BOMBAY MERCANTILE CO-OPERATIVE BANK LTD. (SCHEDULED BANK)
NEWSLETTER

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Bombay Mercantile Bank Ltd.

BOMBAY MERCANTILE CO-OPERATIVE BANK LTD.
(Scheduled Bank)

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FROM THE EDITOR'S DESK

Welcome to the May 2023 edition of the Newsletter. I thank you for using the Newsletter as a reliable source to enhance and update your professional knowledge.

RBI has not increased key rates in the rates Monitory policy statement. Though many were expecting that there will be rate hike again but at the large interest of the society. RBI's decision is admirable. The last inflation data shows there is a reduction in inflation numbers which reflects effects of rate hikes during the last few quarters.

In the long battle of inflation, the rate hikes may only provide temporary relied over long and medium term, frequent rate hikes increase the cost of production and pushes inflation again. Meanwhile in the US, the Fed has increased the rate by 0.25% i.e. from 5.00% to 5.25%, in their meeting held on 3rd May 2023.

In the present situation of increasing interest rates, economic slow down, credit appetite in the economy is getting reduced. However, to keep the pace, banks have shifted their focus on retail & small business loan segment. Banks are trying to push credit in the form of Pre approved loans, credit cards, unsecured overdrafts to individuals and small business entities which are instant and assessed based on CIBIL scores and repayment track record. Banks need to exercise a caution in this segment as "Past performance is no guarantee of future results”. Over reliance on unsecured retail loans, unhealthy competition for credit growth, recessionary factors and global slow down may also trigger a new NPA crisis in the future.

Keeping the tradition alive, the Officers Association and Employees Union of our bank had organized Eid Milan program on 29th April 2023 at Halai Memon Jamatkhana, Mumbai, which was attended by our Chairman, Vice Chairman, Managing Director and staff members in large numbers. The program was a grand success.

Best wishes to all of you.

ZEESHAN MEHDI

REGULATORY UPDATES

Amendment to the Master Direction on KYC & AML norms

RBI has recently carried out few changes in the master direction issued on KYC norms. Few important changes made in the master directions are listed below.

Particulars	Existing Guidelines	Amended guidelines
Threshold for "Controlling ownership interest" for the purpose of determination of Beneficial Owner (BO)	25 percent for companies and 15% for trusts.	**10percent** forboth companies and trusts.
Customer Due Diligence (CDD) measures in case of certain categories of non-individual customers	CDD of the promoters of the firm and principal place of business is must.	CDD of promoters, persons holding senior management position companies), partners & registered office and principal place of business if both are different is must.
Accounts of Nonprofit organizations	The details of non-profit organisations needtobe registeredin DARPAN Portal of NITI Aayog.	If such customers are not registered, they shall register the details on the DARPAN Portal and preserve the documents for a period of 5 years.
Periodic updation of KYC	Aadhaar OTP based e- KYC in non-face to face mode has been permitted to be used for periodic updation.	Along with previous guideline, declaration of current address, if the current address is different from the address in Aadhaar, shall not require positive confirmation in this case.

Provisioning for standard assets by UCBs-Revised guidelines

RBI has introduced **Tier wise** classification of **Urban cooperative banks (UCBs)** with effect from December 2022, where UCBs are categorized into **four Tiers** namely **Tier 1, Tier 2, Tier 3** and **Tier 4** for regulatory purposes. (Previously the UCBs were classified as Tier 1 & Tier 2 UCBs).

RBI has recently decided to **harmonise** the **provisioning norms** for **standard assets** applicable to all categories of UCBs, irrespective of their Tier in the revised framework.

Accordingly, the standard asset provisioning norms applicable to Tier I, Tier 2, Tier 3 and Tier 4 UCBs under the revised framework shall be as under:

Sl. No.	Category of Standard Asset	Rate of Provisioning (on funded outstanding on portfolio basis)
(a)	Direct advances to Agriculture and SME sectors	0.25%
(b)	Commercial Real Estate (CRE) sector	1.00%
(c)	Commercial Real Estate- Residential Housing Sector (CRE-RH)	0.25%
(d)	All other loans and advances not included above**	0.40%

** The erstwhile Tier I UCBs, which are currently maintaining the standard asset provision of 0.25% on this category are permitted to achieve the provisioning requirement of 0.40% on such advances in a staggered manner by March 31, 2025. Thus, provision on all such standard loans and advances outstanding as on March 31, 2023 shall be increased to 0.30% by March 31, 2024, to 0.35% by
September 30, 2024 and to 0.40% by March 31, 2025.

Outsourcing of Information Technology Services

RBI has recently issued Master directions on **outsourcing** the **IT services** by the banks. The key highlights of the directions issued which will be effective from **October 1, 2023** are,

Outsourcing of any activity shall not diminish banks obligations as also of its Board and Senior Management, who shall be ultimately responsible for the outsourced activity.

The services can be outsourced to a service provider, who may be located within or outside India.

Banks should ensure that service provider, if not a group company, shall not be owned or controlled by any director, or key managerial personnel of the bank.

Responsibility for redressal of customers‟ grievances related to outsourced services shall rest with the bank. Banks intending to outsource any of its IT activities shall put in place a comprehensive Board approved IT outsourcing policy.

A risk-based approach shall be adopted in conducting due diligence on service providers.

Banks shall ensure that their rights and obligations and those of each of their service providers are clearly defined and set out in a legally binding written agreement. Banks shall put in place a strong **risk management frame work** in dealing with risks associated with Outsourcing of IT services arrangements.

INDUSTRY NEWS

APConnect - Online application for FFMCs and AD Category II forex dealers

RBI has recently developed a software application called "**APConnect**‟ to process the application for licensing of **Full Fledged Money Changers (FFMCs)**, non-bank **AD Cat-II** merchant bankers, authorisation as **MTSS (Money Transfer Service Scheme) Agents**, renewal of existing licence / authorisation etc.

Existing FFMCs / non-bank AD Category-II should register themselves on the APConnect application within three months i.e. before July 2023.

Hence forth, non bank AD category II dealers, FFMCs and MTSS agents should submit various statements/returns through this application only.

Remittances to IFSCs under the Liberalised Remittance Scheme

With a view to deepen the financial markets in **International Financial Services Centres (IFSCs)** and provide an opportunity to resident individuals to diversify their portfolio, RBI in Feb 2021 has permitted resident individuals to make remittances under LRS to IFSCs set up in India with the following conditions.

The remittance shall be made only for making investments in IFSCs in securities, other than those issued by entities/companies resident (outside IFSC) in India.

Resident Individuals may also open a non interest bearing **Foreign Currency Account (FCA)** in IFSCs, for making the above permissible investments under LRS. Any funds lying idle in the account for a period upto **15 days** from the date of its receipt into the account shall be immediately **repatriated to domestic INR account of the investor in India.**

Resident Individuals shall not settle any domestic transactions with other residents through these FCAs held in IFSC.

In the recent amendment RBI has removed the condition of repatriating the funds lying idle in the account for a period upto 15 days from the date of its receipt to domestic INR account of the investor in India.

Operation of Pre- Sanctioned Credit Lines at Banks through UPI

Recently, RuPay credit cards were permitted to be linked to **UPI.** At present, UPI transactions are enabled between deposit accounts at banks, sometimes intermediated by pre-paid instruments including wallets.

RBI has now proposed to expand the scope of UPI by enabling transfer to / from **pre-sanctioned credit lines** at banks, in addition to deposit accounts. In other words, UPI network will facilitate payments financed by credit from banks. This can reduce the cost of such offerings and help in development of unique products for Indian markets.

Centralised Web portal for Public to Search Unclaimed Deposits

The deposits remaining unclaimed for **10 years** in a bank are transferred to DEA Fund maintained by the RBI. As per RBI guidelines banks to display the list of unclaimed deposits on their website. In order to improve and widen the access of depositors / beneficiaries to such data, RBI has recently decided to develop a web portal to enable search across **multiple banks** for possible unclaimed deposits based on user inputs with the use of **AI tools.**

KNOWLEDGE HUB

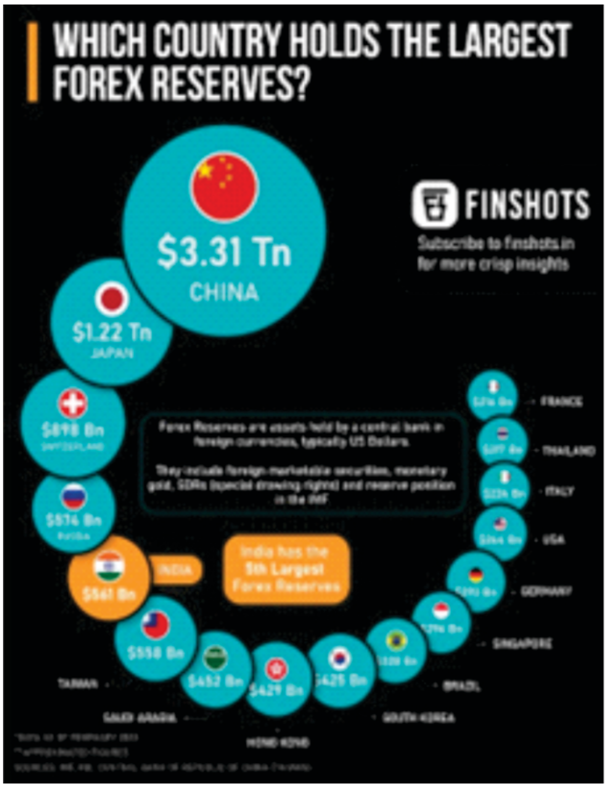
When the RBI responds to elevated inflation risks by raising its benchmark **repo rate**, it effectively increases risk-free reserves, limiting the money supply available for purchases of riskier assets. Conversely, when the RBI reduces its target interest rate, it effectively increases the money supply available to purchase risk assets.

By increasing borrowing costs through enhanced interest rates, the lenders discourage consumers and business spending, especially on commonly financed popular loans like housing, vehicle and capital equipment. The step impacts adversely to more than 250 industries attached to these segments.

Rising interest rates also tend to weigh on asset prices, reversing the wealth effect for individuals and making banks block more funds on the supply side against poor credit off take on the demand side. The ultra-cautious lending decisions leave unspent cash with banks. Banks invest surplus funds into **low-yielding bonds**. High-interest rates decrease bond yields. The redemption to dispose of such held-to-maturity bonds results in losses making big holes in bank profits.

Most **recessions** have followed interest rate hikes by the Central Banks. Often the ensuing downturn has forced the Regulators to reverse course and start lowering the Repo rate.

RBI has stopped raising repo rates in the latest **Monetary Policy** guidelines mainly because repeated interest rate hikes impact the economy adversely and are injurious to the health of banks and customers alike.



BMC BANK NEWS – Eid Milan program our bank on 29th April 2023




Win a prize of Rs.1000/- and a certificate of appreciation from the Managing Director for the correct answer with a beautiful slogan concerning banking activity. The slogan should not be more than 30 words. **Send your reply with slogan in sealed envelope mentioning your Name, Code No. and branch to Treasury Department, 2nd Floor, 78 Mohammedali Road, Mumbai – 400 003.**

QUESTIONAIRES

Q.1) Threshold for controlling interest for the purpose of determination of beneficial owner

Ans. (a) 25% companies – 15% Trust (b) 15% companies – 25% Trust
(c) 20% companies – 20% Trust (d) 10% for both company/Trust

Q.2) Provision for standard assets category Commercial Real Estate (CRE) sector

Ans. (a) 0.25% (b) 1.00% (c) 0.40% (d) 0.50%

Q.3) Our bank's total deposit as on 31st March 2023 stands at

Ans. (a) Rs. 2412 crores (b) Rs. 2410 crores (c) Rs. 2312 crores (d) Rs. 2310 crores

Q.4) AP connect online application for ADI

(a) True (b) False

Q.5) Repo rate is 6.50%

Ans. (a) True (b) False

Your reply should reach us on or before 25th May 2023

Quiz result of VOL VIII Issue 1 dated 01.03.2023

Quiz Answer :
1. (b) 2. (b) 3. (b)
4. (a) 5. (b)

WINNER

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