

**Section 23 of Banking Regulation Act, 1949 – Take over of bank branches**

DBOD.No.BL.BC 13/22.01.001/2003

August 18, 2003.  
Shravana 27,1925(Saka)

All Scheduled Commercial Banks (excluding RRBs and LABs)

Dear Sir,

**Section 23 of Banking Regulation Act, 1949 – Take over of bank branches.**

Please refer to paragraph 7 of our Master Circular DBOD.No.BL.BC.5/ 22.01.001/ 2002 dated 18th July 2002 on Branch Licensing regarding swapping of branches as well as the announcement made in the Monetary and Credit Policy for the year 2003 - 2004 regarding transfer of bank branches in rural and semi urban centres from one commercial bank to another. We now forward herewith for your information the detailed operational guidelines to be followed by the banks for the process of take over of bank branches in rural and semi urban centres, vide Annexure.

Yours faithfully

(C.R.Muralidharan)  
Chief General Manager

Encls: as above

Endt.DBOD No. BL /22.01.001/2003 of date.

Copy forwarded to all Regional Offices for information and necessary action.

(Lalit Srivastava)  
General Manager

**Annexure**

**Guidelines to be followed by banks for transfer of branches in rural/ semi-urban centres from one commercial bank to another.**

(i) **Operational Issues.**

All issues connected with transfer of assets and liabilities, staff etc. of the branches proposed to be transferred should be sorted out by the banks themselves on mutually agreed terms and conditions, subject to adherence of RBI guidelines wherever applicable. The consideration

arrived at for takeover should provide for additional contingent liabilities, if any, that may have to be taken over by the new bank.

(ii) **Notice to Constitutents.**

Due publicity should be given to the constituents of the branch by the existing bank as well as the bank taking over the branch.

(iii) **Transfer of borrowal accounts**

All issues relating to transfer of borrowal accounts of the existing branch should be sorted out by the banks themselves on mutually agreed terms and conditions. The existing borrowers should not be put into any disadvantage and they may be given the choice of continuing with the existing bank or the new bank.

(iv) **Interest rates on existing deposits.**

The transfer of a branch from one bank to another would lead to transfer of deposit accounts from one bank to another. Such deposits will continue to be governed by the terms of contract agreed to between the customer and the bank branch that is being taken over. Accordingly, the same rate of interest will be payable till maturity on such transferred deposits, as was payable at the time of takeover of the branch. In that event the directive with regard to rate of interest vide paragraph 22 (c) of our Master Circular DBOD.Dir.BC.12/13.03.00/2002-2003 dated 31<sup>st</sup> July 2002 will not apply till the maturity of such deposits.

(v) **Penalty for premature withdrawal.**

Where depositors of the branch being taken over desire premature withdrawal of deposit consequent to the transfer of business to another bank, they should be allowed to do so without imposing any penalty.

(vi) **Consideration receivable**

The consideration receivable by the bank will be a current business income and treated accordingly.

(vii) **Surrender of licence**

After a detailed agreement is reached on transfer, the bank taking over the branch may forward the licence to the concerned Regional Office of RBI for cancellation and obtain a fresh licence prior to transfer.

(viii) **Service Area Obligation**

At present a branch which is the only bank branch functioning at a rural centre is not permitted to be shifted / closed/ merged outside the service area as this would render the relative area unbanked. Consequently, in cases where the rural branch of another bank being taken over is the only branch functioning in the village/town, the bank taking over the branch will not be permitted to merge it with any other of its existing branch in rural/ semi- urban area (with service area obligation), as it would render the area unbanked.