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MONETARY AND CREDIT
INFORMATION REVIEW

BRANCH BANKING

Unclaimed Deposits/Inoperative Accounts

Reviewing its earlier instructions on inoperative accounts, the Reserve Bank has advised banks that -

- (i) They should make an annual review of accounts in which there have been no operations (i.e. no credit or debit other than crediting of periodic interest or debiting of service charges) for more than one year. They should approach their customers and inform them in writing that there has been no operation in their accounts and ascertain the reasons for the same. In case the account has not been operated due to the customer having shifted from the locality, he may be asked to provide the details of the new bank account to which the balance in the existing account could be transferred.
- (ii) If the letter is returned undelivered, banks should immediately try to find out the whereabouts of the customer or his legal heirs in case he is deceased.
- (iii) In case the whereabouts of the customer are not traceable, banks should consider contacting the person who had introduced the account holder. They could also consider contacting the employer/or any other person whose details are available with them. Banks could also consider contacting the account holder telephonically in case his telephone/mobile phone number is available with them. In case of non-resident accounts, banks may also contact the account holders through e-mail and obtain their confirmation of the details of the account.
- (iv) A savings as well as current account should be treated as inoperative/dormant if there have been no transactions in the account for over a period of two years.
- (v) In case the account holder gives the reasons for not operating the account, the account would continue as an operative account for one more year, within which period, the account holder should be requested to operate the account. If the account holder still does not operate the account during the extended period, the account should be classified as an inoperative account after the expiry of the extended period.
- (vi) For the purpose of classifying an account as 'inoperative' both types of transactions i.e., debit as well as credit transactions, induced at the instance of the customer as well as third party, should be considered. The service

charges levied by the bank or interest credited by the bank should, however, not be considered.

- (vii) The customer should not be inconvenienced in any way, just because his account has been rendered inoperative. The transactions in the account should be monitored at a higher level both, from the point of view of preventing fraud and making a suspicious transactions report. The entire process should, however, remain un-noticeable by the customer.
- (viii) Operations in such accounts should be allowed after due diligence as per the risk category of the customer. Due diligence would mean ensuring genuineness of the transaction, verification of the signature and identity, etc.
- (ix) Activation of an inoperative account should not be charged.
- (x) Banks should ensure that the amounts lying in inoperative accounts ledger are properly audited by their internal/statutory auditors.
- (xi) Interest on savings bank accounts should be credited on a regular basis whether the account is operative or not. If a fixed deposit receipt matures and the proceeds are unpaid, the amount left unclaimed with the bank would attract savings bank rate of interest.

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Banks have also been advised to consider launching a special drive for finding the whereabouts of customers/legal heirs in respect of existing accounts which have already been transferred to the separate ledger of 'inoperative accounts'.

Payment of Interest on Frozen Accounts

Examining the issue of payment of interest on accounts frozen on the orders of enforcement authorities, the Reserve Bank has advised banks that, in the case of frozen term deposit accounts they should follow the procedure as detailed below:

- (i) A request letter should be obtained from the customer for renewal for a term equal to the original term, on maturity.
- (ii) No new receipt is required to be issued. A suitable note, however, should be made in the deposit ledger regarding the renewal.
- (iii) The concerned government department should be advised by registered letter/speed post/courier service about the renewal of the deposit. The depositor should also be advised about the renewal and the rate of interest at which the deposit has been renewed.
- (iv) If the overdue period does not exceed 14 days on the date of receipt of the request letter, the renewal may be done from the date of maturity. If the overdue period exceeds 14 days, banks should pay interest for the overdue period as per the policy adopted by them, and keep it in a separate interest free sub-account which should be released when the original fixed deposit is released.

As regards savings bank accounts frozen by enforcement authorities, banks should continue to credit the interest to the account on a regular basis.

POLICY

Interest Rates

Until further notice and with effect from the close of business in India as on September 16, 2008, the interest rates on non-resident (external) rupee (NRE) term deposits and foreign currency non-resident (B) [FCNR(B)] deposits would be as under:

NRE Deposits

The interest rates on fresh NRE term deposits for one to three years maturity should not exceed the LIBOR/SWAP rates plus 50 basis points, as on the last working day of the previous month, for US dollar of corresponding maturities (as against LIBOR/SWAP rates effective from the close of business on April 24, 2007). The interest rates for three year deposits would also be applicable in case the maturity period exceeds three years. The changes in interest rates would also apply to NRE deposits renewed after their present maturity period.

FCNR(B) Deposits

In respect of FCNR (B) deposits of all maturities, interest should be paid within the ceiling rate of LIBOR/SWAP rates minus 25 basis points for the respective currency/ corresponding maturities (as against LIBOR/SWAP rates minus 75 basis points effective from close of business on April 24, 2007). On floating rate deposits, interest should be paid within the ceiling of SWAP rates for the respective currency/maturity minus 25 basis points. For floating rate deposits, the interest re-set period shall be six months.

Additional Liquidity support under LAF

Presently, banks obtain liquidity from the Reserve Bank under the liquidity adjustment facility (LAF) against the collateral of eligible securities that are in excess of their prescribed statutory liquidity ratio (SLR). It has been decided that, in addition, purely as a temporary measure, scheduled banks may avail additional liquidity support under the LAF to the extent of up to one per cent of their net demand and time liabilities.

For any shortfall in maintenance of SLR arising out of availment of this additional liquidity support under LAF, banks should apply to the Reserve Bank in writing under sub-section (8) of Section 24 of the Banking Regulation Act, 1949 with a request not to demand payment of penal interest thereon.

The additional liquidity support would be available from the LAF/SLAF auctions of September 17, 2008. This measure is *ad hoc*, temporary in nature and would be reviewed on a continuous basis in the light of the evolving liquidity conditions.

Lending under Consortium/Multiple Banking Arrangements

The matter of consortium lending and multiple banking arrangements in the banking system was examined in consultation with the Indian Banks Association, which was of the opinion that, there is a need for improving sharing/ dissemination of information among banks about the status of the borrowers enjoying credit facilities from more than one bank. Accordingly, banks have been advised to -

- Obtain, at the time of granting fresh facilities, a declaration from the borrowers about the credit facilities already enjoyed by them from other banks. In the case of existing lenders, all the banks concerned should seek a declaration regarding details of borrowing arrangements from other banks from their existing borrowers availing sanctioned limits of Rs.5 crore and above.
- Strengthen their information back-up about borrowers enjoying credit facilities from multiple banks by introducing a system of exchange of information with other banks about the conduct of borrowers' accounts. Such information should be exchanged at least at quarterly intervals.
- Obtain regular certification by a professional, preferably a company secretary, regarding compliance of various statutory prescriptions that are in vogue, by the borrowers.
- Make greater use of credit reports available from Credit Information Bureau of India Limited (CIBIL).
- Incorporate suitable clauses in the loan agreements in future (at the time of next renewal in the case of existing facilities) regarding exchange of credit information so as to address confidentiality issues.

FEMA

External Commercial Borrowings

Based on a review, some aspects of the external commercial borrowing (ECB) policy have been modified as indicated below:

- (a) Considering the huge funding requirements of the infrastructure sector, particularly for meeting rupee expenditure, the existing limit of USD 100 million has been raised to USD 500 million per financial year for borrowers in the infrastructure sector, for rupee expenditure under the

approval route. ECBs in excess of USD 100 million for rupee expenditure should have a minimum average maturity period of 7 years.

- (b) In view of widening of credit spreads in the international financial markets, the all-in-cost ceilings for ECBs have been modified as follows:

Average Maturity Period	All-in-Cost Ceilings over 6 Months LIBOR*	
	Existing	Revised
Three years and up to five years	200 bps	200 bps
More than five years and up to seven years	350 bps	350 bps
More than seven years	350 bps	450 bps

* for the respective currency of borrowing or applicable benchmark

These amendments to the ECB guidelines have come into force from September 22, 2008. All other aspects of the ECB policy, such as, USD 500 million limit per borrower per financial year under the automatic route, eligible borrower, recognised lender, end-use of foreign currency expenditure for import of capital goods and overseas investments, average maturity period, prepayment, refinancing of existing ECB and reporting arrangements remain unchanged. The existing limit of USD 50 million for rupee expenditure under the approval route for borrowers other than those in the infrastructure sector also remains unchanged.

Direct Receipt of Import Bills/Documents

AD Category – I banks can now make remittances for imports, where the import bills/documents have been received directly by the importer from the overseas supplier and the value of the import bill does not exceed USD 300,000. (The earlier limit for such remittances was not exceeding USD 100,000). The remittance would, however, be subject to conditions as follows :

- (i) The import is subject to the prevailing foreign trade policy.
- (ii) The transactions are based on the commercial judgment of the AD Category – I bank and it is satisfied about the bonafides of the transactions.
- (iii) The importer is a customer of the AD Category – I bank and the customer's account is fully compliant with the extant know your customer (KYC)/anti-money laundering (AML) guidelines issued by the Reserve Bank.
- (iv) AD Category - I banks should do the due diligence exercise and should be fully satisfied about the financial standing/status and track record of the importer customer.
- (v) It is customary in that trade to receive import documents directly from the overseas exporter.
- (vi) In case the AD Category – I bank has suspicions about the genuineness of the transaction, it should be reported to the Financial Intelligence Unit in India (FIU_IND) through the suspicious transaction report.

Advance Remittances for Import of Services

The limit for advance remittance for all admissible current account transactions for import of services without bank guarantee, has been raised from USD 100,000 to USD 500,000 or its equivalent. AD Category – I banks have been advised to

frame their own guidelines to deal with such cases as per the policy approved by their board of directors.

If the amount of advance exceeds USD 500,000 or its equivalent, a guarantee from a bank of international repute situated outside India, or a guarantee from an AD Category – I bank in India, if such a guarantee is issued against the counter-guarantee of a bank of international repute situated outside India, should be obtained from the overseas beneficiary.

AD Category – I banks should also follow-up to ensure that the beneficiary of the advance remittance fulfils his obligation under the contract or agreement with the remitter in India, failing which, the amount should be repatriated to India.

UCBs

Excess Interest Tax

The Hon'ble Supreme Court in its judgement dated April 16, 2004 has ordered that excess interest collected by banks from borrowers by rounding off the applicable interest rate, should be recovered from banks and should be credited to a Trust to be created for the benefit of disadvantaged people. The Hon'ble Court has also directed that each bank concerned should contribute to the extent of Rs.50 lakh to this fund.

Accordingly, the Reserve Bank has advised UCBs to deposit with this trust fund, excess amount realised, if any, from their borrowers towards interest tax by way of rounding off. The Ministry of Social Justice and Empowerment has opened a savings bank account No. 65012067356 with the State Bank of Patiala, Shastri Bhavan Branch, New Delhi in the name of the Trust. UCBs, which have realised excess amount from borrowers towards interest tax by way of rounding off to the next higher 0.25 per cent, are liable to deposit such amount with the trust fund.

As regards contribution to the extent of Rs.50 lakh to the trust fund, the UCBs concerned, which have collected excess amount, may decide depending upon the facts and circumstances of the case.

Grievance Redressal Mechanism

One of the recommendations of the Working Group set up to formulate a scheme for ensuring reasonableness of bank charges was that, banks should have a robust grievance redressal structure and processes to ensure prompt in-house redressal of all customer complaints. Accordingly, the Reserve Bank, reiterating its earlier instructions, has advised all primary (urban) co-operative banks (UCBs) to ensure that a suitable mechanism exists for receiving and addressing complaints received from their customers, with specific emphasis on resolving such complaints fairly and expeditiously, regardless of the source of the complaints.

UCBs have been advised to:

- (i) Ensure that complaint registers are kept at a prominent place in their branches to enable customers to enter their complaints.
- (ii) Have a system of acknowledging the complaints, where the complaints have been received through letters/forms.
- (iii) Fix a time frame for resolving the complaints received at different levels.
- (iv) Prominently display at their branches, the names of the complaints redressal officials together with their direct

telephone number, fax number, complete address (not Post Box No.) and e-mail address, who can be contacted by customers for redressal of complaints

In the case of *scheduled* urban co-operative banks, where the complaints are not redressed within one month, the branch/head office concerned of the bank should forward a copy of the complaint to the nodal officer concerned under the Banking Ombudsman scheme and keep him updated about the status of the complaint. This would enable the nodal officer to deal with any reference received from the Banking Ombudsman regarding the complaint more effectively. Further, as it is also necessary that the customer is made aware of his rights to approach the Banking Ombudsman, in case he is not satisfied with the bank's response, in the final letter sent to the customer regarding redressal of the complaint. The details of contacting the Banking Ombudsman should also be included in the letter.

UCBs should also give wide publicity to the establishment of the grievance redressal mechanism in their head office and in all their branches and bring it to the notice of their customers.

CUSTOMER SERVICE

Display of information on Notice Board

An Internal Working Group was set up in the Reserve Bank to revisit all the existing instructions relating to display boards by commercial banks so as to rationalise them. Based on the recommendations of the Working Group, the Reserve Bank has issued the following instructions:

Notice Boards

The existing mandatory instructions have been broadly grouped into four categories, viz., 'customer service information', 'service charges', 'grievance redressal' and 'other services provided'.

The Working Group has formulated a comprehensive notice board. The format of the Board is available on the RBI website www.rbi.org.in The minimum size of the board should be 2 feet by 2 feet as a board of such a size would facilitate comfortable viewing from a distance of 3 to 5 metres. Banks should display the information on the notice boards of their branches as per the format given for the comprehensive notice board.

While displaying the information on the notice board, banks should also adhere to the following guidelines:

- The notice board should be updated on a periodical basis and the date of updation should be indicated.
- Though the pattern, colour and design of the board is left to the discretion of banks, yet the display must be simple and readable.
- The language requirements (i.e., bilingual in Hindi speaking states and trilingual in other states) should be taken into account.

- The notice board should specifically indicate wherever recent changes have been made. For instance, if there is a recent change in the SSI loan products offered by the bank, the information on the SSI loan products should be displayed as 'We offer SSI loans/products (changed on)'.
- The notice board should also indicate a list of items on which detailed information is available in booklet form.

Further, in addition to the notice board, banks should also display details, such as, 'name of the bank/branch, working days, working hours and weekly off-days' outside the branch premises.

Booklets/Brochures

Booklets/brochures containing detailed information on various topics should be kept in a separate file/folder in the form of 'replaceable pages' so as to facilitate copying and updation. In this regard, banks should also follow the broad guidelines indicated below:

- The file/folder should be kept at the customer lobby in the branch or at the 'May I Help You' counter or at a place that is frequented by most of the customers.
- The language requirements (i.e. bilingual in Hindi speaking states and trilingual in other states) should be taken into account.
- While printing the booklets it should be ensured that the font size is minimum Arial 10 so that customers are able to read them easily.
- Copies of booklets should be made available to the customers on request.

Website

Detailed information on the various items appearing under the four categories viz., 'customer service information', 'service charges', 'grievance redressal' and 'other services provided' should be made available on the bank's web-site.

Banks should also ensure that customers are able to easily access the relevant information from the Home Page of their web-sites. Banks are required to compulsorily post information relating to service charges/fees and grievance redressal on their websites. The Reserve Bank provides a link to the websites of banks so that customers can also have access to the information through the Reserve Bank's website.

Other Modes of Display

Banks should also consider displaying all the information that has to be given in booklet form, in touch screen information kiosks. Use of other modes, such as, scroll bars, tag boards may also be considered for displaying information.

Other Issues

While banks are free to decide on their promotional and product information displays, the mandatory displays, however, should not be obstructed in anyway. The mandatory displays should be given priority over other display boards. Information relating to government sponsored schemes as applicable location-wise, should be displayed according to their applicability.