

RBI No. /2004-05/ 228

UBD.No. BPD. IP. 24 / 12.05.01/ 2004-05

October 20, 2004

Chief Executive Officers of
all Primary (Urban) Cooperative Banks

Dear Sir / Madam,

Systems and procedures – Best practices

The Joint Parliamentary Committee which inquired into stock market scam and matters relating thereto has observed that RBI must identify best practices found across banks and establish uniform standards to be followed by all the banks.

2. Reserve Bank of India also feel that it would be appropriate to provide UCBs with information on the best practices followed by well-managed banks in the urban banking sector as examples. Accordingly, we forward herewith an Annexure, indicating the best practices followed by some of the well-managed banks and advise you to follow similar practices to improve the functioning of your bank. The best practices furnished in the Annexure are only illustrative in nature and you are free to put in place any other practices, which would result in better customer service, and business development.

3. Please acknowledge receipt of this circular to the Regional Office concerned.

Yours faithfully,

sd/-
(N.S.Vishwanathan)
Chief General Manager

Encl : As above

ANNEXURE

1. Resource mobilization and deployment of resources – maintenance of liquidity – compliance with CRR / SLR requirements :

- a. Rate of interest offered on deposits is in line with the market trend.
- b. Maintenance of CRR / SLR is ensured.
- c. Investment in Government and approved Trustee Securities as prescribed by RBI.
- d. Maintaining reasonable CD ratio.
- e. Sanction of loan within exposure norms.
- f. Computerisation of the work relating to computation of CRR / SLR and developing software thereof for deployment of surplus funds in Government and other approved Securities.
- g. Framing well-documented Investment Policy.
- h. Separation of duties of Investment Department into Front Office, Mid-Office and Back Office.
- i. Investments subjected to scrutiny by Executive Committee at weekly meetings. Reconciliation of investments monitored by Audit Committee.

2. Management of NPAs :

- (a) Framing reasonably well documented loan policy and rules.
- (b) Sound credit appraisal on well-settled banking norms.
- (c) Emphasising reduction in Gross NPAs rather than the Net NPAs.
- (d) Pasting of sale notice/ wall posters on the houses pledged as security.
- (e) Recovery action under 'Transfer of Properties Act' by entrusting the work to the private auctioneers.
- (f) Recovery effort starts from the first month of default itself. Prompt legal action and seizure action is taken.

- (g) One of the employees of the bank is vested with the powers of Sales / Recovery Officer for execution proceedings.
- (h) Position of overdue accounts is reviewed on a weekly basis to arrest slippage of fresh accounts to NPA category.
- (i) Half-yearly balance confirmation certificates are obtained from the borrowers regularly.
- (j) Internal Credit Rating System is put in place for the borrowers enjoying fund based credit facilities of Rs. 10.00 lakh and above for objective credit pricing on an on-going basis.
- (k) Irregular borrowal accounts are followed-up vigorously; officers, on whose recommendations loans are sanctioned are also held personally responsible. In addition to the efforts of the branches, Head Office directly follows up chronic NPA accounts.
- (l) A Committee is constituted at Head Office, to review irregular accounts.
- (m) Due to lower credit risk and consequent higher profitability, greater encouragement is given to small borrowers.
- (n) Recovery competition system is extended among the staff members. The staff recovering highest amount is felicitated.
- (o) Adopting the system of market intelligence for deciding the credibility of the borrowers.
- (p) Scrutiny of news items appearing in the newspapers for sale of property to ascertain whether defaulters intended to dispose of property mortgaged with the bank.
- (q) Creation of a separate 'Recovery Department' with Special Recovery Officer appointed by the RCS.

3. Expenditure control and maximization of profit :

- (a) Not seeking to open new branches as a matter of routine.

- (b) Not filling up the vacancies arising out of retirements and deploying available staff judiciously.
- (c) Preparing expenditure budgets.
- (d) Not frittering away gains by declaring unsustainably high level of dividend.
- (e) Increasing the fee based income by rendering efficient and prompt customer service such as issue of DDs etc.

4. System of reporting to Board of Directors and professionalization of management :

- (a) Agenda for the meetings are prepared in detail and important financial data and reviews placed before the Board.
- (b) The Chief Executive Officer / General Managers directly monitor recovery of NPA. Cordial relationship is maintained by the management with the staff. CEO takes full responsibility and the Directors do not involve themselves in day-to-day affairs of the bank.
- (c) Board of Directors consists of qualified persons who take keen interest in the working of the bank.
- (d) CEO and other senior officials of the bank are well qualified and sincere to their work.

5. Employee motivation :

- (a) Deputation of staff members for various training programmes conducted by RBI and other Training Institutions.
- (b) Arranging monthly staff meetings to work out strategies for the recovery of overdues.
- (c) Training is imparted to all staff on an on-going basis. Regular training programmes for staff on subjects like motivation, leadership, modern

banking, etc., are conducted by inviting guest lecturers to the banks' premises for wider coverage at lesser cost.

6. Customer service :

- (a) Periodical meeting with customers at branch level for getting feed back on the deficiency, if any, in banking service.
- (b) Following a system of personally meeting customers, especially borrowers, at regular intervals. Formation of Customer Care Service Center.
- (c) Provide banking services to suit the requirement of the customers, e.g., keeping the branch open on all the days of the week / staggering the banking hours.

7. Systems and Control :

- (a) Instituting a system of internal audit / inspection apart from statutory audit. Prompt follow up action is taken on the reports. Accountability of Branch Manager and concerned staff is put in place.
- (b) Prompt compliance with RBI inspection report.
- (c) Prompt submission of returns to RBI.
- (d) A monthly branch level meeting is convened to review housekeeping, systems and procedures, audit and inspection findings, loans and advances, recoveries, staff matters, etc.
- (e) Quality and content of internal audit is of high standard. Inter-bank and Inter-branch reconciliation is up-to-date.

8. Operational efficiency:

Putting in place the system of fixing annual targets for the branches and review of their performance at half yearly interval, by the Board of Directors.