. More importantly, efforts are called for creating seriousness among the bank staff in dealing with frauds. Appreciating this felt need,, the article is specially written for bank officers to develop a fair understanding of bank frauds by discussing analysis of frauds, modus of operandi, Know Your Principles for prevention of frauds, measures taken by Government and RBI, present arrangements for investigation of frauds in banks and suggestions to strengthen the machinery in banks for detection and prevention of bank frauds

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Introduction:

Fraud' under Section 17 of the Indian Contract Act, 1872 includes any of the acts committed by a party to a contract, or with his connivance, or by his agents, with intent to deceive another party thereto or his agent, or to induce him to enter into the contract. In the context of banking business, 'Bank Fraud' is defined in the Report of Reserve Bank of India (RBI) Working Group on Information Security, Electronic Banking, Technology Risk Management and Cyber Frauds , 2011 which reads: 'A deliberate act of omission or commission by any person, carried out in the course of a banking transaction or in the books of accounts maintained manually or under computer system in banks, resulting into wrongful gain to any person for a temporary period or otherwise, with or without any monetary loss to the bank'(1).

Bank frauds in India are on the rise which is a matter of concern to banks and RBI.Consequently, the impact of frauds can be huge in terms of likely disruption in the working of the markets, banks, and the payment system.Besides, frauds can have a potentially debilitating effect on confidence in the banking system and may damage the integrity and stability of the economy.

Besides a sharp growth in the number of frauds and the amount involved in them, innovative approaches under technology driven banking have been adopted by culprits in perpetrating bank frauds which is becoming difficult even to detect them and undertake preventive measures. In this backdrop,this paper attempts to study bank frauds by examining analysis of bank frauds, modus of operandi of frauds, Know Your Principles for prevention of frauds, Reserve Bank of India (RBI) and Government of India (GOI)initiatives, investigation of frauds in banks and offers suggestions to strengthen the machinery in banks for detection and prevention of bank frauds.

Analysis of Bank Frauds

With the sweeping changes in the scope and magnitude of banking transactions witnessed in the past few decades, the emergence of hybrid financial products, the increasing trend of cross border financial transactions &the dynamics of real-time fund movement and transformation,bank frauds are on the rise both in terms of number and quantum.Hence, it was felt necessary for RBI to create a database relating to bank frauds for review and monitoring.

Accordingly, RBI made it mandatory for scheduled commercial banks (SCBs) to report fraud cases way back in July 1970. In 2005-06, such reporting was extended to urban co-operative banks (UCBs) and deposit taking Non-Banking Financial Companies (NBFCs), registered with RBI. In March 2012, NBFC-ND-SIs (systemically important, non-deposit taking NBFCs) having an asset base of Rs. 100 crore and above were also brought under the reporting requirements.

According to the data given by RBI in response to an RTI query as on June 13, 2019, of the total 53,334 cases of frauds reported during 2008-09 and 2018-19 fiscal years, involving a whopping Rs 2.05 lakh crore, the highest of 6,811 were reported by the ICICI Bank involving Rs 5,033.81 crore(2).The state-run State Bank of India (SBI) reported 6,793 fraud cases involving Rs 23,734.74 crore, followed by HDFC Banks which recorded 2,497 such cases involving Rs 1,200.79 crore.

Further analysis of fraud related data suggests that, a quantum jump in the amount involved in frauds during 2017-18 was on account of a large-value fraud committed in the gems and jewellery sector, mainly affecting Punjab National Bank. Further, during 2017-18, public sector banks (PSBs) accounted for 92.9 per cent of the amount involved in frauds of more than Rs.1 lakh, as reported to the Reserve Bank; private sector banks accounted for 6 per cent.

Public Sector Banks (PSBs) also accounted for about 85 per cent of the cumulative amount involved in frauds during 2017-18 and, private sector banks accounted for a little over 10 per cent.At the system level, frauds in loans, by amount, accounted for more than 75 per cent of frauds involving amounts of Rs.1 lakh and above, while the number of frauds in deposit accounts was at just over 3 per cent.Within the loan category of frauds, PSBs accounted for a major share (87 per cent) followed by the private sector banks (11 per cent).

The share of PSBs in frauds relating to 'off-balance sheet items' such as Letter of Credit, Letter of Undertaking, and Letter of Acceptance was higher, at 96 per cent.Of the seven classifications of fraud in alignment with the Indian Penal Code, 'cheating and forgery' was the major component, followed by 'misappropriation and criminal breach of

trust'.In 'cheating and forgery' cases, the most common modus operandi was multiple mortgage and forged documents.

Further, Mumbai (Greater Mumbai), Kolkata and Delhi were the top three cities in reporting of bank frauds under 'cheating and forgery'category.In respect of staff involvement in frauds, banks reported that it was prominent in the categories 'cash' and 'deposits', though these together had a much smaller share in the overall number of fraud incidents and the amount involved(3).Due to increasing number of frauds, banks reported a total loss of about Rs 70,000 crore during the last three fiscals up to March 2018. The extent of loss in fraud cases reported by scheduled commercial banks (SCBs) for the last three years stood at 16,409 16,652 and 36,694 as on March end, 2015-16, 2016-17and 2017-18 respectively.

While the bulk of banking frauds was loan-related, it is observed that there has been a significant jump in card and internet banking related frauds during 2017-18. A total of 972 such incidents were reported in 2017-18, roughly three per day. The banking sector lost a total of Rs 168.74 crore to organised crimes directed at ATMs in the past three years. With a lot of essential financial services shifting to the digital space, the number of frauds targeting online transactions has also increased. In 2017-18, a total of 911 frauds were committed using debit and credit cards. The sum total of money that went into the wrong hands stands at Rs 65.26 crore.(4)

In view of the alarming rise in Bank frauds, in 2017, the Central Vigilance Commission (CVC) analysed the top 100 banks frauds in the countryThe analysis focussed mainly on the Modus Operandi; Amount involved; Type oflending viz. Consortium/ Multiple/Individual; anomalies observed; loopholes that facilitated perpetration of concerned fraud and systemic improvements required toplug the loopholes in the system & procedures, etc (5).

The Top 100 Banks frauds were analysed industry-wise and credit facility-wiseThe CVC report discusses modus operendi and loopholes/lapses and offers suggestions for systemic improvement. Lastly, a quick estimate puts the average number of all transactions that happen every day in the banking system stood at 10 crores, which is enormous. But the number of frauds per million banking transactions was about 0.4, which is not a very high figure (6). However, efforts should be made to keep a check on the rising trends in bank frauds. In this regard, it would be interesting to know about reasons for bank frauds.

Reasons for Bank Frauds::

A study conducted at IIM Bengaluru identifies causes of bank frauds. Accordingly, bank frauds are primarily due to lack of adequate supervision of the top management; collusion between the staff, corporate borrowers and third party agencies; weak regulatory system; lack of appropriate tools and technologies in place to detect early warning signals of a fraud; lack of awareness of bank employees and customers; and lack of coordination among different banks across India and abroad.

Further, delays in legal procedures for reporting, and various loopholes in system are the reasons of frauds. Also, lack of specialized forensic audit as well as a good legal understanding of frauds is one of the reasons. (7). For detection and prevention of bank frauds, it is necessary to understand about the modus operandi of frauds.

Modus of Operandi of Frauds:

Bank frauds can be divided into three main sub-groups related to: Technology, Advances and KYC (mainly in deposit accounts). Nearly, 65 percent of totalfraud cases were technology related covering frauds committed through /at internet banking channel, ATMs and other alternate payment channels like credit/ debit/prepaid cards.

Frauds related to deposits are relatively less in number and in value. But, the frauds in advances portfolio accounted for a major proportion (64%) of the total amount involved in frauds. Relatively speaking, large value advances related frauds (>Rs. 1 crore) have increased both in terms of number and amount involved over the years. Modus operandi in these frauds and preventive &mitigation strategies are discussed as under :

(1) Technology Related Frauds: The cumulative total of number of cases and the amount involved in technology related frauds as at March end, 2013 stood at 1,11,655 and Rs. 357.33 crores respectively. Though the average amount involved in frauds is less than Rs.31,000, banks should be constantly on the guard to provide a secure environment for customers to conduct banking transactions. While banks' customers havenow become tech-savvy and started using online banking services and products, fraudsters are devising newer ways of perpetrating frauds by exploiting the loopholes in technology systems and processes.

Fraudsters have employed hostile software programs or malware attacks, phishing, Vishing (voicemail), SMSishing (text messages) and Whaling (targeted phishing on High Networth Individuals) techniques apart from stealing confidential data to perpetrate frauds. With cyber-attack becoming more frequent, the RBI has advised banks in February 2013 to introduce certain minimum checks and balances like introduction of two factor authentication in case of 'card not present' transactions, converting all strip based cards to chip based cards for better security, issuing debit and credit cards only for domestic usage unless sought specifically by the customer, putting threshold limit on international usage of debit/ credit cards, constant review of the pattern of card transactions in coordination with customers, sending SMS alerts in respect of card transactions etc. to minimize the impact of such attacks on banks as well as customers.

Regarding the electronic modes of payment like NEFT and RTGS, it is the responsibility of the user to ensure that his unique ID and password are properly secured and do not get misused due to his laxity. And, banks, on their part, should also ensure that these payment channels are safe and secure. Towards this end, RBI has advised banks to introduce preventive measures such as putting a cap on the value/ number of beneficiaries, introducing system of issuing alert on inclusion of additional beneficiary, velocity checks on number of transactions effected per day/per beneficiary, considering introduction of digital signature for large value payments, capturing internet protocol check as an additional validation check for any transaction, etc.

Regarding duplicate debit/ credit cards, banks need to improve the peripheral and system security in ATM locations and, at the same time, educate their customers about using their payment cards with due caution. Similarly, cases of circulation of fraudulent e-mails and SMS messages conveying winning of prize money have become matter of a concern in recent times. Many a times, innocent people fall prey to such e-mails and pay money in designated accounts, which is then quickly siphoned off through ATMs located in far flung areas of the country.

For this purpose, the fraudsters generally use deposit accounts in banks with lax KYC drills or accounts which remain inoperative for long. Banks, therefore, not only need to caution their customers to guard against such temptations for easy money. In fact, inadequacy of KYC drill would render any subsequent investigation process meaningless.

RBI, as a part of its financial literacy programme, constantly seeks to caution the general public through print media, electronic media and on its web-site not to get enamored by the false promises made in such e-mails. Apart from enlisting active co-operation from their technology vendors, banks must look to build a close rapport with other banks, investigative agencies and regulators to ensure that there is prompt and coordinated exchange of information, whenever required. With the spread of mobile banking, banks would need to closely engage with the telecom service providers for reducing the technology related fraud risk. Banks could also consider seeking insurance coverage as a risk transfer tool and a mitigant for the financial losses

arising from technology induced fraudulent customer transactions.

(2) Advances Related Frauds : Majority of the credit related frauds are on account of deficient appraisal system, poor post-disbursement supervision and inadequate follow up. In this regard, RBI in its circular of August 07, 2004highlighted major deficiencies observed in credit area which shall lead to frauds. These are observed at both at sanction and post sanction stage(8). At the sanction stage, there are major deficiencies noticed. For Instance, sanctions are made deviating from the laid down policy / lending norms. Ad-hoc limits are sanctioned frequently even if the company has regular limits and, the same are running irregularly.

Credit limits are sanctioned by branch/Zonal Office/Central Office level functionaries in excess of their delegated powers. The sanctioning authorities overlook the irregularities pointed out by the lower level functionaries in the borrowal account.The sanctioning authorities are not given full facts about the borrowers and the project by the officials in controlling office/branch. Sanctioning authorities overlook the fact at the time of takeover of accounts that the borrowing company has irregular accounts with the previous bank/s.

There have been instances where some of professionals like chartered accountants, valuers and advocates involved in the loan assessment and, sanctioning processes have also facilitated the perpetration of frauds by colluding with the borrowers to fabricate fudged financial statements, inflated security valuationreports and defective search reports for title deeds of mortgaged property based on which banks have been led to overestimate the funding requirements and security cover for the same.

Cases of multiple financing against the same security are also observed. In the same way, there are major deficiencies at post-sanction stage. For instance, the terms and conditions prescribed at the time of sanction of loan facilities are subsequently relaxed without justification by the sanctioning authorities themselves while disbursing funds. In respect of high valued advances, cases of diversion of funds are not reported to the bank's Board for their information and action in the matter.As regards working capital limits, failure to detect disappearance of stock given as security has resulted

into misappropriation of funds/sale of stock and receivables without the knowledge of banks.

Further, there could be failure to ensure adequacy of the security offered by the borrowers, and to verify whether the same asset is mortgaged to another bank. Periodical reviewof accountsis not undertaken after the funds are lent by the banks.Excess drawings, permitted by the branch/ Regional Office level functionaries in the borrowal accounts, are ratified by the Head Office in a routine manner without examining the need for such permissions, at times, frequently. Lastly, limits sanctioned are allowed to be interchanged indiscriminately by the branch officials without proper authority.

For prevention of frauds in credit area, Certain measures are suggested. To mention few of them, in cases of diversion of funds, the lending bank should obtain a certificate from the borrowers on a quarterly basis furnishing details of accounts opened with other banks.Generally, banks rely on the certificates of valuation given by the external valuers which in some cases are found to have shown grossly inflated values. It is, therefore, suggested that banks shall set up of independent 'valuation Cell' within banks themselves.

Immediate action should be taken where the malafide/gross negligence on the part of dealing officials are noticed.Wherever there is a prima-facie case against the dealing officials, appropriate action in terms of CVC guidelines for their inclusion in the list of officers with doubtful integrity, should be initiated by banks in consultation with the CBI.

Banks should evolve a process of checklisting which enables them to examine any deficiencies while releasing the funds to the borrowers or monitoring the end use of funds. Lastly, there is a need for building up a cadre of officials with proper educational background and training to take care of larger projects financed by the banks.

(3) Frauds related toDeposits: There are several ways of perpetrating frauds in deposits area. These include: opening of new fictitious deposit accounts by persons not properly identified by the bank followed by depositing of fake/stolen/forged instruments in such accounts and then withdrawing proceeds, manipulation in inward/outward clearing, by passing unauthorized entries in the books accounts, giving free access to unidentified so called middlemen/ agents of the original depositor and withdrawing the amount, debiting impersonal accounts such as Imprest Clearing Account/ Suspense account, laxity in the safe custody of critical stationary etc.

In these regards, banks should ensure that deposit accounts maintained with them are fully KYC compliant. Newly opened accounts with unusual banking operation should be under check. Further, timely rectification of entries in Suspense Accounts, and Reconciliation of entries in Clearing Adjusted Account should be ensured, adequate safeguards should be in place in respects of TTs, DDs and Pay Orders. Operations in dormant accounts should be under watch. The banks should also have a system of generating alerts to monitor transactions in accounts which are inoperative for long or where transactions are not in conformity with general trend and customer risk profile.

Know Your Principles for Prevention of Frauds:

In 2015, in his speech delivered by Shri R. Gandhi, Deputy Governor, RBI (9), three Know Your Principles are suggested for banks to prevent a fraud. These include: Know Your Customer (KYC), Know Your Employee (KYE) and Know Your Partner (KYP). Regarding the first KYC, the emphasis is on the different types of document to be obtained from an account holder which will establish that KYC norms have been followed. In a scenario where many frauds are committed by submitting forged and fabricated documents, KYC becomes very important.

A bank, apart from obtaining the relevant documents, should make an effort to KYC in the real sense regarding his background, his stated activities/profession, what his signature/ style of operation etc. A robust KYC system envisages an understanding of his pattern of transactions and will let the bank draw up a customer profile.

Once this is established, any exception to the norms can raise a red flag and tracked or confirmed with the customer. At the bank level, it is possible to segment its customers based on their risk profile and transaction patterns and develop appropriate response systems for exceptional patterns noticed and fortify systemic level controls. About the second KYE, several frauds are committed by insiders.. Bankers are generally people of integrity.

The selection process is highly sensitized in this respect. Banks have to take extra care to have continuous vigil on their staff. Background checking for antecedents, checks and balances, periodic rotations, vigilance assessments and internal audits techniques will have to be employed to know the employees better and as preventive measures. The last one is KYP. Modern day banking necessitates that a bank join hands with partners, agents, vendors etc.

Outsourcing peripheral and several operational activities involves deploying and trusting somebody else's employees. Varied activities as diverse as cash logistics to IT and data management are being entrusted to third parties. Banking Correspondents and Banking Facilitators are emerging as another set of persons closely associated with a bank. If frauds are to be prevented effectively, banks have to know their partners.

RBI and Government Initiatives:

Besides suggesting specific preventive measures for frauds relating technology, advances and deposits as discussed above, both the RBI and the Government have taken several initiatives. To elaborate, RBI advised banks to strengthen the role of the Chairmen and Managing Directors(CMDs)/Chief Executive Officers (CEOs), Audit Committee of the Board (ACB) and Special Committee of the Board to evolve robust fraud risk management systems and implement effective fraud risk mitigating measures.

They are responsible for effective investigation of fraud cases and prompt and accurate reporting to appropriate regulatory and law enforcement authorities. The Board of the banks/ ACB should alsoensure a periodical review of the procedures and processes to avoid loopholes, if any, in their policy guidelines. More importantly, the top management should organize fraud awareness training for its employees focusing on prevention and detection of fraud.

Further, providing individuals a means to report suspicious activity is a critical part of an anti-fraud program. Towards this end, a system of protected disclosure scheme has been evolved which is regulated by CVC in case of public sector banks and RBI in case of private and foreign banks. Reserve Bank has also advised private and foreign banks operating in India to upgrade their internal vigilance mechanism to the same level as is applicable in case of public sector banks in terms of CVC guidelines in the matter.

Information sharing is a vital fraud prevention and alert mechanism. On its part, Reserve Bank shares information with all banks detailing the modus operandi of fraud cases reported by any bank together with details of the entities involved in the perpetration of such frauds in the form of confidential caution advices. This also serves to encourage a periodic review of existing guidelines, identify loopholes on the basis of caution advice, if any, and initiate corrective steps. It has also issued instructions requiring banks to report negligence or involvement of entities like chartered accountants, valuers and advocates resulting in perpetration of frauds, to their professional oversight bodies for appropriate deterrent action.

Today, most banks have put in place a system of checking the credit history of a borrower through credit information companies like the CIBIL. Considering that fraudulent borrowers could still seek credit from the banking system even after defrauding one bank, it calls for setting up of 'fraud registry' on the lines of credit information bureau. Further, fraudulent borrowers are prohibited to get access to banking facilities.Government, on its part, enacted Prevention of Anti Money Laundering Act, 2002 for preservation of records and reporting of certain information such as cash transactions of more than Rs 10 lakhs, fake notes, suspicious transactions such as those relating to terrorist activities to RBI.

In addition, it has changed the norms to reduce the liability of customers with regard to card related frauds. The liability will be shared by banks and customers depending on the circumstances under which the fraud took place. Customers are exempted from liability if the fraud has happened due to negligence of the bank or a third-party breach where the liability is not on the bank or the customer, but on the system. On the other hand, customers will have to bear the loss if fraud has occurred due to negligence on their part. In such cases, customers are liable for losses accrued before they report the same to the bank.

Further, RBI has introduced stricter norms to appoint a correspondent bank abroad by a bank in India. "Shell Bank" should be avoided in which case the bank abroad is only on paper. List of terrorist organizations is circulated by RBI for banks to undertake necessary precaution in banking transactions. List of wilful defaulters and non- cooperative borrowers is also in circulation among banks On the advice of RBI, banks are expected to freeze of assets of suspicious parties. PAN should be quoted for cash transaction of more than RS. 50.000. In addition, Forensic Laws expect a detailed scrutiny of Legal Documents of high value advances to detect early warning signals of fraud.

Fraud Risk Management:

In the context of the framework for dealing with Loan frauds in banks, few steps have been taken up. For instance, Identification of Red Flagged Account (RFA) needs a special mention which is one where a suspicion of fraudulent activity is thrown up by the presence of one or more Early Warning Signals (EWS).

These signals in a loan account should immediately put the bank on alert regarding a weakness or wrong doing which may ultimately turn out to be fraudulent. A few Early Warning Signals include: financing the unit far away from the branch, substantial increase in unbilled revenue year after year, disproportionate increase in other current assets,huge related party transactions, not routing of sales proceeds through bank etc.

The most effective way of preventing frauds in loan accounts is for banks to have a robust appraisal and an effective credit monitoring mechanism during the entire life-cycle of the loan account. In detection of fraud, auditors have a vital role to play.

Coming across the instances of fraudulent transactions in the account, they should immediately bring it to the notice of the top management and Audit Committee of the Board (ACB) for appropriate action. In case of accounts classified as 'fraud', banks are required to make provisions to the full extent immediately, irrespective of the value of security.

However, in case a bank is unable to make the entire provision in one go, it can spread it to four quarters provided there is no delay in reporting. Further, banks have taken initiative in bringing up Fraud Risk Management (FRM) Solution in the digital platform of the respective products and services offered. FRM solution is an additional authentication which is added into the system to calculate the risk profile of the user.

The system will understand the transaction and usage pattern of the user and identify the risk associated in performing the transaction/activity based on the risk profile of the user and the transaction is challenged with second factor authentication. In other words the system will Allow / Challenge / Deny the transaction of the user based on the risk associated with the transaction.

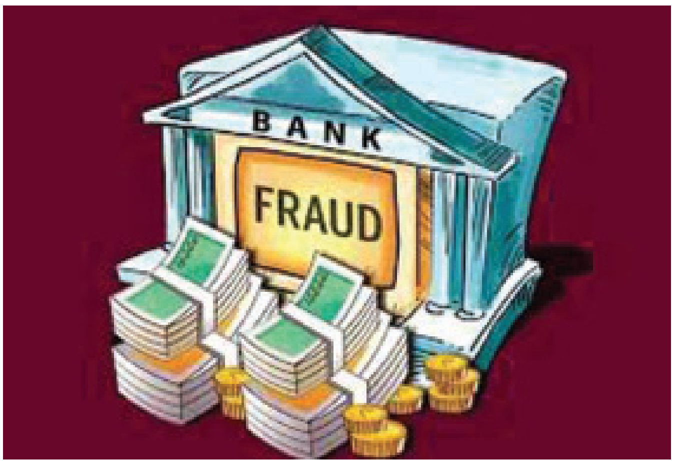
If risk associated with the transaction is low, system will allow the user to perform the transaction. In such cases only PIN will be required to perform the transaction/activity. ii. If risk associated with the transaction is high, system will challenge the user to answer any one of the already opted security questions.

Based on the answer the user will be allowed to perform the transaction. iii. If risk associated with the transaction is very high, system will deny the user from performing such a transaction and system will automatically intimate the same to FRM cell for analysis. Apart from the FRM solution, banks have come up with measures of self- locking the account when it is not being used i.e., blocking the transactions.

Investigation of Frauds in Banks:

As observed in banks, each bank has a Chief Vigilance Officer toinvestigate a fraud committed by the staff up to Rs 25 lakhs after informing the police and the RBI. Any fraud beyond Rs 25 lakhs is referred to CBI. Investigation team in banks conducts investigation to fix staff accountability and initiate staff side action lacks in objectivity and fairness. Staff-side action includes suspension immediately after the bank reaches the conclusion of involvement of the staff member. Criminal complaints are lodged with police (CBI).

Further, banks have to report frauds of Rs 1 crore and above to RBI which creates a Data Base and issues a circular based on new frauds reported. Chief Vigilance Commissioner guides and monitors investigation of frauds. There are



several issues associated with investigation of frauds in banks. In general, investigation function is not paid sufficient attention so far as public sector banks are concerned. The general trend in such cases is to include a large number of officials in the probe so that the investigation is both delayed and diluted. Even in instances where investigations are concluded, there is a tendency to hold only the junior level officials involved in post disbursement supervision account and ignore the lapses on the part of higher officials who are involved in sanctioning of the advances.

Many a times, the internal investigation is put on hold when the probe is handed over to external investigation agencies. But the completion of internal probe would also assist in carrying out prompt investigation by the law enforcement agencies and the perpetrators of fraud can be brought to book. While fixing accountability, there would be a need to categorically establish mala fide intention/ malfeasance on the part of the erring employee involved in fraud cases so that the other officials do not become wary of sanctioning even good credit proposals.

In the backdrop of the above deficiencies, a need is felt to tone up internal investigation function in banks. In addition, many more steps are needed to strengthen both detection and prevention of frauds in banks. . Towards this end, few suggestions are offered

Suggestions:

1. The government shall consider an independent specialized cadre of officers in banks who are capable of carrying out an effective and time bound investigation of such scams. In respect of mega frauds and technology based frauds, this arrangement is needed. For this purpose, selection of such officers shall be on the lines of recruitment of IAS/ IES officers. But, in short term, the government shall consider forming this cadre with a pool of commercial bankers, RBI and CBI officials through lateral recruitment. Further, there should be a dedicated department/cell in banks equipped with legal assistance which serves as a single point of contact with investigating agencies and facilitates easy access to relevant documents.
2. There needs to be effective coordination between banks and agencies such as the Central Board of Direct Taxes (CBDT) to share vital information on personal wealth of promoters. In case of any information that may raise a red flag, the CVC and the RBI should jointly investigate the promoters for fraudulent activities..

3. Banks have to ensure corporate governance at the highest levels. The top management needs to set guidelines and policies for ethical practices and standard procedures to maintain zero tolerance to negligence and fraudulent activities.
4. Various types of audits are undertaken by banks such as statutory audit, risk-based internal audit, concurrent audit, information systems audit and special audits. These need to be tightened for the purpose of obtaining early warning signals of frauds. In particular, the concurrent audit has to be carried out on a real-time, or near-real-time basis.
5. There is a need to improve exchange of information between all stakeholders to instill and maintain financial discipline among the users of funds and prevent negative information arbitrage to the detriment of the system. Bank Board shouldensure that the audit processes and the internal systems and control are capable to identify vulnerable areas, raise red flags and plug loopholes quickly and effectively(10).
6. Delays should be avoided in reporting frauds to appropriate authorities, conducting investigation and fixing staff accountability, which in effect leads to shielding of the main culprit while the blame is generally shifted to the junior level officials. More importantly, it is necessarythat a strong foundation is built by leveraging robust IT systems, framing effective policies and procedures, laying down strict compliance

processes, setting high integrity standards, developing efficient monitoring capabilities and initiating strict punitive action against the culprits in a time bound manner. This is necessary not just for the safety of banks but for ensuring the stability and resilience of the overall financial system and sustaining the confidence that various stakeholders have in its strength and integrity.

7. Job rotation in critical areas of banking operations and branches should be strictly followed. Compulsory leave should be granted at regular intervals to the staff operating in critical areas banking and also to a branch manager. Star performers as identified in banks should be kept under watch.Further, posting of senior officers to Inspection department should be made compulsory for higher promotion. In addition, the alert staff member should be suitably honored.

8. Investigation team members should be given an opportunity to undergo a training programme to acquire necessary skills to conduct investigation timely & objectively and initiate staff action within a given time limit.Similarly, banks should regularly reorient and train their personnel so that they fully understand the importance of internal controls in their respective work place.Besides class room training, there shall be regular e-modules with e-certifications and updates made available to the officers at large.

Conclusion:

Bank frauds are on the rise which is a matter of concern to all the stakeholders. The impact of bank frauds can be huge in terms of likely disruption in the working of the markets, financial institutions and the payment system. Besides, frauds can have an adverse effect on confidence in the banking system and may damage the integrity and stability of the economy. It can also bring down banks, undermine the central bank's supervisory role and even create social unrest, discontent and political upheavals.

The vulnerability of bank frauds has been heightened by technological advancement in recent times. In addition, mega frauds in lending area continues affecting overall financial status of banks. Hence, both the Government and the RBI have been taking steps to ensure early detection of frauds and initiate both corrective and preventive steps. But to supplement these, efforts need to be strengthened to create awarenessamong the staff in banks on seriousness of the problem.

It is also necessary to adopt professional and coordinated approaches in conducting investigation of frauds timely and meaningfully.Lastly the top management in banks has a major role to playto set guidelines and policies for ethical practices and standard procedures to maintain zero tolerance to negligence and fraudulent activities. Towards this end, banks have a long way to go.

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COMBATING CORRUPTION, BATTLING BLACK MONEY

Introduction:

Black money is the money which is earned or received, avoiding the eyes of the Government mainly for the purpose of evading taxes. As taxes are mandatory for any nation to grow, black money is a big hurdle in the progress of any nation. A big part of black money is used for corruption also. The corrupt use black money in various ways. Thus, it's a chain generating each other. Here, we discuss the work done till now and probable solutions to the menace.

Measures taken by government to curb black money and corruption in the last few years:

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1. The Government has introduced Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015. It aims to impose tax/penalty on black money and undisclosed foreign assets. It came into effect from 01.07.2015.
2. Goods and Services Tax (GST) has been rolled out w.e.f. 01.07.2017. Many people used to fudge their account books to save tax and hence, they used to transact mostly in cash to hide their dealings. GST encourages businesses to bring all their sale, purchase into books. It will also compel them to route their sale proceed through their bank account which in turn, will be beneficial for their lender also, as it will add to the confidence of the lending bank, while assessing enhancement or continuation of loan. Apparently, it is good for the borrower also, as they will be easily getting enhancement of limit / loan from their bank.
3. Demonetization of Rs 500 and Rs 1000 currency notes since the night of 08.11.2016. It compelled people to deposit their cash in accounts.
4. Promotion of Cashless India (Promotion of Digital

Payments): How it will curb black money has been detailed later within heading "SUGGESTION ON CASHLESS INDIA". A few measures taken by Government are:

a) DigiShala, which is an educational and non-commercial TV channel on DD Free Dish.

b) "Digital Finance for Rural India: Creating Awareness and Access through Common Service Centers (CSCs)" under Digital Saksharta Abhiyan (DISHA).

c) 'Vittiya Saksharta Abhiyan (VISAKA)'

d) Introduction of user friendly digital modes/Apps like BHIM UPI (Unified Payments Interface), BHARAT QR, BBPS (Bharat Bill Payment System), USSD (Unstructured Supplementary Service Data), Micro ATM, AEPS (Aadhar Enabled Payment System) etc.

e) Following provisions have been proposed in Finance bill, 2019:
   - TDS (Tax Deduction at Source) of 2 percent on cash withdrawal exceeding INR 1 crore in a year from a bank account to be levied.
   - The business establishments with an annual turnover of more than INR 50 crores shall offer low-cost digital modes of payment (BHIM, UPI, UPI- QR Code, etc.) to their customers.
   - No charges or merchant discount rate shall be imposed on customers and merchants. Costs shall be absorbed by banks and RBI.

f) Following provisions have been made in other recent Finance bills.

   A new section 269ST was inserted in the Income Tax Act through Finance Act 2017, which imposed restriction on a cash transaction and limited it to Rs.2 Lakhs per day. It restricted any person from receiving an amount of Rs 2 Lakh or more either in aggregate in a day from a person, or against a single transaction or against a transaction pertaining to one event or occasion.
   - In case of violation of above rule, the violator will be liable to a penalty of an amount equivalent to the amount of transaction.
   - Receiving or repaying Rs 20,000 or more in cash for transfer of immovable property can invite tax trouble or penalty. It is to be noted that in the above mentioned situations the receiver of the cash is liable to be penalised and not the payer.
   - Section 40A(3) of the Income Tax Act pertains to cash transaction limit for expenditure made in cash for businesses. Under this section, if payment for any expenditure of over Rs.10,000 is made in cash, then the expenditure will be disallowed under the Income Tax Act.
   - Under section 43 of Income Tax Act, if a payment of more than Rs. 10,000 is done by a person (assessee) for acquiring an asset by cash, the expenditure would be ignored for the purposes of determination of cost of acquisition of the asset, which means capital gain tax impact will be more. Hence, it is important taxpayer make all payments for acquisition of an asset to the seller through banking channels.
   - Section 269SS prohibits a taxpayer from taking/accepting loans or deposits or a sum of more than Rs.20,000 in cash. Barring a few exceptions, all loans and deposits of more than Rs.20,000 must always be taken through a banking channel.

5. Other Measures:
   - Income Disclosure Scheme 2016
   - Prime Minister Garib Kalyan Yojna
   - Amendments in Money Laundering Act
   - Aadhaar linking of bank accounts

Major benefits of the recent measures taken by the government:

While major benefits have already been discussed above, we discuss herebelow the most significant benefits of demonetization.

1. High denomination notes have been brought down by about Rs 6 lakh crores.
2. As on 27th October 2017, currency in circulation (CIC) was lower by 8% on year on year basis as against an increase of 17.2% in the previous year. It represents a net decline in CIC of approximately 20%. This is a sign of Less Cash and Digital India.

3. As per RBI Bulletin Nov. 2017, approximately Rs 1,60,000 crs was deposited in demonetized currency in PMJDY type small accounts, unmatching to their profiles. After demonetization, 2.24 lakh shell companies have been struck off. It is in the notice of the Government that 35000 companies transacted Rs 17000 crs through their 58000 bank accounts. These irregularities are being scrutinized. The work is on. It is expected that after the closing of scrutiny, a huge sum of black money will be confiscated, culprits will be brought to books and nation will be benefited with this money.
4. Curbing Terrorism: Stone pelting incidents in Kashmir reduced to a great extent. As per report of Economic Times dated 07.01.2017, terrorism related violence in Kashmir saw a sharp decline of nearly 60% during December 2016 with just one bomb blast in valley during the month. It also reported that two main Pakistani presses engaged in printing counterfeit Indian currency have been forced to shut shop.
5. 7.62 lakh counterfeit notes have been detected since demonetization.
6. New tax payers have increased by 26.6% from 66.53 lakh in 2015-16 to 84.21 lakh in 2016-17.
7. Financial Inclusion: Since demonetization, 5 crore new accounts were opened under Pradhan Mantri Jan Dhan Yojna (PMJDY) by October 2017.

Suggestions/way forward

1. Finance Bill 2017 prescribed that not more than Rs 2000 (earlier Rs 20000) can be accepted in cash by political parties. It is a very good initiative against black money. It should be augmented with another norm that no political party can accept cash receipts more than 1% of their total receipts, lest manipulation through multiple cash deposits of small amount should take place.
2. Benami bank accounts should be confiscated. It can be done by implementing 100% Aadhaar based e-KYC. Before this, Aadhaar card should be issued to each and every Indian.
3. Curbing Benami properties: For this, following steps should be taken.
   a. Registration of properties should be electronic and verifiable.
   b. Chain of transfer of a property should be verifiable electronically.
   c. There should be a central record keeping agency for the properties.
   d. All properties should be linked to Aadhaar Number so that it may be ascertained at any point of time what properties are in name of a particular person.
4. Rationalizing deemed profit on turnover (Section 44AD of Income Tax Act), so that businessmen may not be encouraged to hide sales on this count. Presently, it is 8% (6% if some conditions are fulfilled) of turnover.

Suggestion on cashless India:

As discussed above, accepting cash worth Rs 2 lakh or more in aggregate from a single person in a day or for one or more transactions relating to one event or occasion will lead to violation of cash transaction law since 01.04.2017.

It is suggested that this limit should be gradually brought down to Rs 5000 and efforts should be made to take it to zero. Then real cashless India will happen. If this (bringing down to Rs 5000 or zero) is done, the Nations will reap following benefits.

i. Any person will be able to consume his big sums of money, only if it is in his bank account.

ii. Corruption will be minimized to the level of eradication, as bribery is mostly in cash, which will then not be of much use. So people will understand that there is no real benefit in being corrupt.

iii. Nobody would like to spend his energy on earning/ generation of black money, knowing that he would not be able to utilize/consume it. People will understand that cash will be rotten in their shelves but it cannot be spent. In such a scenario, they will prefer to pay taxes and earn all incomes in white, which will appear in their accounts and will be usable for them.

iv. Lavish marriages will be discouraged. It will also save environment, as a lot of wastage will be avoided. In lavish celebrations, wastage is prominent in form of electricity, water, food, fuel etc.

v. Prices of real estate will be corrected, as due to reasons narrated above, people will stop demanding black money in real estate transactions.

vi. It will control crimes with money motive, as money received in such crimes is usually cash, which will be near useless for the criminal.

vii. Transaction limits will be reduced by banks, as a result of less need of cash among customers. ATM cash frauds will be minimized, as fewer people will be using ATMs.

viii. It will increase revenues to the exchequer, as all the business turnover will appear in accounting books of the firms.

ix. This law will have several positive effects. It will be a panacea for eradication of black money and corruption. It will target usage of black money rather than generation of it.

Conclusion:

Thus, we observe that Government has already done a lot to curb the menace of corruption and black money in recent few years but there is scope for a lot more. A few solutions have been suggested above but their success will depend on the fact that each citizen takes pledge to cooperate in the efforts of the Government and recognizes the good intentions of the Government. People must appreciate the policies and rules which are made for their own welfare.

(The views and opinions expressed in the article are author's personal opinion and not of his employer company.)

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CGTMSE - A TOOL TO BOOST MSE

When the lending by banks were primarily concentrated towards the amount of collateral available in the proposal, there were many applicants and aspirants who, despite having enough experience and expertise in their area of working, were not able to avail finance from banks only because they were not able to provide any collateral security to the banks and thus were not able to expand their business. Many perished in the stiff competitive era as they didn't have financial support to expand or further improvise on their products and services both quantitatively and qualitatively. The finances available outside the banking system were too costly for them to avail and survive.

Most of these entities were very small enterprises which were many in number and employing huge workforce of the nation aiming to be a well off entrepreneur one day.

The government of India came to the rescue of these entities and established a trust in collaboration with SIDBI, in August 2000 and established a trust called Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) which is administered by a board of trustees. Govt of India and SIDBI contributed in the ration of 4:1 to set-up the fund.

Objective:

The broad objective of the establishment of CGTMSE was to:

- Source of support to 1st generation entrepreneur to set-up a business and realise there their dreams by making bank credit available without collateral and 3rd party guarantee.
- Enable employment generation as the MSME sector employs largest number people only after agriculture.
- To address growth constraint in MSE sector and facilitate institutional credit flows.

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As on 31.03.2017, CGTMSE approved over 27.72 lakh accounts with an cumulative outstanding of more than Rs. 1.28 lakh crores. In view of the positive impact CGTMSE has on credit flow to MSE sector the corpus of the trust has been enhanced to Rs. 7500 crores fully contributed by the Govt of India.

CGTMSE operates through Member Lending Institutions (MLIs). Presently more than 110 institutions viz PSBs, Private Banks, RRBs and Foreign Banks are member to it. Recently it has also permitted select NBFCs and Small Finance Banks to be the MLI.

With the rapidly changing banking scenario in present day, CGTMSE also needed to refine and redefine its offerings and guidelines which it did indeed and in the last 8-9 months, many of the guidelines of CGTMSE have been redefined and circulated. The offering and guidelines discussed here are updated as on 28.02.2019.

Eligibility:

- As the name CGTMSE itself suggests, Micro & Small enterprises in manufacturing and service industry as per MSME Act 2006 are eligible for guarantee coverage.
- With effect from 01.04.2018 Retail Traders coming under MSE sector are eligible for guarantee coverage.
- Accounts where collateral security is taken, unsecured part of the loan upto Rs. 200 lakh is also eligible for guarantee coverage. This is called Hybrid Security where CGTMSE has second charge on the collateral.

Not eligible:

- Accounts where the type of activity is not manufacturing, service or retail trade shall be disqualified for coverage under the scheme.
- Self Help Group (SHG) and Joint Liability Group (JLG) may come under MSE, but not eligible for guarantee coverage.
- Educational and Training Institutes may come under MSE, but not eligible for guarantee coverage.
- Any account where third party guarantee is taken is not eligible for guarantee coverage under CGTMSE.

Features:

- Facility upto Rs. 200 lakh (Fund Based + Non Fund Based) can be covered under CGTMSE. Facility of more than Rs. 200 lakh can also be covered however, the guarantee will be limited to Rs. 200 lakh.
- For Retail Trade activity, maximum coverage is to the extent to Rs. 100 lakhs.
- All types of constitutions are eligible for guarantee coverage.
- Existing Working Capital loans can be covered under CGTMSE at the time of renewal if it satisfies all the criteria for coverage.
- Existing Term Loan can't be covered under CGTMSE at the time of review/renewal even if it satisfies all the criteria for coverage.
- Entities must have Udyog Aadhar Number (UAN) which is mandatory to obtain coverage. UAN can be generated on website http://em.msme.gov.in.
- Additional Term Loan limit can also be covered subject to limit of Rs. 200 lakh.
- As the guarantee coverage is unit-wise and not borrower-wise, coverage of upto Rs. 200 lakh per unit may be extended to multiple units of the same borrower.
- Separate limits sanctioned to the same unit can also be covered upto the ceiling of Rs. 200 lakh.
- Account must not have become irregular/bad/overdue/ sub-standard/SMA at the time of application or payment of Annual Guarantee Fee (AGF).
- A unit availing total limit of Rs. 200 lakh and on subsequent adjustment of any loan, can't get coverage for the additional loan to the extent of the gap.

Guarantee Coverage:

Guarantee coverage under CGTMSE would be to the extent as depicted below:

Category	Upto Rs. 5 lakh	> Rs. 5 lakh to Rs.5 lakh	> Rs. 50 lakh to Rs. 200 lakh
Micro Enterprises	85%	75%	
Women/Entities in North East region including Sikkim	80%		75%
Others	75%		
Retail Trade*	50%		

* Maximum coverage is upto Rs. 100 lacs.

All percentages above are of Amount in Default.
Amount In Default: Outstanding in the account at the time of account turning NPA or lodgement of claim whichever is less.

Guarantee Fee:

Since all MLIs are having different portfolios under guarantee coverage of CGTMSE and have different amount of NPA and claims lodged, with effect from 01.04.2016 the trust has decided that the guarantee fee shall be different for different MLIs depending upon their NPA Ratio and Claim Payout Ratio.

$$\textbf{NPA Ratio} = \frac{\textbf{Guaranteed Amount of the corresponding NPA Accounts}}{\textbf{Cumulative Guarantees issued by trust to that MLI}}$$

$$\textbf{Claim Payout Ratio} = \frac{\textbf{Cumulative Claim Settled by trust for MLI}}{\textbf{Cumulative receipts by the trust from that MLI}}$$

Risk Premium is calculated as above and Annual Guarantee Fee (AGF) is calculated as Base Rate + Risk Premium. AGF is charged as under:

Credit Facility	Annual Guarantee Fee	
	Women, Micro Enterprises and enterprises in North East region including Sikkim	Others
Upto Rs. 5 lakh	1% + Risk Premium	
> Rs. 5 lakh to Rs. 50 lakh	1.35% + Risk Premium	1.50% + Risk Premium
> Rs. 50 lakh to Rs. 200 lakh	1.80% + Risk Premium	
Retail Trade	2% + Risk Premium	

- Risk Rating is calculated as on 30th September and premium is fixed for the next year.
- AGF to be paid in advance and valid for 1 year.
- First time fee to be paid within 30 days from CGPAN or first disbursement of account whichever is later.
- AGF is calculated as under:
  - **For Term Loan :** For 1st year, AGF is calculated on guarantee amount.
    - For subsequent years, AGF is calculated on outstanding amount as on 31st December.
  - **For Working Capital:** AGF would be calculated on maximum amount of WC limit availed by the borrower in the previous calendar year.
- Every year data has to be fed in online portal of CGTMSE by 15th January of every year. In case the data is not fed/uploaded in time, AGF will be charged on the guaranteed amount.
- Demand for AGF will be generated by 2nd week of February which must be paid by 15th April each year.
- If any guaranteed account gets closed due to non-payment of AGF, revival request may be considered with additional 15% risk premium charged on standard rate in addition to the existing differential pricing structure and penal interest, if any.
- Revival request have to be submitted within next financial year. CGTMSE reserves the right to reject the

claim if account turns NPA within 180 days from the date of revival of account.

- For first year and last year of the loan, AGF is calculated on pro-rata basis.
- Guarantee starts from the date on which AGF is credited in CGTMSE's account.

Refund of Guarantee Fee:

Refund of guarantee fee can only be considered in the following circumstances:

- Excess remittance.
- Remittance made more than once for the same account.
- Fee paid where AGF not due.
- Fee paid in advance but application not approved for guarantee cover.
- In case of pre-closure, refund of proportionate AGF only when closure is marked in CGTMSE portal within 3 months from the date of receipt of fee by CGTMSE.

Extra Rate of Interest:

Extra rate of interest, over and above the applicable rate, will be charged on the accounts covered under CGTMSE as under applicable from 01.09.2018:

- Loan > Rs. 2 lakh to Rs. 5 lakh : 0.50% extra
- Loan > Rs. 5 lakh to Rs. 50 lakh : 0.75% extra
- Loan > Rs. 50 lakh to Rs. 200 lakh : 0.90 % extra
- Retail Trade : 1.00 % extra

Various Time Lines:

Various time lines have been stipulated by CGTMSE within which certain action has to be completed.

- Request for cover: Application for guarantee coverage should be made within end of next quarter of sanctioning of the loan.
- Payment of AGF : First time AGF to be paid within 30 days from CGPAN or first disbursement of account whichever is later. Subsequent AGF payment by 15th April of every year.
- Account Turning NPA: When an account turns NPA, information must be sent to CGTMSE within end of next quarter of account turning NPA.
- Lock-in Period: There is a lock-in period of 18 months from date of start of guarantee cover or last disbursement date whichever is later. During the lock-in period, claim can't be lodged.
- Lodgement of claim : when an account turns NPA, claim must be lodged in order to receive payment from the trust. Lodgement must be done as under:
  - o When A/c turns NPA during lock-in period - Claim must be lodged within 3 years from date of end of lock-in period.
  - o When A/c turns NPA after lock-in period - Claim must be lodged within 3 years from date of A/c turning NPA.
- Closure of account: When a covered account is closed by the borrower, information must be sent to CGTMSE in the same quarter.

Lodgement of Claim:

For NPA accounts, eligibility and process for lodgement of claim entails the following:

- Claim must be lodged within 3 years from end of lock-in period or date of account turning NPA whichever is later.
- The guarantee should be in force at the time of account turning NPA.
- Recovery proceeding must be initiated in the account including filling of suit in DRT/Civil Court/ Lok Adalat/ SARFAESI Act.
- In case of DRT/Civil Suit, filing of case is sufficient.
- In case of SARFAESIA, process till serving of possession notice is to be completed.
- Back ended subsidy, if any, should be adjusted.
- For aggregate outstanding amount eligible for claim settlement does not exceed Rs. 50,000/-, initiation of legal proceedings as a pre-conditions for invoking of guarantee is waived. Aggregate outstanding amount means the total outstanding of all credit facilities of particular borrower as on NPA date.
- The above is to be approved by an executive committee of GMs on case to case basis.
- All the claims are to be submitted online only. Soft copy of document is to be submitted confirming

legal action initiation and copy of possession notice under SARFAESIA.

- Declaration and undertaking must be signed by an officer not below the rank of AGM.
- For claims below Rs. 20 lacs, only declaration and undertaking is sufficient. For claims of Rs. 20 lakh and above, checklist is also to be submitted.
- All the online system have maker and checker concept.

Settlement of claim:

Settlement of claim takes place in 2 stages.

- 1st instalment of 75% of amount in default is paid within 30 days of receipt of all the information.
- 2nd instalment is paid on conclusion of recovery proceeding. Where decree is obtained, 2nd instalment is released after 3 years of the date of decree.

❖ Credit the amount in account when complete 1st instalment is received. Amount received on Ad-hoc basis to be kept in sundry until full 1st instalment is received.

❖ Any recovery made after receiving 1st instalment must be remitted to CGTMSE, after deducting legal expenses.

❖ However, any recovery made through the sale of collateral security may be retained by the MLI for appropriation of dues.

❖ CGTMSE has now introduced a cap on total claim settlement. Claims of the respective MLI will be settled to the extent of 2 times of the fee including recovery remitted during the previous financial year. Any claim lodged exceeding 2 times of the total fee including recovery remitted by MLI will be suspended till such time the position is remedied i.e., payout is brought well within the payout cap limit.

❖ All the above mentioned guidelines are applicable for new sanctions.

Other benefits:

There are various other benefits to banks some of which is enumerated as under:

- Loan covered under CGTMSE carry zero risk weight for guaranteed portion.
- No provisioning for NPA account to the extent of guarantee coverage.
- Saving of time, energy and cost of bank.
- Helps in better risk management and faster recovery of dues.

However, it must be kept in mind that CGTMSE pays the amount from the corpus created out of taxpayers money. Coverage of NPA account under CGTMSE does not absolve the borrower from his obligation to pay the entire dues to the bank. All efforts must be taken to recover the amount from the borrower even after settlement of the claim by CGTMSE. ❑

RBI recommends Finance Ministry to align small savings rate

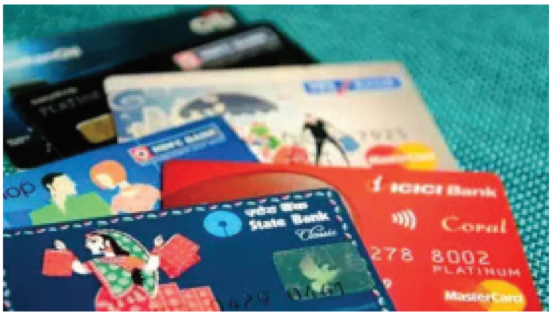
Before the announcement of interest rates on small savings schemes for the January-March quarter by December 31,

the RBI has asked the Finance ministry to align small saving rates in a bid to improve transmission. "The ministry has been internally sounded out and communicated by RBI also on small savings rate alignment requirements for better transmission, RBI has told government the banks' response in this regard also. It will be a call by the government," said sources.

The focus will be on the small savings rates by banks, industry and account holders of such schemes mostly for retired government workers, marginal class, farmers, women. Such schemes are the Post Office Saving Schemes that include a bucket list of products that offer reliability and risk-free returns on investment. Such security and returns are perks mostly associated with a central government-run savings portfolio.

The ministry has been nudging RBI to push banks particularly the PSBs to pass the whole amount of interest rate cuts (repo rate cuts) to retail loans for pushing consumption. Banks have resisted it fearing their margin will take a hit in case of 100 per cent transmission. Recently SBI chairman Rajnish Kumar said banks cannot go beyond a threshold to cut deposit rates which is linked to the lending rates.

ATMS, DEBIT CARDS, NEFT TRANSFERS, OTHER RULES THAT CAME INTO FORCE FROM JAN 1



January 1 not only marks the beginning of the new year 2020 but is also a reminder of several new rules in the financial world that came into force from January 1. The new rules affect anyone with a debit card, PAN card and even those who are trying to withdraw cash from ATMs or make online transfers.

Debit and ATM cards:

All old debit and ATM cards with a magstripe or magnetic stripe will cease to work from January 1. You can get it replaced with a new EMV chip debit card from your bank free of cost. According to guidelines issued by the Reserve Bank of India (RBI), all banks have been asked to convert old debit cards into the new EMV-based cards.

"You need to get a new ATM card If your card is a magstripe card, as it will get blocked due to RBI directives to discontinue the operation of magstripe cards. If your card is an EMV Chip card, please get in touch with your branch and ascertain that," SBI said on Facebook.

If you can see a chip on the face of your debit/ATM card, then you already have an EMV chip card which doesn't require replacement. In case it is missing then you need to replace it with a new one.

EMV cards come with a small microchip that protects buyers against fraudulent transactions. It creates dynamic data every time you make a transaction which makes it impossible for cloning the card.

NEFT charges waived off:

The Reserve Bank of India (RBI) has made NEFT online transfers a 24x7 process with effect from December 16. And now from January 1, banks have been instructed to waive off online NEFT charges for savings bank account holders. Several banks had made NEFT free already earlier. NEFT transfers made at bank branches will continue to be chargeable as before.

RuPay, UPI charges:

Merchant Discount Rate (MDR) charges will not be applicable on transactions through homegrown RuPay and UPI platforms from 2020. All companies with a turnover of ?50 crore or more will be mandated to provide the facility of payment through RuPay Debit card and UPI QR code to their customers.

SBI ATM withdrawals:

If you have a State Bank of India (SBI) ATM card you might require an OTP (one-time password) to withdraw cash. With effect from January 1, SBI has introduced OTP-based ATM withdrawal for transactions above ?10,000 between 8 pm to 8 am. However, if you are withdrawing cash from a non-SBI ATM then OTP will not be required.

Income tax return (ITR) filing:

If you had missed the August 31 deadline to file income tax return (ITR) you can do so by the end of this financial year. However, for all belated ITRs filed from January 1, a penalty of Rs. 10,000 will be imposed.

PAN card:

If your PAN card is not yet linked to Aadhaar, then it will not be declared inoperative or not in use from January 1 as the income tax department has extended the 31 December deadline to 31 March. *(Source: Live mint)*

HOW TO SHIELD YOURSELF FROM SLOWDOWN: START BUILDING A CORPUS EARLY ON

Rituparno Guha, 29, and Anusua Mukherjee, 27, were just putting the finishing touches on their new household after their marriage in January 2019 and planning a trip to Europe when the slowdown hit them, though not directly. They felt the pinch as prices climbed higher. “When we moved into an apartment together, we realized that some expenses came down because we are dividing them between us, but some others went up," said Guha, a financial consultant.

To compensate, the couple decided to reduce the initial expenses. “We kept the appliances and furniture we had before we got married, and decided not to redo everything from scratch, which saved us a good deal of money," said Mukherjee, a senior banking analyst. Their plan to travel to Europe was cancelled due to health reasons, and when they tried to reschedule it, they realized their travel budget would inflate. “We are revisiting the plan and capping the budget at what it was before," said Guha.

Both of them work in the financial services industry, and get their annual appraisals in December-January. “We decided that we will make a yearly budget around that time of the year," Guha added.

The couple decided to take a loan to buy a car just after they got married, but given the less-than-hopeful financial outlook, they want to close the loan as soon as possible. “When we took the loan, we ensured that there were no prepayment charges. We plan to close the loan in three years instead of five," said Guha.

Young professionals like Mukherjee and Guha are redefining traditional financial goals, according to Amit Kukreja, registered investment adviser and founder, amitkukreja.com. “These are new-age employees and in this new work environment, the stability of jobs is never a given. The goals people have are also changing. Earlier, it was buying a house, then raising children and then retirement. Now, retirement comes first," he said.

For Guha and Mukherjee, this is definitely the case. “We understand the importance of saving up for long-term goals like retirement. We try to put away 20-25% of our salaries in various instruments each month," said Guha, adding that while buying a house might be on the horizon, the two are not planning to have children in the near future.

They have recently started investing in equities. “Since we earn about equal amounts, we also invest nearly equal amounts in tax-saving instruments. We had some insurance plans and public provident fund earlier, but started investing in mutual funds six months ago through an online platform," said Mukherjee.

But given the financial climate, the young couple should build a corpus, said Kukreja. This is especially true for couples who work in the same industry, because both can get impacted if the industry is hit by a slowdown, resulting in a job loss and lower increments. “The financial trauma caused by a job loss can be paralyzing for a young couple. It’s crucial to build a passive income portfolio incrementally, which can take care of household expenses completely," he said.

Unlike many young couples, Mukherjee and Guha have a solid plan for the future. With a few more investments, the downturn is unlikely to slow down this sensible duo. *(Source: Lifemint)*

RBI RESTRICTS URBAN COOPERATIVE BANKS FROM OFFERING LARGE LOANS

The Reserve Bank of India has restricted urban cooperative banks (UCBs) from offering large corporate loans through several changes to lending norms, after depositors lost large sums of money following the crisis at Punjab and Maharashtra Cooperative (PMC) Bank.

The regulator slashed single and connected borrower exposure for UCBs, hiked the priority sector lending (PSL) target and specified a portfolio mix for at least half of their loan books. The guidelines will be applicable from 31 March 2023. The prudential exposure limits for UCBs for a single borrower and a group of connected borrowers were lowered to 10% and 25%, respectively, of their tier-I capital. These limits were earlier at 15% and 40%, respectively.

These are part of RBI's draft circular on limits on exposure to single and group borrowers, large exposures and revision in PSL targets for primary UCBs. RBI said it would provide an appropriate glide path to UCBs for compliance with the norms.

"Large exposure of banks to single borrowers/parties or groups of connected borrowers/parties leads to credit concentration risk. When large exposures to a few single parties/groups become non-performing, it affects the capital/net worth of the bank concerned significantly and, at times, leads to liquidity and/or solvency risk for the bank," said RBI.

RBI also proposed that UCBs shall have at least 50% of their portfolio comprising loans of not more than Rs. 25 lakh per borrower. Loans shall include all types of funded and non-funded exposures in the nature of credit.

That apart, the overall PSL target for UCBs will be increased from 40% of adjusted net bank credit at present to 75%. All UCBs will have to gradually increase their PSL target to 50% by March 2021, 60% by March 2022 and 75% by 31 March 2023. According to RBI, credit exposures of many UCBs, particularly scheduled UCBs, predominantly comprise large ticket loans.

"Such predominance of large ticket loans in the bank's portfolio reduces diversification of credit risk and also reduces the scope for greater financial inclusion, which is one of the main roles of UCBs. Enhancement of priority sector lending targets is also considered necessary for the purpose of meeting the larger objectives of UCBs," said RBI.

This category of lenders came into focus on 24 September, when RBI put severe curbs on PMC Bank Ltd, including on cash withdrawals, amid a probe into accounting lapses. Cash withdrawals were capped at Rs. 1,000 per account for six months, but subsequently relaxed to Rs. 50,000 as panic spread among depositors.

The restrictions under Section 35A of the Banking Regulation Act were aimed at preventing a run on the bank that could end up endangering the stability of the entire financial system because of a contagion effect. The PMC Bank case showed how the bank had disbursed most of its loans to a single borrower group.

According to a PTI report on 29 September, erstwhile managing director of the bank, Joy Thomas, reportedly admitted to RBI that the bank's actual exposure to the bankrupt real estate firm Housing Development and Infrastructure Ltd is more than Rs. 6,500 crore, a whopping 73% of its total assets of Rs. 8,880 crore.

BANKING PROMOTIONAL EXAM SAMPLE QUESTIONS – SERIES 18

1) What is the interest rate of five year Senior Citizen Savings Scheme (SCSS) as per the circulation of Union Ministry of Finance from 1st October, 2019?

a. 8.6 % b. 8.5 %
c. 7.9 % d. 8.2 %
e. None of these

2) What is the trade growth of the globe forecasted by World Trade Organisation (WTO) for the year 2019 ?

a. 2.7 % b. 2.2 %
c. 1.2 % d. 1.7 %
e. None of these

3) Which country launched the most powerful intercontinental-range ballistic missile, "DF-41 (Dongfeng-41) " on the planet with a strike range of up to 9,320 miles (15,000 kilometres) ?

a. China b. Japan
c. Russia d. United States
e. None of these

4) Which state's railway station have topped the Railway Cleanliness Survey 2019 released by Ministry of Railways?

a. Rajasthan b. Kerala
c. Assam d. Uttar Pradesh
e. None of these

5) Which bank has appointed S. S. Mallikarjuna Rao as its Managing Director(MD)and Chief Executive Officer?

a. Bank of Baroda(BoB)
b. State Bank of India(SBI)
c. Canara Bank
d. Punjab National Bank(PNB)
e. None of these

6) Who has been appointed as the Executive Director for India at International Monetary Fund (IMF)?

a. Urjit Patel b. Surjit S Bhalla
c. Rakesh Mohan d. SubirGokarn
e. None of these

7) Which year is set as target to eradicate 'single-use plastic' from India by Prime MinisterNarendraModi during Swachh Bharat Diwasprogram?

a. 2025 b. 2022
c. 2021 d. 2023
e. None of these

8) Who was conferred with the 2019 Swachchta Ambassador award during the 5th edition of India Today Safaigiri Summit recently?

a. Shahrukh Khan b. Amitabh Bachchan
c. Sachin Tendulkar d. NarendraModi
e. None of these

9) Where was the 4th edition of KAZIND-2019, the joint military exercise between India and Kazakhstan commenced recently?

a. West Siang, Arunachal pradesh
b. Nur-Sultan, Kazakhstan
c. Pithoragarh, Uttarakhand
d. Aktobe, Kazakhstan
e. None of these

10) Which district has become the cleanest district in India as per the 2019 rural Swachhtasurvey (sanitation survey)?

a. Peddapalli district of Telangana
b. Kurnool district of Andhra Pradesh
c. Chittoor district of Andhra Pradesh
d. Jagitial district of Telangana
e. None of these

11) What is the GDP growth of India for the year 2019-2020 as per the Standard & Poor (S&P) Global ratings?

a. 6.9% b. 6.7%
c. 6.3% d. 6.5%
e. None of these

12) Who was awarded with the 2019 UN High Commissioner for Refugees (UNHCR) prestigious Nansen Award?

a. Thorvald Stoltenberg b. AzizbekAshurov
c. Sadruddin Aga Khan d. PoulHartling
e. None of these

13) What is the repo rate as per the 4th Bi-Monthly Monetary Policy statement for FY 20?
a. 5.15% b. 5.25%
c. 5.35% d. 5.45%
e. None of these

14) Who headed the Task Force that examine issues related to offshore rupee markets and recommended policy measures to ensure the stability of the external value of the domestic currency?
a. R Gandhi b. NandanNilekani
c. UshaThorat d. ShyamalaGopinath
e. None of these

15) Who will co-chair the Inter-ministerial group on disinvestment?
a. Jai Priye Prakash b. Anil Khachi
c. SumantaChaudhury d. K. N. Vyas
e. None of these

16) Who headed the working group constituted by government of India to prepare contours of new industrial policy to make India a manufacturing hub?
a. SumantaChaudhury
b. AnupWadhawan
c. Jai Priye Prakash
d. GuruprasadMohapatra
e. None of these

17) Name the organization, which has partnered with the National Health Authority(NHA) forstrengthening the implementation of the Ayushman Bharat- PratanMantri Jan ArogyaYojana(PM-JAY).
a. Infosys b. Facebook
c. Google d. Microsoft
e. None of these

18) Where was the 14th edition of the Indo - Mongolian joint military training exercise Nomadic Elephant-XIV for the year 2019 held?
a. Bakloh, Himachal Pradesh
b. Ulaanbaatar, Mongolia
c. Mumbai, Maharashtra
d. Erdenet, Mongolia
e. None of these

19) Who became the first Indian cricketer to play 100 Twenty20 Internationals (T20Is) by surpassing the Mahendra Singh Dhoni and Rohit Sharma, who have played 98 T20Is for India?
a. Harmanpreet Kaur b. Mithali Raj
c. SmritiMandhana d. JhulanGoswami
e. None of these

20) Which state has emerged as the top state where most cancer patients availed treatment under Pradhan Mantri Jan ArogyaYojana (PMJAY) scheme?
a. Tamil Nadu b. Chhattisgarh
c. Kerala d. Madhya Pradesh
e. None of these

21) In which city, India's first e-waste clinic will be set up?
a. Ranchi, Jharkhand
b. Bhopal, Madhya Pradesh
c. Lucknow, Uttar Pradesh
d. Bhopal, Madhya Pradesh
e. None of these

22) Where was the India's 1st plant to produce diesel from plastic waste opened?
a. Aizawl, Mizoram
b. Mathura, Uttar Pradesh
c. Shillong, Meghalaya
d. Kohima, Nagaland
e. None of these

23) What was the theme of the 33rd edition of the India Economic Summit organized by the World Economic Forum (WEF) in partnership with Confederation of Indian Industry (CII) that held in New Delhi ?
a. Theme - "Creating a shared future in a fractured world"
b. Theme - "Globalization 4.0: Shaping a Global Architecture in the Age of the Fourth IndustrialRevolution"
c. Theme - "Competitiveness of India Inc - India@75: Forging Ahead"
d. Theme - "Innovating for India: Strengthening South Asia, Impacting the World"
e. None of these

24) Where was the 10th edition of the joint exercise between India and Maldives namedEkuverin for the year 2019 held?
a. Pune, Maharashtra
b. Varanasi, Uttar Pradesh
c. Aizawl, Mizoram
d. Shillong, Meghalaya
e. None of these

25) Name the Indian Army's first and biggest mountain combat exercise "Him Vijay" for the year 2019 begun in Arunachal Pradesh?
a. "Bold Kurukhestra" b. "Ajeya Warrior"
c. "Him Vijay" d. "Lamitye"
e. None of these

Ans on Page 52

RBI CIRCULAR

Financial Benchmark Administrators (Reserve Bank) Directions, 2019

RBI/2019-20/133

January 01, 2020

1. Please refer to the Financial Benchmark Administrators (Reserve Bank) Directions, 2019, dated June 26, 2019.
2. As provided in paragraph 3(i) of the above directions, the Reserve Bank hereby notifies the following benchmarks administered by Financial Benchmarks India Pvt. Ltd. (FBIL) as a 'significant benchmark':
   - Overnight Mumbai Interbank Outright Rate (MIBOR)
   - Mumbai Interbank Forward Outright Rate (MIFOR)
   - USD/INR Reference Rate
   - Treasury Bill Rates
   - Valuation of Government Securities
   - Valuation of State Development Loans (SDL)
3. Further, in terms of paragraph 3(ii) of the above directions, the person administering the 'significant benchmark', shall make an application to the Reserve Bank within a period of three months from the date of this notification for authorization to continue administering these benchmarks.
4. This notification has been issued by the Reserve Bank as required under the Financial Benchmark Administrators (Reserve Bank) Directions, 2019, dated June 26, 2019.

(Saswat Mahapatra)
Deputy General Manager

Reporting of OTC Currency Derivative transactions to trade repository

RBI/2019-20/132

January 01, 2020

1. Please refer to our circular FMD.MSRG.No.94/02.05.002/2013-14 dated December 04, 2013 on the captioned subject, wherein a threshold of USD 1 million, and equivalent thereof in other currencies, was stipulated for reporting client transactions in currency derivatives (currency swaps and FCY FRA/IRS) to the Trade Repository (TR).
2. It has now been decided that all client transactions in currency derivatives, including those with notional amount of below USD 1 mn, shall now be reported to the TR, with effect from January 06, 2020.
3. As a one-time measure, in order to update the transactions in the Trade Repository, AD Category – I banks shall report all outstanding client transactions with notional amount below USD 1 mn to the TR by January 31, 2020.
4. These directions are issued under section 45W of RBI Act and shall come into force with effect from the date of these directions.

(Manoj Kumar)
Deputy General Manager

Extension of relaxation on the guidelines to NBFCs on securitisation transactions

RBI/2019-20/131

December 31, 2019

1. Please refer to the circular DNBR (PD)CC.No.95/ 03.10.001/2018-19 dated November 29, 2018 on "Relaxation on the guidelines to NBFCs on securitisation transactions" and the circular DNBR (PD)CC.No.100/ 03.10.001/2018-19 dated May 29, 2019 extending the dispensation till December 31, 2019.

2. On a review, it has been decided to extend the relaxation provided therein till June 30, 2020. All other instructions governing securitisation and direct assignment transactions remain unchanged.

(Chandan Kumar)
General Manager

Cyber Security controls for Third party ATM Switch Application Service Providers

RBI/2019-20/130

December 31, 2019

1. Please refer to para I (8) of the Statement on Developmental and Regulatory policies of the Fifth Bi-monthly Monetary Policy Statement for 2019-20 dated December 5, 2019 (extract enclosed).

2. It is observed that a number of RBI Regulated Entities (RREs) manage their ATM Switch ecosystem through shared services of third party ATM Switch Application Service Providers (ASPs). Since these service providers also have exposure to the payment system landscape, it is felt that some cyber security controls are required to be put in place by them. In view of this, the RREs shall ensure that the contract agreement signed between them and the third party ATM Switch ASP shall necessarily mandate the third party ATM Switch ASP to comply with the cyber security controls given in the Annex on an ongoing basis and to provide access to the RBI for on-site/off-site supervision. To this effect, the contract agreements shall be amended at the earliest or at the time of renewal, in any case not later than March 31, 2020. The list of prescribed controls is indicative but not exhaustive. It may be mentioned that these controls are applicable to the ASPs limited to the IT ecosystem (such as physical infrastructure, hardware, software, reconciliation system, network interfaces, security solutions, hardware security module, middleware, associated people, processes, systems, data, information, etc.,) providing ATM switch services as well as any other type of payment system related services to the RREs.

3. The regulatory instructions issued from time to time in terms of circulars/advisories/alerts, as applicable to the ATM switch ecosystem shall be shared with the ASPs for necessary compliance.

4. A copy of this circular may be placed before the Board of Directors in its ensuing meeting.

5. Please acknowledge receipt.

(R. Ravikumar)
Chief General Manager

Constitution of Board of Management (BoM) in Primary (Urban) Co-operative Banks (UCBs)

RBI/2019-20/128

December 31, 2019

1. Reserve Bank of India had released draft guidelines on constituting BoM in UCBs on June 25, 2018 inviting comments from banks and other stakeholders. Taking into consideration the responses received, it has been decided to issue the guidelines on BoM as per Annex I.

2. UCBs shall constitute a BoM by making suitable amendments in their bye-laws. The BoM shall comprise of persons with special knowledge and practical experience in banking to facilitate professional management and focused attention to the banking related activities of the UCBs through appropriate amendments to their bye-laws, in accordance with the enclosed guidelines following the due process. While constituting the BoM, the Board of Directors (BoD) of UCB shall carry out a process of due diligence to determine the suitability of the person for appointment as the member of the BoM, based upon qualification, expertise, track record, integrity and other 'fit and proper' criteria as set out in Appendix I. Similar process of due diligence shall be carried out for determining the suitability of a candidate for appointment as CEO. For this purpose, banks shall obtain declaration-cum-

undertaking from the proposed member of BoM/CEO in the format enclosed to the guidelines in Appendix II. The process of due diligence shall also be undertaken at the time of renewal of appointment.

3. UCBs with deposit size of ?100 crore and above shall constitute BoM which will also be a mandatory requirement for allowing such banks to expand their area of operation and open new branches. UCBs with a deposit size less than ?100 crore and Salary Earners' Banks are exempted from constituting BoM. However, for having good governance practices, such banks may also constitute BoM, if they so desire.

4. Further, as per the guidelines, UCBs having deposit size of ?100 crore and above shall obtain prior approval of Reserve Bank for appointment of CEO. In this connection, it is advised that Scheduled UCBs shall approach the Department of Regulation of Reserve Bank for approval at least three months prior to the end of tenure of the incumbent CEO. The banks shall submit the proposal for appointment of CEO along with the declaration-cum -undertaking of the CEO designate as per Appendix II of these guidelines along with the list of supporting documents as given in Annex II. Non-Scheduled UCBs shall approach the concerned Regional Office of the Department of Supervision for the requisite approval in the similar manner mentioned above. Reserve Bank reserves the right to seek additional information/documents, if deemed necessary.

5. A copy of the amended bye-laws providing for constitution of BoM shall be forwarded to the concerned Regional Office of the Department of Supervision for information and record along with details of the members of BoM immediately after constitution of BoM. UCBs shall also be required to submit an annual return furnishing details of the members of the BoM as per the format given in Annex III as on December 31 each year, within 15 days of the end of the period to the respective Regional Offices of the Reserve Bank of India.

(Neeraj Nigam)
Chief General Manager

Enhancing facilitation of National Electronic Toll Collection (NETC) system

RBI/2019-20/126

December 30, 2019

1. India is progressing ahead with NETC gaining large scale acceptance. Currently, the NETC system allows linking of FASTags with bank accounts – savings, current and prepaid.

2. In order to further broad base this system by allowing more payment choices for the customers, as well as for fostering competition among the system participants, all authorised payment systems and instruments [non-bank PPIs, cards and Unified Payments Interface (UPI)] shall from now be permitted for linking with the FASTags, which can be used for various types of payments (vehicle toll, parking fee, etc.).

3. The Turn Around Time (TAT) for resolving failed transactions advised vide circular DPSS.CO.PD No.629/02.01.014/2019-20 dated September 20, 2019 shall also be applicable to the transactions carried out in the NETC system.

4. The transactions in the NETC system can be performed without any Additional Factor of Authentication (AFA) and / or pre-transaction notification / alert.

5. NPCI shall facilitate requests received from banks / non-banks in this regard.

6. This directive is issued under Section 10 (2) read with Section 18 of the Payment and Settlement Systems Act, 2007 (Act 51 of 2007).

(P. Vasudevan)
Chief General Manager

Introduction of a new type of semi-closed Prepaid Payment Instrument (PPI) – PPIs upto ₹ 10,000/- with loading only from bank account

RBI/2019-20/123

December 24, 2019

1. Please refer to the Statement on Developmental and Regulatory Policies issued as part of Monetary Policy Statement dated December 5, 2019 as also the Master Direction on Issuance and Operation of Prepaid Payment Instruments (PPI-MD) issued vide DPSS.CO.PD.No.1164/02.14.006/2017-18 dated October 11, 2017 (updated as on August 30, 2019).

2. To give impetus to small value digital payments and for enhanced user experience, it has been decided to introduce a new type of semi-closed PPI with the following features:

i) Such PPIs shall be issued by bank and non-bank PPI Issuers after obtaining minimum details of the PPI holder.

ii) The minimum details shall necessarily include a mobile number verified with One Time Pin (OTP) and a self-declaration of name and unique identity / identification number of any 'mandatory document' or 'officially valid document' (OVD) listed in the 'Master Direction - Know Your Customer (KYC) Direction, 2016' issued by Department of Regulation, Reserve Bank of India, as amended from time to time.

iii) These PPIs shall be reloadable in nature and issued in card or electronic form. Loading / Reloading shall be only from a bank account.

iv) The amount loaded in such PPIs during any month shall not exceed Rs. 10,000 and the total amount loaded during the financial year shall not exceed ₹ 1,20,000.

v) The amount outstanding at any point of time in such PPIs shall not exceed ? 10,000.

vi) These PPIs shall be used only for purchase of goods and services and not for funds transfer.

vii) PPI issuers shall provide an option to close the PPI at any time and also allow to transfer the funds 'back to source' (payment source from where the PPI was loaded) at the time of closure.

viii) The features of such PPIs shall be clearly communicated to the PPI holder by SMS / e-mail / post or by any other means at the time of issuance of the PPI / before the first loading of funds.

ix) The minimum detail PPIs existing as on the date of this circular can be converted to the above type of PPI, if desired by the PPI holder.

3. The PPI-MD is being modified to introduce this new type of PPI. The other instructions contained in the PPI-MD will be applicable to this type of PPI also.

4. The directive is issued under Section 18 read with Section 10(2) of Payment and Settlement Systems Act, 2007 and is effective from the date of issuance of this circular.

(P. Vasudevan)
Chief General Manager

Furthering Digital Payments – Waiver of Charges – National Electronic Funds Transfer (NEFT) System

RBI/2019-20/116

December 16, 2019

1. A reference is invited to RBI circulars DPSS CO (EPPD)/ 98/04.03.01/2012-13 dated July 13, 2012 on National Electronic Funds Transfer (NEFT) System - Rationalisation of customer charges and DPSS (CO) RPPD No.2557/ 04.03.01/2018-19 dated June 11, 2019 on National Electronic Funds Transfer (NEFT) and Real Time Gross Settlement (RTGS) systems – Waiver of charges.

2. In order to give further impetus to digital retail payments, it has now been decided that member banks shall not levy any charges from their savings bank account holders for funds transfers done through NEFT system which are initiated online (viz. internet banking and/or mobile apps of the banks).

3. This directive is issued under Section 10 (2) read with Section 18 of the Payment and Settlement Systems Act, 2007 (Act 51 of 2007) and shall be effective from January 1, 2020.

(P Vasudevan)
Chief General Manager

Banking Promotional Exam sample questions - Series 18

1)	a.	8.6 %	16)	d.	Guruprasad Mohapatra
2)	c.	1.2 %	17)	c.	Google
3)	a.	China	18)	a.	Bakloh, Himachal Pradesh
4)	a.	Rajasthan	19)	a.	Harmanpreet Kaur
5)	d.	Punjab National Bank(PNB)	20)	a.	Tamil Nadu
6)	b.	Surjit S Bhalla	21)	b.	Bhopal, Madhya Pradesh
7)	b.	2022	22)	b.	Mathura, Uttar Pradesh
8)	c.	Sachin Tendulkar	23)	d.	Theme – "Innovating for India: Strengthening South Asia, Impacting the World"
9)	c.	Pithoragarh, Uttarakhand	24)	a.	Pune, Maharashtra
10)	a.	Peddapalli district of Telangana	25)	c.	"Him Vijay"
11)	c.	6.3%			
12)	b.	AzizbekAshurov			
13)	a.	5.15%			
14)	c.	UshaThorat			
15)	b.	Anil Khachi			

Index of Articles published during the period *January 2019 to December 2019* in our Journal "Banking Finance"

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POPULATION GROUP-WISE NUMBER OF BRANCHES OF SCHEDULED COMMERCIAL BANKS

(Number)

Year	Rural	Semi-urban	Urban	Metropolitan	Total
1	2	3	4	5	6
1991	35206	11344	8046	5624	60220
1992	35269	11356	8279	5666	60570
1993	35389	11465	8562	5753	61169
1994	35329	11890	8745	5839	61803
1995	33004	13341	8868	7154	62367
1996	32995	13561	9086	7384	63026
1997	32915	13766	9340	7529	63550
1998	32878	13980	9597	7763	64218
1999	32857	14168	9898	8016	64939
2000	32734	14407	10052	8219	65412
2001	32562	14597	10293	8467	65919
2002	32380	14747	10477	8586	66190
2003	32303	14859	10693	8680	66535
2004	32121	15091	11000	8976	67188
2005	32082	15403	11500	9370	68355
2006	29534	16184	12166	11732	69616
2007	29658	16970	13009	12351	71988
2008	30173	18246	14232	13315	75966
2009	30821	19569	15245	14277	79912
2010	31845	21313	16621	15391	85170
2011	33315	23630	17571	16403	90919
2012	35931	26392	18811	17478	98612
2013	39199	29163	19874	18348	106584
2014	44676	32216	21515	19589	117996
2015	48140	34526	23098	20879	126643
2016	50561	36455	24395	22088	133499
2017	49844	39073	25050	26697	140664
2018	50824	39652	25351	26641	142468
2019	51507	40772	25958	27189	145426

Note : Data exclude 'Administrative Offices'.

Source :
1. For data up to 2005, Basic Statistical Returns of Scheduled Commercial Banks.
2. For data from 2006 onwards, Central Information System for Banking infrastructure (erstwhile master office file) database as on August 01, 2019.

Also see Notes on Tables.

IMPORTANT BANKING INDICATORS - REGIONAL RURAL BANKS - OUTSTANDING

(₹Crore)

Year	Deposits			Bank Credit	Investments in Approved Securities			Cash in Hand
	Demand	Time	Aggregate (2+3)		Government Securities	Other Securities	Total (6+7)	
1	2	3	4	5	6	7	8	9
1989-90	817	2998	3815	3409	5	1	6	46
1990-91	941	3619	4560	3497	9	6	15	56
1991-92	1044	4227	5271	3951	8	17	25	64
1992-93	1093	5277	6370	4451	10	37	47	74
1993-94	1394	6651	8045	5024	39	52	91	86
1994-95	2115	8733	10848	6201	459	375	834	216
1995-96	2475	10895	13370	7289	842	983	1826	177
1996-97	2947	14025	16971	8544	723	1765	2488	226
1997-98	3805	17173	20977	9687	1011	2517	3528	253
1998-99	4688	20740	25428	11016	1191	3816	5007	300
1999-00	5105	24946	30051	12663	1224	4786	6009	343
2000-01	6098	29897	35995	15211	1642	5847	7489	357
2001-02	7305	35189	42494	18033	1970	4901	6871	400
2002-03	8513	39131	47644	21359	7673	4335	12008	471
2003-04	10727	42663	53390	25057	13324	4208	17532	547
2004-05	12757	45529	58286	31651	16970	3242	20213	598
2005-06	17355	46840	64195	36050	16787	2263	19050	1155
2006-07	20003	61617	81620	48420	20249	2175	22424	1110
2007-08	21022	73390	94412	57417	23411	1976	25387	1104
2008-09	24353	89475	113828	64011	27118	2296	29414	1226
2009-10	28710	107104	135814	79016	38201	1029	39229	1434
2010-11	33663	123039	156702	94545	44262	1231	45493	1671
2011-12	34479	138914	173393	111082	47179	1580	48759	1820
2012-13	37269	159154	196422	129936	49178	1170	50348	1810
2013-14	39705	180919	220624	152051	55220	934	56154	2036
2014-15	47117	207109	254226	173972	59969	1464	61433	2045
2015-16	50916	242839	293754	197111	78822	1196	80018	2285
2016-17	65354	280219	345573	213247	112785	663	113448	2640
2017-18	211261	189198	400459	252919	135099	12306	147405	2789
2018-19	70087	355712	425799	276345	134207	524	134730	3051

Note **:** Data as on last Reporting Friday of March.

Source **:** NABARDSource : National Statistical Office (NSO), Government of India.

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