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MONETARY AND CREDIT  
INFORMATION REVIEW

**POLICY**

**Maintenance of CRR**

The Government of India on March 9, 2007 notified that the provisions of Section 3 of the Reserve Bank of India (Amendment) Act, 2006 shall come into force on April 1, 2007. The amendment carried out to sub-Section (i) of section 42 of the Reserve Bank of India Act, 1934 removes the statutory minimum cash reserve ratio (CRR) requirement of 3 per cent of total demand and time liabilities. The Reserve Bank, having regard to the need for securing monetary stability in the country, may from time to time prescribe the CRR for scheduled banks without any statutory floor and ceiling rate.

The Reserve Bank has, as of now, decided to maintain *status quo* on the rate of CRR to be maintained by scheduled banks and the extant exemptions which would be operative, till further change is notified. Accordingly, scheduled banks shall continue to maintain CRR on their net demand and time liabilities (NDTL) as indicated below, subject to the extant exemptions.

Effective Date (i.e., the fortnight beginning from)	CRR on NDTL (per cent)
April 14, 2007	6.25
April 28, 2007	6.50

The Reserve Bank has further advised that -

- For the basis of CRR for a reporting fortnight, the NDTL would relate to the reporting Friday of the second preceding fortnight, as earlier.
- Banks are required to maintain a minimum of 70 per cent of the required amount of average daily CRR for a fortnight, on a daily basis during the fortnight, as at present.
- Consistent with the amendment, the Reserve Bank will not pay interest on CRR balances maintained by banks from the fortnight beginning March 31, 2007.

**RBI's Guidelines on Wire Transfers**

The Reserve Bank has issued guidelines advising all scheduled commercial banks to ensure that all cross-border/ domestic wire transfers are accompanied by the following information :

**Cross-border Wire Transfers**

- All cross-border wire transfers should be accompanied by accurate and meaningful originator information.
- Information accompanying cross-border wire transfers should contain the name and address of the originator and the originator's account where an account exists. In the absence of an account, a unique reference number, as prevalent in the country concerned, must be included.
- Inclusion of full originator information is exempted where several individual transfers from a single originator are bundled in a batch file for transmission to beneficiaries in another country, provided the originator's account number or unique reference number is included.

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## Domestic Wire Transfers

- a) Information accompanying all domestic wire transfers of Rs. 50,000 and above must include complete originator information i.e., name, address and account number etc., unless full originator information can be made available to the beneficiary bank by other means.
- b) If a bank has reason to believe that a customer is intentionally structuring wire transfers below Rs. 50,000 to several beneficiaries in order to avoid reporting or monitoring, the bank must insist on complete customer identification before effecting the transfer. If a customer does not co-operate, efforts should be made to establish his identity and a suspicious transaction report (STR) should be made to the Financial Intelligence Unit - India (FIU-IND).
- c) When a credit or debit card is used to effect money transfer, complete originator information should be included in the message.

## Exemptions

Inter-bank transfers and settlements, where both the originator and beneficiary are banks or financial institutions, are exempt from the above requirements.

## Role of Ordering/Intermediary/Beneficiary Banks

### Ordering Bank

An ordering bank is the one that originates a wire transfer as per the order placed by its customer. The ordering bank should ensure that qualifying wire transfers contain complete originator information. The bank should verify and preserve the information for a period of ten years at least.

### Intermediary Bank

For both cross-border and domestic wire transfers, a bank processing an intermediary element of a chain of wire transfers should ensure that all originator information accompanying a wire transfer is retained with the transfer. Where technical limitations prevent full originator information accompanying a cross-border wire transfer from remaining with a related domestic wire transfer, a record must be kept for ten years at least (as required under the Prevention of Money Laundering Act, 2002) by the receiving intermediary bank of all the information received from the ordering bank.

### Beneficiary Bank

A beneficiary bank should have effective risk-based procedures in place to identify wire transfers lacking complete originator information. The lack of complete originator information should be considered as a factor in assessing whether a wire transfer or related transactions are suspicious and whether they should be reported to FIU-IND. The beneficiary bank should also take up the matter with the ordering bank if a transaction is not accompanied by detailed information of the fund remitter. If the ordering bank fails to furnish information on the remitter, the beneficiary bank should consider restricting or even terminating its business relationship with the ordering bank.

These guidelines are issued under Section 35A of the Banking Regulation Act, 1949 and any contravention would attract penalties under the relevant provisions of the Act.

## Rounding off Cheques to Nearest Rupee

Reiterating its earlier instructions, the Reserve Bank has once again advised banks to ensure that cheques/drafts issued by clients containing fractions of a rupee are not rejected or dishonoured by them. Banks should review the practice being followed by them in this regard and take necessary steps, including issuing internal circulars, etc, to ensure that the concerned staff are well versed with these instructions. Banks should also ensure that appropriate action is taken against staff members who refuse to accept cheques/drafts containing fractions of a rupee.

Banks have also been advised that violation of these instructions would render them liable to be penalised under the provisions of the Banking Regulation Act, 1949.

It may be recalled that, in its Master Circular on 'Interest Rates on Deposits' of July 1, 2006, the Reserve Bank had advised banks that all transactions, including payment of interest on deposits/charging of interest on advances, should be rounded off to the nearest rupee; i.e., fractions of 50 paise and above should be rounded off to the next higher rupee and fractions of less than 50 paise should be ignored. It was also advised that issue prices of cash certificates should also be rounded off in the same manner.

## Wire Transfers

Wire transfers are an expeditious and secure method for transferring funds between bank accounts. Wire transfers include transactions occurring within the national boundaries of a country or from one country to another.

### Salient Features

- Wire transfer is a transaction carried out on behalf of an originator person (both natural and legal) through a bank by electronic means with a view to making an amount of money available to a beneficiary person at a bank. The originator and the beneficiary may be the same person.
- Cross-border transfer means any wire transfer where the originator and the beneficiary bank or financial institution are located in different countries. It may include any chain of wire transfers that has at least one cross-border element.
- Domestic wire transfer means any wire transfer where the originator and receiver are located in the same country. It may also include a chain of wire transfers that takes place entirely within the borders of a single country even though the system used to effect the wire transfer may be located in another country.
- The originator is the account holder, or where there is no account, the person (natural or legal) that places the order with the bank to perform the wire transfer.

## CUSTOMER SERVICE

### Nomination Facility in Single Deposit Accounts

The Reserve Bank has advised banks that while opening deposit accounts, they should insist on the person opening the deposit account, to make a nomination. In case the person opening the account declines to make a nomination, the bank should explain to him/her the advantages of the nomination facility. If the person opening the account still does not want to nominate, the bank should obtain from him/her, a specific letter stating that he/she does not want to make a nomination. In case the person opening the account declines to give such a letter, the bank should record the fact on the account opening form and proceed with opening the account if otherwise found eligible. Under no circumstances, a bank should refuse to open an account solely on the ground that the person opening the account refused to nominate.

Further, banks should refer to the Reserve Bank's circular of February 1997 advising that the nomination facility could also be extended to deposits held in the name of a sole proprietary concern. This procedure applies to deposit accounts opened in the names of sole proprietary concerns.

### Safe Deposit Lockers/Safe Custody Articles

Pursuant to the recommendations made by the Committee on Procedures and Performance Audit on Public Services (CPPAPS) on easy operation of lockers, the Reserve Bank has reviewed all the instructions in this regard and issued revised guidelines on safe deposit lockers/safe custody articles. These guidelines supersede all instructions issued earlier.

#### Safe Deposit Lockers

##### *Linking Allotment of Lockers to Fixed Deposits*

The CPPAPS had observed that linking the locker facility with placement of fixed or any other deposit beyond what is specifically permitted, is a restrictive practice and should be prohibited. The Reserve Bank has advised banks to refrain from such restrictive practices.

##### *Fixed Deposit as Security*

Banks may face situations where the locker-hirer neither operates the locker nor pays rent. To ensure prompt payment of locker rent, banks may at the time of allotment, obtain a fixed deposit which would cover 3 years' rent and the charges for breaking open the locker in case of an eventuality. Banks should not, however, insist on such fixed deposit from existing locker-hirers.

##### *Wait List*

Bank branches should maintain a wait list for allotment of lockers and ensure transparency in allotment of lockers. All applications received for allotment of locker should be acknowledged and given a wait list number.

Banks should give a copy of the agreement regarding operation of the locker to the locker-hirer at the time of allotment of the locker.

#### Security

- Banks should exercise due care and take necessary precaution for the protection of the lockers provided to customers. Banks should review the systems in force for operation of safe deposit vaults/lockers at their branches on an on-going basis and take necessary steps. The security procedures should be well-documented and the concerned staff should be properly trained in the procedure. Internal auditors should ensure that the procedures are strictly adhered to.
- Banks should carry out customer due diligence for both new and existing customers at least to the levels prescribed for customers classified as medium risk. If the customer is classified in a higher risk category, customer due diligence as per 'know your customer' (KYC) norms applicable to such higher risk category should be carried out.
- In cases where lockers have not been operated for more than three years for medium risk category or one year for a higher risk category, banks should immediately contact the locker-hirer and advise him to either operate the locker or surrender it. This exercise should be carried out even if the locker-hirer is paying the rent regularly. Further, banks should ask the locker-hirer to give in writing, the reasons why he/she did not operate the locker. In case the locker-hirer has some genuine reasons as in the case of non-resident Indians (NRIs) or persons who are out of town due to a transferable job etc., banks may allow the locker-hirer to continue with the locker. In case the locker-hirer does not respond nor operates the locker, banks should consider opening the locker after giving him/her due notice. Banks should incorporate a clause in the locker agreement that in case the locker remains unoperated for more than one year, the bank would have the right to cancel the allotment of the locker and open the locker, even if the rent is paid regularly.
- Banks should have a clear procedure drawn up in consultation with their legal advisers for breaking open lockers and taking stock of inventory.

#### Access to Safe Deposit Lockers/Safe Custody Articles

##### *To Survivor(s)/Nominee(s)/Legal Heir(s)*

For returning contents of lockers/safe custody articles to survivor/nominee/legal heirs, banks should adopt the procedure indicated in the Reserve Bank's circular of June 2005 regarding handing over proceeds of deposit accounts.

##### *With Survivor/Nominee Clause*

If a sole locker-hirer has nominated a person, banks should give to such nominee, access to the locker and the liberty to remove the contents of the locker in the event of the death of the sole locker-hirer. In case the locker was hired jointly with instructions to operate it under joint signatures and the locker-hirer(s) nominates person(s), in the event of death of any of the locker-hirers, the bank should give access of the

locker and the liberty to remove the contents jointly to the survivor(s) and the nominee(s). In case the locker was hired jointly with survivorship clause and the hirers instructed that the access of the locker should be given to "either or survivor", "anyone or survivor" or "former or survivor" or according to any other survivorship clause, banks should follow the mandate in the event of the death of one or more of the locker-hirers. Exercising due caution before handing over the contents, banks should -

- (a) take care in establishing the identity of the survivor(s)/nominee(s) and the fact of death of the locker-hirer by obtaining appropriate documentary evidence;
- (b) make diligent efforts to find out if there is any order from a competent court restraining the bank from giving access to the locker of the deceased; and
- (c) make it clear to the survivor(s)/nominee(s) that access to locker/safe custody articles is given to them only as a trustee of the legal heirs of the deceased locker hirer i.e., such access given to him shall not affect the right or claim which any person may have against the survivor(s)/nominee(s) to whom the access is given.

Banks should follow a similar procedure for return of articles placed in their safe custody. Banks should also note that the facility of nomination is not available in case of deposit of safe custody articles by more than one person.

While giving access to the survivor(s)/nominee(s) of the deceased locker-hirer/depositor of the safe custody articles, banks should not insist on production of succession certificate, letter of administration or probate, etc., or obtain any bond of indemnity or surety from the survivor(s)/nominee(s). The access given to the survivor(s)/nominee(s), as per the above conditions, constitutes a full discharge of the bank's liability. Insistence on production of legal representation causes avoidable inconvenience to the survivor(s)/nominee(s) and would, therefore, invite serious supervisory disapproval.

#### *Without Survivor/Nominee Clause*

With a view to avoiding inconvenience and undue hardship to legal heir(s) of the locker-hirer(s), banks have been advised to adopt a customer-friendly procedure drawn up in consultation with their legal advisers for giving access to legal heir(s)/legal representative of the deceased locker-hirer in cases where the deceased locker-hirer had not made any nomination or where the joint hirers had not given any mandate that the access may be given to one or more of the survivors by a clear survivorship clause. Similar procedure should be followed for articles kept in the safe custody of the bank.

Banks are also advised to be guided by the provisions of Sections 45 ZC to 45 ZF of the Banking Regulation Act, 1949 and the Banking Companies (Nomination) Rules, 1985 and the

relevant provisions of the Indian Contract Act and the Indian Succession Act.

Banks should prepare an inventory before returning articles left in safe custody/permitting removal of the contents of a safe deposit locker as advised in the Reserve Bank's circular of March 1985.

In case the nominee(s)/survivor(s)/legal heir(s) wish to continue with the locker, banks may enter into a fresh contract with the nominee(s)/survivor(s)/legal heir(s) and also adhere to KYC norms in respect of the nominee(s)/legal heir(s). Banks are not required to open sealed/closed packets left with them for safe custody or found in lockers while releasing them to the nominee(s) and surviving locker hirers/depositor of safe custody article.

#### **Operational Systems/Procedures**

The Indian Banks' Association (IBA) has already formulated a model operational procedure (MOP) for settlement of claims of the deceased depositors under various circumstances. The Reserve Bank has advised IBA to formulate a similar MOP for giving access to lockers/return of safe custody articles under various circumstances. Banks should undertake a comprehensive review, with their board's approval, of their extant systems and procedures relating to settlement of claims of their deceased constituents (locker-hirers/depositors of safe custody articles) with a view to evolving a simplified policy/procedure. The review should take into account the applicable statutory provisions, the above instructions as also the MOP to be formulated by the IBA.

#### **Customer Guidance/Publicity**

Banks should give wide publicity and provide guidance to locker-hirers/depositors of safe custody articles on the benefits of the nomination facility and the survivorship clause. Illustratively, it should be highlighted in the publicity material that in the event of the death of one of the joint locker-hirers/depositors of safe custody articles, the right to the contents of the locker or the articles under safe custody does not automatically devolve on the surviving joint locker-hirer/depositor of safe custody articles, unless there is a survivorship clause.

Banks should also place on their websites the instructions along with the policies/procedures put in place for giving access of the locker/safe custody articles to the nominee(s)/survivor(s)/legal heir(s) of the deceased locker-hirer/depositor of the safe custody articles. Further, a printed copy of the policy/procedure should also be given to the nominee(s)/survivor(s)/legal heir(s) whenever a claim is received from them.

Banks have also been advised to ensure that the identification code of the bank/branch is embossed on all the locker keys with a view to facilitating authorities in identifying the ownership of the locker keys.