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**INDIA BANKING & FINANCE UPDATE -
APRIL - MAY 2007**



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Highlighted RBI Notifications

ECB prepayment permitted for up to USD 400 million

The Reserve Bank has informed all authorised banks to permit prepayment of external commercial borrowings (ECB) up to USD 400 million without its prior approval. It is anticipated that the initiative would provide greater flexibility to the corporate sector in managing their liquidity and interest cost. Previously, ECB prepayment up to USD 300 million was allowed by the RBI without prior approval.

RBI permits domestic VCF to invest overseas

RBI has permitted domestic venture capital funds to invest up to USD 500 million in off-shore VC funds without prior approval. Such fund houses,

however, will have to take the prior approval of SEBI for investments.

Remittances permitted upto USD 10 million

The RBI has directed authorised dealers to permit remittances up to USD 10 million to Indian companies executing infrastructure projects for consultancy services procured from outside the country. The earlier limit was USD 1 million.

RBI permits banks to open foreign currency accounts

RBI permitted banks to open the foreign currency accounts of such ship manning and crew-management agencies that are rendering services to shipping companies incorporated outside India.

RBI contemplates differentiated bank licences

The RBI has proposed a differentiated banking licence policy that could allow banks to seek licences for specific activities such as wealth management and not be required to meet certain regulatory restrictions like priority sector lending. Thus some banks may have only wholesale banking licence under which they can offer loans to corporates and accept corporate deposits, but cannot accept retail deposits.

The RBI opined that a graded approach to licensing may be appropriate to direct bank resources to their niche areas and to sustain efficiency in the banking system. Such a policy is an accepted norm in countries such as Hong Kong, Singapore and the UK. For instance, in Singapore there are five types of branch licences — full bank, qualifying full bank (QFB), wholesale bank (WB), offshore bank and representative bank. A full bank conducts a whole range of banking business for retail and corporate clients, but non-Singaporean banks do not enjoy as much flexibility as their local counterparts in terms of branch expansion and ATMs.

QFB is for non-Singaporean banks where the licence allows banks to have additional branches or off-premise ATMs and share ATMs amongst themselves. Under the WB licence, a bank can only have one place of business in Singapore and cannot operate savings accounts and Singapore-dollar fixed deposits of less than USD 2,50,000.

The licensing norms would be equally applicable to foreign and private banks. It may be noted that foreign banks such as Bank of America and Barclays Bank have only wholesale banking and investment banking divisions respectively, but they are required to comply with priority sector lending norms. As the Banking Regulation Act 1949 does not recognise a limited banking license, this proposal would require an amendment to the act.

Government likely to propose 49% FDI cap for credit bureaus

The government is likely to cap foreign direct investment (FDI) in credit information bureaus at 49 per cent, as it prepares guidelines for entry of foreign companies in this sector. The sector has become attractive due to the booming retail financial services market.

The government has been considering either 49 per cent or 74 per cent cap, but is more inclined to go ahead with a lower cap to begin with. Credit information bureaus collect borrower data from banks and financial institutions, both positive and negative, for use by financial institutions subscribing to it.

India already has a credit bureau called Credit Information Bureau India Ltd (CIBIL), in which 62.5 per cent is owned by Indian lenders including State Bank of India, ICICI Bank, Housing Development Finance Corporation (HDFC) with 10 per cent stake each. The foreign shareholders in CIBIL include Citicorp Finance, Dun & Bradstreet and GE Strategic Investments.

Retail credit has been growing at over 40 per cent since 2004-05 increasing its share in total advances to 25.5 per cent at the end of March 2006 from 22 per cent in March 2004. The phenomenal growth in the last three years has thrown up opportunities for companies that provide credit information and related services.

RBI permits mobile money transfers

It is understood that the RBI has provided an in-principle nod to Bharti and SBI to launch the initiative for mobile money transfers (MMT). However, the RBI has given the service providers the option to launch financial services as 'not-for-profit companies' under Section 25 of the Companies Act. This implies, they will not be permitted to offer services as a profitable bank under the banking regulation.

The MMT service was launched in Barcelona in February 2007 by the global GSMA association. The service when operational will allow mobile users abroad to transfer money electronically via the handset directly and instantaneously to a mobile user in India, without the use of a bank account.

The MMT project is particularly relevant and important for India which is the largest recipient of international remittances from about 20 to 25 million Indians working across 130 countries

Micro-finance Bill tabled

The Finance Minister, Mr P. Chidambaram, tabled the Micro Financial Sector (Development and Regulation) Bill 2007, in the Lok Sabha. The Bill makes the National Bank for Agriculture and Rural Development (NABARD) the regulator for the micro-financial sector.

On its enactment, the Bill makes registration of micro-finance organisations with NABARD mandatory and no institution (including existing) can carry out business of offering thrift services without obtaining certificate of registration. For seeking registration, the organisation should have minimum net owned funds of INR 5,00,000.

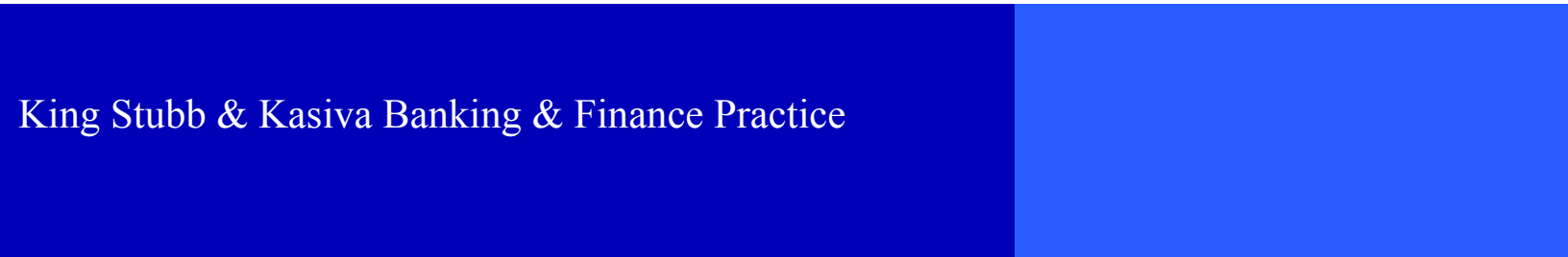
The Bill qualifies any amount not exceeding INR 50,000 as a micro-finance service, with this limit set at INR 1,50,000 for housing purposes. For safeguarding interests of the people depositing their money, the Bill proposes constitution of a reserve fund, where minimum 15 per cent of the net profit or surplus realised out of thrift services will be parked. The Bill also empowers NABARD to frame a scheme for the appointment of one or more Micro Finance Ombudsmen for settlement of disputes between clients and micro finance institutions.

RBI lifts ban on setting up urban Co-operatives

The Reserve Bank of India has lifted the ban on setting up new urban co-operative banks (UCBs). The central bank had discontinued issuing fresh licence to UCBs a few years ago in the wake of financial scams involving UCBs and deteriorating financial condition of many of them. In the 2004 annual policy, the RBI said that new licences for UCBs and opening new branches would be allowed only after a comprehensive policy on UCBs is put in place.

RBI would also issue by May 31, guidelines to UCBs on raising capital. The guidelines would be based on the report of the working group set up to study the capital requirements of UCBs.

UCBs have also been allowed to follow the relaxed prudential norms for one more year. This is applicable to both tier-I and tier - II UCBs. UCBs located in States, which had signed the MoU with RBI, have also been allowed to start insurance business as corporate agents without risk participation.



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We welcome the opportunity to serve as your counsel. For more information, please contact: Ms. Jyotsna Talwar, Director Corporate Relations, Tel: +91 11 41032969 or at jyotsna@ksandk.com .

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