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Regulatory Updates

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December 2, 2024: Inoperative accounts / unclaimed deposits in banks

Tags

Inoperative Accounts, Unclaimed Deposits, KYC (Know Your Customer), Direct Benefit Transfer (DBT), Electronic Benefit Transfer (EBT), Customer Service Committee (CSC)

Summary

This circular is applicable to all the commercial banks excluding Regional Rural Banks. The circular highlights that banks need to conduct annual review of accounts or deposits where there is no customer induced transaction for over a year. And banks need to take necessary steps to activate these inoperative accounts.

Insights

1. Banks are required to conduct an annual review of accounts or deposits that have had no customer-initiated transactions for over a year.
2. Banks must separate accounts associated with government programs such as Direct Benefit Transfer (DBT) or Electronic Benefit Transfer (EBT) to ensure continuous credit into such accounts.
3. Banks must simplify the activation process of inoperative accounts, ensuring smooth KYC updates through various channels such as mobile and internet banking, non-home branches and the Video Customer Identification Process.
4. Banks are advised to track the progress of reduction in inoperative accounts and report to respective Senior Supervisory Manager through DAKSH portal on Quarterly basis.

Further details can be found on the RBI website:
https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=12750&Mode=0

December 4, 2024: Implementation of Section 51A of UAPA,1967: Updates to UNSC's 1267/ 1989 ISIL (Da'esh) & Al-Qaida Sanctions List: Amendments in 03 Entries

Tags

Unlawful Activities Prevention Act (UAPA), United Nations Security Council (UNSC), Regulated Entities (RE), Know Your Customer (KYC)

Summary

This circular is applicable to all the Regulated Entities. This circular highlight implementation of Implementation of Section 51A of UAPA,1967.

Insights

1. Regulated Entities mustn't maintain any account in the name of individuals or entities listed by United Nations Security Council (UNSC) as having terrorist link.
2. Request for delisting from UNSC sanction list can be submitted to an independent and impartial Ombudsperson appointed by the United Nations Secretary-General.
3. Regulated Entities need to strictly follow the KYC guidelines and Unlawful Activities Prevention Act (UAPA).

Further details can be found on the RBI website:
https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=12751&Mode=0

December 4, 2024: Amendment to Framework for Facilitating Small Value Digital Payments in Offline Mode

Tags

Small Value Digital Payments, UPI Lite

Summary

This circular is applicable to all Authorized Payment System Operators and Participants. As per this circular upper limit of an offline digital payment transaction is 500 rupees and total limit of 2000 rupees for a payment instrument at any point in time. Upper limit of 1000 rupees for one transaction in case of UPI Lite and total limit of 5000 rupees at any point in time.

Further details can be found on the RBI website:
https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=12752&Mode=0

December 6, 2024: Maintenance of Cash Reserve Ratio (CRR)

Tags

Cash Reserve Ratio, CRR Revision, banking regulation, liquidity, net demand and time liabilities, financial policy, December 2024, monetary policy

Summary

This circular announces a reduction in the Cash Reserve Ratio (CRR) for all banks. Effective from December 14, 2024, the CRR will be set at 4.25% of net demand and time liabilities (NDTL), and will further decrease to 4.00% starting December 28, 2024. This decision is part of the RBI's efforts to enhance liquidity in the banking system and was communicated in the Statement on Developmental and Regulatory Policies dated December 6, 2024. The notification modifies an earlier directive from May 4, 2022.

Insights

1. **Liquidity Enhancement:** The reduction in CRR is aimed at increasing liquidity in the banking system, which can lead to more lending and economic activity.
2. **Phased Implementation:** The decision to implement the CRR reduction in two phases allows banks to adjust gradually, minimizing disruption.
3. **Regulatory Adjustments:** This change reflects the RBI's ongoing adjustments to monetary policy in response to economic conditions, indicating a proactive approach to managing the economy.
4. **Impact on Banks:** Banks will need to recalibrate their reserve management strategies to comply with the new CRR requirements, which may affect their operational liquidity and lending capabilities.

Further details can be found on the RBI website:
https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=12754&Mode=0

December 6, 2024: Credit Flow to Agriculture – Collateral free agricultural loans

Tags

Collateral-free loans, agriculture loans, financial inclusion, credit flow, economic support, farmer assistance, loan limits, implementation deadline

Summary

The Reserve Bank of India (RBI) has announced an increase in the limit for collateral-free agricultural loans from ₹1.6 lakh to ₹2 lakh per borrower. The circular emphasizes that banks must waive collateral security and margin requirements for these loans, which also extend to allied agricultural activities. This initiative is part of the RBI's broader strategy to support financial inclusion in the agricultural sector amidst rising input costs.

Banks were required to implement these revised instructions by January 1, 2025, ensuring that the changes were enacted promptly. Additionally, the RBI encourages banks to adequately publicize these updates to inform potential borrowers about the new provisions.

Insights

1. **Increased Access to Credit**: The rise in the loan limit to ₹2 lakh allows more farmers to access necessary funds without the burden of collateral, promoting financial inclusion in the agricultural sector.
2. **Support for Allied Activities**: By including loans for allied activities, the RBI is encouraging diversification in agriculture, which can lead to increased income and sustainability for farmers.
3. **Implementation Timeline**: The deadline for banks to adopt these changes by January 1, 2025, emphasizes the urgency of improving credit flow to agriculture, reflecting the RBI's commitment to supporting the agricultural economy.
4. **Public Awareness**: The directive for banks to publicize these changes highlights the importance of informing potential borrowers about available financial resources, which can enhance participation in agricultural financing programs.

Further details can be found on the RBI website:
https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=12755&Mode=0

December 6, 2024: Interest Rates on Foreign Currency (Non-resident) Accounts (Banks) [FCNR(B)] Deposits

Tags

Foreign Currency Non-resident Bank (FCNR(B)) Accounts, Alternative Reference Rate (ARR)

Summary

This circular is applicable to all Scheduled Commercial Banks, Small Finance Banks, Local Area Banks, Payments Banks, Primary (Urban) Co-operative Banks/ DCCBs /State Cooperative Banks. This circular highlights changes to the interest rate on Foreign Currency (Non-resident) Accounts (Banks) deposits.

Insights

1. For fresh FCNR(B) deposits, following interest rate ceiling needs to be followed.
2. For deposits with maturity period of 1 year to less than 3 years: Overnight Alternative Reference Rate (ARR) for the respective currency/ Swap plus 400 basis points
3. For deposits with maturity period of 3 years up to 5 years: Overnight Alternative Reference Rate for the respective currency/ Swap plus 500 basis points

Further details can be found on the RBI website:
https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=12753&Mode=0

December 27, 2024: Unified Payments Interface (UPI) access for Prepaid Payment Instruments (PPIs) through third-party application

Tags

UPI, Prepaid Payment Instruments, PPIs, third-party applications, interoperability, digital payments, financial inclusion, KYC, payment systems

Summary

The circular outlines a significant update regarding the Unified Payments Interface (UPI) access for Prepaid Payment Instruments (PPIs). RBI has decided to enable PPI holders to make and receive UPI payments through third-party applications, a change from the previous requirement that limited UPI transactions from/to PPI to the mobile applications of the banks. This update aims to enhance interoperability and convenience for users, allowing them to link their full-KYC PPIs to third-party UPI applications while maintaining existing authentication processes. The relevant provisions have been amended in the Master Directions on Prepaid Payment Instruments.

Insights

1. **Enhanced User Convenience**: The ability to use third-party applications for UPI transactions will significantly improve the user experience for PPI holders, allowing for more flexible payment options.
2. **Interoperability**: This move promotes interoperability in the digital payment ecosystem, enabling users to transact seamlessly across different platforms.
3. **Regulatory Support**: The RBI's proactive approach in amending regulations reflects its commitment to fostering innovation in the digital payments landscape while ensuring security and compliance.
4. **Financial Inclusion**: By facilitating easier access to UPI for PPI holders, this initiative may contribute to greater financial inclusion, allowing more individuals to participate in the digital economy.
5. **Security Measures**: The requirement for full-KYC compliance ensures that transactions remain secure and that user identities are verified, which is crucial in preventing fraud.

Further details can be found on the RBI website:
https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=12756&Mode=0

December 27, 2024: Reporting Platform for transactions undertaken to hedge price risk of gold

Tags

Gold derivatives transactions, hedging, reporting platform, gold price risk, banks, derivatives, IFSC, regulations, over the counter

Summary

The circular outlines the requirements for banks to report quarterly transactions related to gold price risk hedging, including proprietary transactions and those undertaken by customers. Reports must be submitted to the Reserve Bank of India within ten days of the succeeding quarter, with specific formats (click here to download the format) and deadlines for amendments and unwinding transactions. Additionally, banks are required to report all matured and outstanding OTC transactions performed by them (in the domestic markets, IFSC and outside India), their customers or constituents between April 15, 2024 and February 28, 2025.

Insights

1. Banks must adhere to strict reporting timelines to ensure compliance with RBI regulations.
2. The requirement for a one-time comprehensive report on OTC transactions indicates a push for transparency in gold derivatives trading.
3. The circular emphasizes the importance of accurate data reporting for both proprietary and customer transactions in the gold market.

Further details can be found on the RBI website:
https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=12757&Mode=0

December 30, 2024: Introduction of beneficiary bank account name look-up facility for Real Time Gross Settlement (RTGS) and National Electronic Funds Transfer (NEFT) Systems

Tags

Real Time Gross Settlement (RTGS), National Electronic Funds Transfer (NEFT), National Payments Corporation of India (NPCI), Core Banking Solution (CBS), Internet Banking, Mobile Banking

Summary

This circular is applicable to all banks participating in RTGS and NEFT systems. This circular highlight that all the banks should have beneficiary bank account name look-up facility for Real Time Gross Settlement (RTGS) and National Electronic Funds Transfer (NEFT) systems.

Insights

1. By enabling beneficiary bank account name look-up facility, remitter can verify the name of the bank account to which money is being transferred so that frauds or mistakes can be avoided.
2. Look-up facility should be available to remitter through internet banking, mobile banking. This also should be available to remitters making transaction by visiting the branches.
3. Both remitting bank and beneficiary bank need to maintain all logs regarding beneficiary bank account name lookup facility. These logs and unique lookup reference number can be useful to resolve the dispute.

Further details can be found on the RBI website:
https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=12759&Mode=0

December 31, 2024: Government Debt Relief Schemes (DRS)

Tags

Government Debt Relief Scheme, DRS, Prudential Framework, Borrower Selection, Debt Settlement, Credit Discipline, Natural Calamities, Financial Stability

Summary

The circular outlines the Government Debt Relief Schemes (DRS) established by the Reserve Bank of India, providing a framework for regulated entities (REs) to address borrower account stress. It emphasizes the need for a structured approach to debt relief, including clear borrower selection criteria, the evaluation of residual exposures, and adherence to prudential norms. REs must ensure that no receivable is created against the government until funds are received, and they are encouraged to engage in pre-notification consultations to align expectations among stakeholders.

Key guidelines include the requirement for REs to participate based on board-approved policies, the importance of timely implementation of claims settlements, and the potential risks associated with frequent or poorly designed DRS that could undermine credit discipline. The document serves as a comprehensive guide to ensure that debt relief measures are effectively managed while maintaining financial stability and accountability.

Insights

1. Importance of Structured Framework: The DRS aims to provide a systematic approach to debt relief, ensuring that both borrowers and lenders understand their rights and obligations.
2. Risk Management: By adhering to prudential norms, financial institutions can mitigate risks associated with debt waivers and maintain credit discipline.
3. Consultative Approach: Engaging with stakeholders during the design phase of DRS can lead to more effective and sustainable financial solutions.

4. Impact on Credit Culture: Frequent and poorly designed DRS can undermine credit discipline, highlighting the need for careful consideration before implementation.
5. Timely Implementation: The emphasis on completing the settlement of claims within 45 to 60 days underscores the urgency of addressing borrower distress effectively.

Further details can be found on the RBI website:
https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=12760&Mode=0