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Info Capsule

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STATEMENT ON DEVELOPMENTAL AND REGULATORY POLICIES[1]

This Statement sets out various developmental and regulatory policy measures for strengthening regulation and financial inclusion initiatives; broadening and deepening of the financial markets; and, enhancing customer education and protection.

I. Regulation and Financial Inclusion

1. Extension of MSF to Scheduled Primary (Urban) Cooperative Banks, and extension of LAF and MSF to Scheduled State Cooperative Banks

As part of the Reserve Bank's continuous efforts in improving the transmission of monetary policy to money market rates, it has been decided to allow:

- Access to the Marginal Standing Facility (MSF) to Scheduled Primary (Urban) Co-operative Banks, complying with the eligibility criteria prescribed for MSF; and,
- Access to the Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF) to Scheduled State Co-operative Banks, complying with the eligibility criteria prescribed for LAF / MSF.

Detailed guidelines will be issued by the end of September 2018.

2. Investment in Non-SLR Securities by Primary (Urban) Cooperative Banks

In order to bring further efficiency in price discovery mechanism and as a step towards harmonization of regulations for Urban and Rural Co-operative Banks, it has been decided to permit Primary (Urban) Co-operative Banks to undertake eligible transactions for acquisition / sale of non-SLR investment in secondary market with mutual funds, pension / provident funds, and insurance companies. This is in addition to undertaking eligible transactions with Scheduled Commercial Banks and Primary Dealers. Detailed guidelines will be issued by the end of September 2018.

3. Co-origination of loans by Banks and Non-Banking Financial Companies (NBFCs) for lending to the priority sector

To provide the much-needed competitive edge for credit to the priority sector, it has been decided that all scheduled commercial banks (excluding Regional Rural Banks and Small Finance Banks) may co-originate loans with Non-Banking Financial Companies - Non-Deposit taking- Systemically Important (NBFC-ND-SIs), for the creation of eligible priority sector assets. The co-origination arrangement should entail joint contribution of credit by both lenders at the facility level. It should also involve sharing of risks and rewards between the banks and the NBFCs for ensuring appropriate alignment of respective business objectives, as per their mutual agreement. Guidelines in this regard will be issued by the end of September 2018.

II. Financial Markets

4. Review of Foreign Exchange Derivative facilities for Residents (Regulation FEMA-25)

The Foreign Exchange Management (Foreign Exchange Derivative Contracts) Regulations 2000, commonly known as FEMA 25, lays down the broad rules regarding foreign exchange derivative contracts that can be traded in India and access to such products by residents. Over

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[1] Available at: https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=44637

the years, several amendments of FEMA 25 have been undertaken to make it easier for residents to hedge their currency risk and also widen the range of instruments available for hedging. It is now proposed to undertake a comprehensive review of FEMA 25, in consultation with the Government of India, to, inter alia, reduce the administrative requirements for undertaking derivative transactions, allow dynamic hedging, and allow Indian multinationals to hedge the currency risks of their global subsidiaries from India. Draft circular on the revised guidelines will be released for public comments by the end of September 2018.

5. Comprehensive Review of Market Timings

The Reserve Bank of India has been receiving, from time to time, requests for extension of timings for certain market segments such as currency futures, Over-the-Counter (OTC) foreign exchange market, etc. While the decision of market timings is best left to market participants and exchanges/trading platforms, it is necessary that timings across products and funding markets complement each other and avoid unanticipated frictions. It is, therefore, proposed, to set up an internal group to comprehensively review timings of various markets and the necessary payment infrastructure for supporting the recommended revisions to market timings. The proposed group will submit the report by the end of October 2018.

6. Review of SGL/ CSGL Guidelines

In order to facilitate greater participation in the government securities (G-Secs) markets and to provide market participants further operational ease in opening and operating of Subsidiary General Ledger (SGL) and Constituent Subsidiary General Ledger (CSGL) Accounts, it has been decided to review comprehensively the SGL/CSGL Guidelines. Notifications and Directions in this regard will be issued by the end of October 2018.

III. Customer Education and Protection

7. Review of Internal Ombudsman Mechanism in Banks

With a view to strengthening the internal grievance redressal mechanism at banks, select banks were advised in May 2015 to appoint Internal Ombudsman (IO) as the apex authority for redressal of customer complaints. Based on a review, it has been decided to enhance the independence of the IO while simultaneously strengthening the monitoring system over functioning of the IO mechanism. Revised instructions in this regard will be issued by the end of September 2018.

LIC TO ACQUIRE CONTROLLING STAKE OF IDBI BANK[2]

Cabinet approves dilution of Government shareholding below 50%

The Union Cabinet chaired by Prime Minister Shri Narendra Modi has approved conveying of no objection to reduction in Government of India shareholding in IDBI Bank Limited to below 50% by dilution. It has also approved acquisition of controlling stake by Life Insurance Corporation of India (LIC) as promoter in the bank through preferential allotment / open offer of equity, and relinquishment of management control by the Government in the bank.

Impact:

1. The acquisition has wide-ranging synergy benefits for customers, LIC and the bank.
2. Benefits to the two entities emanate from economies of scale, reduction in the costs of distribution and customer acquisition, greater efficiency and flexibility in operations, and greater opportunity for cross-selling of products and services.
3. These would help financially strengthen both LIC and the bank, as well as their subsidiaries which offer financial products such as housing finance and mutual funds.

[2] Available at: http://pib.nic.in/PressReleseDetail.aspx?PRID=1541080

4. Further, the bank would get an opportunity to tap 11 lakh LIC agents for doorstep banking services, positioning it to improve customer services and deepen financial inclusion.
5. The bank would also be positioned to benefit in terms of lower cost of funds through acquisition of low-cost deposits, and fee income from payment services.
6. LIC would get bancassurance (i.e. selling of insurance products by bank) through the bank's network of 1,916 branches, besides access to bank's cash management services.
7. Further, LIC would gain in terms of furthering the realisation of its vision of becoming a financial conglomerate.
8. Customers too would benefit through wider offerings of financial services under one roof, and LIC being better positioned to expand life insurance coverage.

Background:

In 2016, the Finance Minister, in his Budget Speech announced that the process of transformation of IDBI Bank has started and that Government will take it forward and also consider the option of reducing its stake below 50%. Taking note of this announcement, with the approval of its Board, LIC sought permission of the Insurance Regulatory and Development Authority of India (IRDAI) for acquiring controlling stake in IDBI Bank. After receipt of IRDAI's permission and carrying out diligence, LIC expressed its interest in acquiring 51% controlling stake to IDBI Bank. The bank in turn, after consideration of this offer by its Board, sought Government's decision in the context of Government's stake coming down below 51% as a result of the proposed acquisition.

Team ICSI