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# IIBF VISION

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## 4<sup>th</sup> Bi-Monthly Monetary Policy Statement : September 29, 2015

- Reduced the policy repo rate under the Liquidity Adjustment Facility (LAF) by 50 basis points from 7.25 per cent to 6.75 per cent with immediate effect;
- The Cash Reserve Ratio (CRR) of scheduled banks remains unchanged at 4.0 per cent of Net Demand and Time Liability (NDTL);
- Decided to continue providing liquidity under overnight repos at 0.25 per cent of bank-wise NDTL at the LAF repo rate and liquidity under 14-day term repos as well as longer term repos of up to 0.75 per cent of NDTL of the banking system through auctions;
- Decided to continue with daily variable rate repos and reverse repos to smooth liquidity.

Consequently, the reverse repo rate under the LAF stands adjusted to 5.75 per cent, and the Marginal Standing Facility (MSF) rate and the Bank Rate to 7.75 per cent.

## top stories

### RBI gives in-principle approval to 10 applicants for Small Finance Banks

Reserve Bank of India (RBI) granted "in-principle" approval to 10 applicants to set up **Small Finance Banks**. The "in-principle" approval granted will be valid for 18 months to enable the applicants to comply with the requirements under the prescribed guidelines and fulfil other conditions as may be stipulated by RBI. On being satisfied that the applicants have complied with the requisite conditions laid down by it as part of "in-principle" approval, RBI would consider granting them a licence for commencement of banking business under Section 22(1) of the Banking Regulation Act, 1949. Until a regular licence is issued, the applicants cannot undertake any banking business.

The mission of the Institute is "to develop professionally qualified and competent bankers and finance professionals primarily through a process of education, training, examination, consultancy / counselling and continuing professional development programs."

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## Banking Policies

### RBI gives banks flexibility on equity investment

To give more operational freedom and flexibility in decision making, RBI has advised that banks which have Capital Risk-Weighted Asset Ratio (CRAR) of 10 per cent or more and have also made net profit of the previous year need not approach RBI for prior approval for equity investments in cases where after such investment, the holding of the bank remains less than 10 per cent of the investee company's paid up capital, and the holding of the bank, along with its subsidiaries or joint ventures or entities continues to remain less than 20 per cent of the investee company's paid up capital.

### RBI allows importers to raise trade credit in ₹

Reserve Bank of India (RBI) will allow resident importers to raise trade credit in Rupees (INR) within the prescribed framework after entering into a loan agreement with the overseas lender. Trade credit can be raised for import of all items (except gold) permissible under the extant Foreign Trade Policy. Trade credit period for import of non-capital goods can be upto one year from the date of shipment or upto the operating cycle whichever is lower; whereas for import of capital goods it can be up to five years from the date of shipment. No roll-over / extension can be permitted by the AD Category - I bank beyond the permissible period. AD Category - I banks can permit trade credit up to \$20 million equivalent per import transaction. They may give a guarantee, letter of undertaking or letter of comfort in respect of trade credit for a maximum period of three years from the date of shipment.

## Banking Developments

### Revised guidelines on compensation of CEOs – Restriction on Loans to Directors

Commercial banks can grant loans and advances to the Chief Executive Officer/ Whole Time Directors, without seeking prior approval of RBI, subject to the certain conditions. The guidelines on Base Rate will

not be applicable on the interest charged on such loans. However, the interest rate charged on such loans cannot be lower than the rate charged on loans to the bank's own employees. The loans and advances availed by the CEO and directors should be part of the compensation policy approved by the board of directors.

### Banks deploy around 1,20,000 BCAs for PMJDY

Banks have deployed around 1,20,000 Business Correspondent Agents/Bank Mitras (BCAs/BMs) to extend banking services to unbanked households of the country under the Pradhan Mantri Jan Dhan Yojana (PMJDY). As many as 1,23,308 BCAs/BMs have been deployed by banks in urban and rural areas where it is not viable to open a brick & mortar branch or ATM. They work on online real-time mode using various types of telecom connectivity. During the week ended September 9, 2015 as many as 79,305 BCAs/BMs did cash transactions (both deposit and payment), 34,205 did remittances and did a total 12 million transactions.

### RBI introduces new features in ₹500, ₹1,000 notes

Reserve Bank of India (RBI) will shortly put into circulation banknotes in the denominations of ₹500 and ₹1,000 incorporating three new/revised features viz. ascending size of numerals in the number panels, bleed lines and enlarged identification mark. The current banknotes will be without inset letter in the number panels. The notes will bear the signature of Dr. Raghuram G. Rajan, Governor, RBI. The year of printing (2015) appears on the reverse. Except for these features, the overall design of ₹500 and ₹1,000 banknotes has been retained as before.

### RBI names two banks as Systemically Important

Reserve Bank of India announced the designation of State Bank of India and ICICI Bank Ltd. as Domestic Systemically Important Banks (D-SIBs). The Reserve Bank had issued the Framework for dealing with Domestic Systemically Important Banks (D-SIBs) on July 22, 2014. The D-SIB Framework requires the Reserve Bank to disclose the names of banks designated as D-SIBs every year in August starting from August 2015. The framework also requires that D-SIBs may be placed in four buckets depending

upon their Systemic Importance Scores (SISs). Based on the bucket in which a D-SIB is placed, an additional common equity requirement has to be applied to it, as mentioned in the D-SIB framework. The D-SIB framework specifies a two-step process of identification of D-SIBs. In the first step, the sample of banks to be assessed for systemic importance has to be decided. The selection of banks in the sample for computation of SIS is based on analysis of their size as a percentage of annual GDP.

#### **RTGS not to operate on 2<sup>nd</sup> & 4<sup>th</sup> Saturdays**

The Real Time Gross Settlement (RTGS) system, which allows real time transfer of large funds, will not operate on second and fourth Saturdays with banks observing public holiday on those days. Processing of future value dated transactions with value date falling on second and fourth Saturdays will not be undertaken under RTGS. RBI has also effected changes in RTGS time window. On regular days, including Saturdays except second and fourth, business opening would be at 08:00 hours while initial cut off (customer transactions) would be 16:30 hours. The final cut-off (inter-bank transactions) will be at 19:45 hours and IDL reversal between 19:45-20:00 hours. Business will close at 20:00 hours.

#### **RBI issued draft guidelines on Transmission of Monetary Policy Rates to Banks' Lending Rates**

RBI has issued draft guidelines on Transmission of Monetary Policy Rates to Banks' Lending Rates. For monetary transmission to occur, lending rates have to be sensitive to the policy rate. With the introduction of the Base Rate on July 1, 2010 banks could set their actual lending rates on loans and advances with reference to the Base Rate. At present, banks are following different methodologies in computing their Base Rate – on the basis of average cost of funds, marginal cost of funds or blended cost of funds (liabilities). Base Rates based on marginal cost of funds should be more sensitive to changes in the policy rates. In order to improve the efficiency of monetary policy transmission, Reserve Bank of India encourages banks to move in a time-bound manner to marginal-cost-of-funds-based determination of their Base Rate. RBI expects that these steps would also be helpful in the medium term

goal of banks pricing their floating rate loans linked to an external benchmark.

#### **Cabinet approves 100% FDI in WLAs**

The Union Cabinet has given its approval to permit Foreign Direct Investment (FDI), up to 100 percent, under the automatic route, in the activity of White Label ATM (WLA) Operations, subject to prescribed conditions. This decision will ease and expedite foreign investment inflows in the activity and thus give a fillip to the Government's effort to promote financial inclusion in the country, including the Pradhan Mantri Jan Dhan Yojana. It is expected that consequent to ease of investing in India, adequate investments would be available in WLA Operations. This would help in the government's objective of enhancing ATM networks in semi-urban and rural areas (mainly in Tier III to VI areas).

#### **Gold monetization, sovereign gold schemes get Cabinet nod**

The Union Cabinet gave its approval for the much awaited Gold Monetisation Scheme (GMS) and Sovereign Gold Bonds Scheme (SGBS). For SGBS, Capital gains tax treatment will be the same as for physical gold for an individual investor. The Department of Revenue has agreed that amendments to the existing provisions of the Income Tax Act, for providing indexation benefits to long term capital gains arising on transfer of bond. The scheme will help in reducing the demand for physical gold by shifting a part of the estimated 300 tons of physical bars and coins purchased every year for investment into gold bonds. Since most of the demand for gold in India is met through imports, this scheme will, ultimately help in maintaining the country's Current Account Deficit within sustainable limits.

#### **RBI issue ₹5 coin on golden jubilee of 1965 Indo-Pak war**

RBI will shortly put into circulation ₹5 coins to commemorate the golden jubilee of Indo-Pak War 1965. The coins will be legal tender as provided in The Coinage Act 2011. Existing coins in this denomination will also continue to be legal tender.

## Regulator's Speak...

### Need for enhancing appraisal capacity

One of the fundamental issues that hamper Non Performing Asset (NPA) Management is the inadequacies in the credit appraisal capacity of banks, more specifically on project appraisal. Mr. R. Gandhi, Deputy Governor, RBI opines that banks need to have more in-house desks to appraise credit. It has been said the banks with very meagre share neither have incentives nor inclination to independently assess the proposal and they typically and blindly go by one that has bigger share. Mr. Gandhi said the suggestion is to have a regulatory limit on the number of members in a consortium or multiple banking arrangements so that every member has at least 10% of the exposure and therefore will have serious independent credit appraisal and credit monitoring. He, however, added that the move could restrict the freedom to be available for a bank or borrower to take the commercial decision on a loan.

### Sustainable growth in Financial Sector: Dr. Rajan

Dr. Raghuram Rajan, Governor, RBI says the apex bank needs the understanding and cooperation of the business community, not impatience and pressure for quick impossible fixes. "An attitude of short cuts and evasions help neither the final product quality nor a sustainable economic growth. While we should respect the entrepreneurial abilities of our business people in difficult environments, we need to change the environment for the better. All this requires patience. The current difficulties of emerging markets stem from a complicated set of reasons, but an important one is impatience to regain growth by overemphasizing old and ineffective methods of stimulus" said Dr. Rajan.

### No 'unfair competition' from new banks

Dr. Raghuram Rajan, Governor, RBI, sought to allay the fear of 'unfair competition' of existing banks' from new banks. Dr. Rajan said, "In order to get sustained growth, we need more competition, especially from new entrants who are in a better position to reach hitherto excluded parts of our economy. After a decade of no new entry, we will see two new private banks this year, followed by a large number of payment

banks and small finance banks next year. Licensing is likely to go on tap. As for competition, it could only be unfair if it is not on the same playing field. However, new entrants have no privileges that incumbents do not already enjoy."

### Low inflation sustainable this time: R. Gandhi

Mr. R. Gandhi, Deputy Governor, RBI said "Our experience of inflation was in a high single-digit to teens and hence inflationary expectations were very well entrenched. Though we did experience low inflation levels in some period, we could not sustain it. For yet another time, we are now experiencing low levels of inflation and it is amply clear that this time around we will be able to sustain it for the years to come. The current monetary policy framework agreement with the government prescribes that the policy's objective will be to maintain consumer inflation between 4 plus or minus two percent. As a result, expectations of high inflations continue to remain at bay."



Insurance

### IRDAI issues guidelines for social, rural sector obligations

IRDAI wants all insurers from the life, non-life and health segments operating for 10 years to have at least 5% of their total policies from the social sector. Social sector includes the unorganized sector, informal sector and economically vulnerable or backward classes both in rural and urban areas. In the first year of operations, insurers should ensure 0.5% coverage from this segment. IRDAI wants every insurer to do business in rural and social segments. Life insurers have to write at least 7% of their total number of policies from these areas in the first year of operation. This goes up to 20% from the tenth year onwards. For general insurers, 2% of gross in the rural segment in the first year, which goes up to 7% from the ninth year onwards. For stand-alone health insurers, it is 50% of

the obligations prescribed for non-life insurers.

### IRDAI panel on motor vehicle database-sharing model

Insurance Regulatory and Development Authority of India (IRDAI) has constituted a committee for developing a model for sharing a motor vehicle database. This four-member committee includes public and private non-life insurance company executives apart from a member from the Insurance Information Bureau of India (IIBI). IIBI would obtain data from national level entities such as Aadhaar, Ministry of Road Transport & Highways and state governments which could be transferred to insurers after an agreement. Such sharing of data in seamless manner could bring efficiencies in the insurance sales and services.

### IRDAI allows insurers to issue preference shares with riders

Insurance Regulatory and Development Authority of India (IRDAI) has allowed insurance companies to have other forms of capital in the form of preference shares, debentures and other subordinated debts as may be approved by the Authority. However, issuance of "Other forms of capital" shall be subject to the prior approval of the Authority. Also, these instruments must have been issued and paid-for in cash. Such preference shares or debentures are subordinated to policyholders, general creditors, and subordinated debt holders of the insurer. Investment in such instruments by foreign investors including Foreign Institutional Investors (FIIs) or Foreign Portfolio Investors (FPIs) shall be subject to FEMA Regulations as may be applicable from time to time. Such other form of capital should not to exceed 25 percent of the paid up equity capital of the insurer.

### Non-loanee farmers get more time to insure crops

The Government has extended period of for non-loanee farmers from July 31, 2015 to September 15, 2015 under National Agricultural Insurance Scheme. This will benefit farmers of the states which had low rainfall or late rain and delayed planting. In the case of loanee farmers the period is up to September 30, 2015. The decision has been taken in the interest of farmers where delayed /low rainfall has been reported.

## New Appointments

Name	Designation/Organisation
Mr. Ganesh Sankaran	Executive Director, Federal Bank.
Mr. Anand Aras	Chief Executive Officer, Banking Codes and Standards Board of India (BCSBI).

## Forex

### Benchmark Rates for FCNR(B) Deposits applicable for October 2015

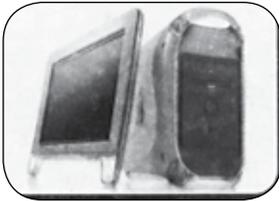
Currency	1 Year	2 Years	3 Years	4 Years	5 Years
USD	0.50400	0.77080	1.01200	1.22530	1.41640
GBP	0.66100	0.9660	1.1418	1.3090	1.4532
EUR	0.02940	0.056	0.130	0.242	0.370
JPY	0.13250	0.125	0.129	0.160	0.208
CAD	0.85000	0.817	0.924	1.048	1.184
AUD	2.00900	2.002	2.060	2.290	2.410
CHF	-0.66000	-0.676	-0.605	-0.494	-0.365
DKK	0.23830	0.3229	0.4278	0.5790	0.7200
NZD	2.72000	2.720	2.800	2.920	3.050
SEK	-0.27800	-0.155	0.004	0.278	0.520
SGD	1.59000	1.850	2.060	2.275	2.420
HKD	0.63000	0.900	1.130	1.310	1.450
MYR	3.92000	4.040	4.150	4.240	4.330

Source: [www.fedai.org.in](http://www.fedai.org.in)

### Foreign Exchange Reserves

Item	As on September 25, 2015	
	₹ Bn.	US\$ Mn.
	1	2
Total Reserves	23,039.0	3,49,978.5
(a) Foreign Currency Assets	21,488.5	3,26,578.0
(b) Gold	1,195.8	18,035.3
(c) SDRs	267.7	4,049.0
(d) Reserve Position in the IMF	87.0	1,316.2

Source: Reserve Bank of India (RBI)



## Products & Alliances

Organisation	Organisation tied up with	Purpose
State Bank of India (SBI)	Amazon India, Book-MyShow, Cleartrip, Ola Cabs, LensKart, Food Panda, Fab Furnish	To popularize online shopping and e-commerce in India.
National Housing Bank (NHB)	GIC Housing Finance Ltd.	For housing purpose.
IDBI Bank	National Housing Bank	To implement the process of the Credit Linked Interest Subsidy scheme under the Pradhan Mantri Awas Yojana, an affordable housing initiative.
Catholic Syrian Bank	ICICI Lombard General Insurance	To sell insurance products to the bank's customers in Kerala, Tamil Nadu, Karnataka and Maharashtra.
Allahabad Bank	National Housing Bank	For implementation of Pradhan Mantri Awas Yojana.

## Glossary

### Small Finance Banks

The small finance banks will primarily undertake basic banking activities of acceptance of deposits and lending to un-served and under-served sections including small business units, small and marginal farmers, micro and small industries and unorganised sector entities. The objectives of setting up of small finance banks is to further financial inclusion by provision of savings vehicles, and supply of credit to small business units; small and marginal farmers; micro and small industries; and other unorganised sector entities, through high technology-low cost operations.

## Financial Basics

### Internal Capital Adequacy Assessment Process (ICAAP)

In terms of the guidelines on BASEL II, the banks are required to have a board-approved policy on internal capital adequacy assessment process (ICAAP) to assess the capital requirement as per ICAAP at the solo as well as consolidated level. The ICAAP is required to form an integral part of the management and decision-making culture of a bank. ICAAP document is required to clearly demarcate the quantifiable and qualitatively assessed risks. The ICAAP is also required to include stress tests and scenario analyses, to be conducted periodically, particularly in respect of the bank's material risk exposures, in order to evaluate the potential vulnerability of the bank to some unlikely but plausible events or movements in the market conditions that could have an adverse impact on the bank's capital.

## Institute's Training Activities

### Training Programme Schedule for the month of October 2015

S.No.	Name of the Programme	Date	Location
1.	Post Examination Training for Certified Banking Compliance Professional Course	5th to 9th October 2015	Mumbai
2.	Post Examination Training for Certified Banking Compliance Professional Course	5th to 9th October 2015	Chennai
3.	Post Examination Training for Certified Treasury Dealer Course	16th to 18th October 2015	Mumbai
4.	Post Examination Training for Certified Credit Officers Course	26th to 30th October 2015	Mumbai
5.	Post Examination Training for Certified Credit Officers Course	26th to 30th October 2015	Chennai
6.	Post Examination Training for Certified Credit Officers Course	26th to 30th October 2015	Delhi
7.	Post Examination Training for Certified Credit Officers Course	27th to 31st October 2015	Kolkata

## News from the Institute

### **IIBF enters Social Media**

The Institute has launched the Social Media pages, namely Youtube and Facebook to reach out to its members and others. This will help the Institute in receiving constructive inputs/feedback from them to make its courses relevant and up to date in Banking & Finance.

### **APABI Conference 2015**

The Asia Pacific Association of Banking Institutes (APABI) is a semi formal structure of Banking Institutes in the Asia Pacific Region. It was established in 1986 by 11 founding members. This Association has an important role in bringing together financial industry training institutes that share a common goal to equip banks and financial institutions with the capacity to deal with the transformational developments that are shaping the financial sector-by supporting the continued renewal of its most valuable asset, human capital. Currently, there are 18 member institutes in APABI. The members of APABI meet once in two years along with a conference in one of the member countries.

Indian Institute of Banking & Finance (IIBF) hosted the International Conference of APABI on 23<sup>rd</sup> September 2015 at Hotel Oberoi, Dr. Zakir Hussain Marg, New Delhi. The main theme for Conference was “New Paradigms in Banking”. The 32<sup>nd</sup> Sir Purshotamdas Thakurdas Memorial Lecture was also organised on the day of the conference on the topic “The Future of Financial Services: How disruptive innovations are reshaping the way financial services are structured, provisioned and consumed.” For details visit [www.iibf.org.in](http://www.iibf.org.in).

### **Certificate examination for BCs/BFs (PMJDY)**

The Institute has launched a Certificate examination for BCs under the Pradhan Mantri Jan Dhan Yojana (PMJDY) scheme. The courseware for the examination is “Inclusive Banking thro’ Business Correspondent – A tool for PMJDY”. The book has been published in 9 languages (English, Hindi, Marathi, Tamil, Telugu, Oriya, Assamese, Bengali and Gujarati). The next exam is scheduled from 29<sup>th</sup> October 2015. (For details visit [www.iibf.org.in](http://www.iibf.org.in))

### **Cut-off Date of Guidelines/Important Developments for Examinations**

In respect of the exams to be conducted by the Institute during May / June of a calendar year, instructions /

guidelines issued by the regulator(s) and important developments in banking and finance up to 31<sup>st</sup> December of the previous year will only be considered for the purpose of inclusion in the question papers.

In respect of the exams to be conducted by the Institute during November / December of a calendar year, instructions / guidelines issued by the regulator(s) and important developments in banking and finance up to 30<sup>th</sup> June of that year will only be considered for the purpose of inclusion in the question papers.

### **Additional Reading Material for Institute's examination**

The Institute has put on its web site additional reading material, for various examinations, culled out from the Master Circulars of RBI and other sources. These are important from examination view point. For details visit [www.iibf.org.in](http://www.iibf.org.in).

### **5<sup>th</sup> International Training Programme for Trainers of Banks, Banking Institutes and Financial Institutions**

The institute is organising 5<sup>th</sup> International Training Programme for Trainers of Banks, Banking Institutes and Financial Institutions from 1<sup>st</sup> to 6<sup>th</sup> February 2016 at Leadership Centre, Indian Institute of Banking and Finance, Corporate Office, Mumbai. For details visit [www.iibf.org.in](http://www.iibf.org.in).

### **5<sup>th</sup> Bank Executive Programme (BEP) for Senior Executives**

The Bank Executive Programme has been formulated and organized jointly by NIBM, IDRBT and IIBF. This programme aims at equipping bank executives, with appropriate skill sets to succeed in the emerging competitive global market place. 5<sup>th</sup> Bank Executive Programme (BEP) for Senior Executives will be organised from 16<sup>th</sup> to 21<sup>st</sup> November, 2015 at Leadership Centre, Indian Institute of Banking and Finance, Corporate Office, Mumbai. For details visit [www.iibf.org.in](http://www.iibf.org.in).

### **Notice to candidates: Duplicate Certificates**

The Institute issues duplicate certificates for examinations to the candidates based on their request. With effect from September 9, 2015, only online request with online payment for duplicate certificate will be accepted by the Institute. For details visit [www.iibf.org.in](http://www.iibf.org.in).

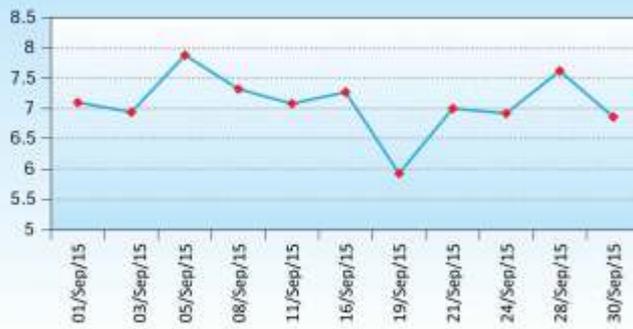
### **Green Initiative**

Members are requested to update their e-mail address with the Institute and send their consent to receive the Annual Report via e-mail in future.

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## Market Roundup

### Weighted Average Call Rates



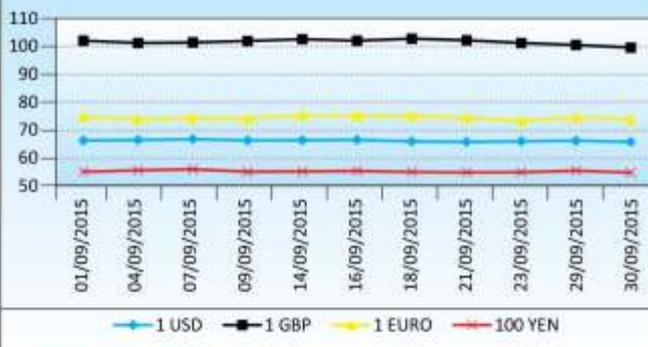
Source: CCIL Newsletters, September 2015

### BSE Sensex



Source: Bombay Stock Exchange (BSE)

### RBI Reference Rate



Source: Reserve Bank of India (RBI)

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