

September 1, 2008

Chief Executive Officers of
All Primary (Urban) Co-operative Banks

Dear Sir

Unclaimed Deposits and Inoperative/ Dormant Accounts in UCBs

Please refer to our circular UBD.No.DS.PCB.Cir.50/13.01.00/2000-2001 dated April 19, 2001 on applicability of interest rates on renewal of overdue deposits. Further, as per the extant instructions, accounts which have not been operated upon over a period of two years should be segregated and maintained in separate ledgers.

2. In view of the increase in the amount of the unclaimed deposits with banks year after year and the inherent risk associated with such deposits, it is felt that banks should play a more pro-active role in finding the whereabouts of the account holders whose accounts have remained inoperative. Further several complaints have been received in respect of difficulties faced by the customers on account of their accounts having been classified as inoperative. Moreover, there is a feeling that banks are undeservedly enjoying the unclaimed deposits, while paying no interest on it. Keeping these factors in view, we have reviewed the above instructions issued by us and advise UCBs to follow the instructions detailed below while dealing with inoperative/dormant accounts:

(i) Urban Co-operative Banks should make an annual review of accounts in which there are no operations (i.e. no credit or debit other than crediting of periodic interest or debiting of service charges) for more than one year. The banks may approach the 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 non-operation in the account is due to shifting of the customers from the locality, they may be asked to provide the details of the new bank accounts to which the balance in the existing account could be transferred.

(ii) If the letters are returned undelivered, they may immediately be put on enquiry to find out the whereabouts of customers or their legal heirs in case they are deceased.

(iii) In case the whereabouts of the customers are not traceable, banks should consider contacting the persons who had introduced the account holder. They could also consider contacting the employer / or any other person whose details are available with them. They could also consider contacting the account holder telephonically in case his telephone number / Cell number has been furnished to the bank. In case of Non Resident accounts, the bank may also contact the account holders through email 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 are no transactions in the account for over a period of two years.

(v) In case any reply is given by the account holder giving the reasons for not operating the account, banks should continue classifying the same as an operative account for one more year within which period the account holder may be requested to operate the account. However, in case the account holder still does not operate the same during the extended period, banks should classify the same as inoperative account after the expiry of the extended period.

(vi) For the purpose of classifying an account as 'inoperative' both the type of transactions i.e. debit as well as credit transactions induced at the instance of customers as well as third party should be considered. However, the service charges levied by the bank or interest credited by the bank should not be considered.

(vii) Further, the segregation of the inoperative accounts is from the point of view of reducing risk of frauds etc. However, the customer should not be inconvenienced in any way, just because his account has been rendered inoperative. The classification is there only to bring to the attention of dealing staff, the increased risk in the account. The transaction may be monitored at a higher level both from the point of view of preventing fraud and making a Suspicious Transactions Report. However, the entire process should remain un-noticeable by the customer.

(viii) Operation in such accounts may be allowed after due diligence as per risk category of the customer. Due diligence would mean ensuring genuineness of the transaction, verification of the signature and identity etc. However, it has to be ensured that the customer is not inconvenienced as a result of extra care taken by the bank.

(ix) There should not be any charge for activation of inoperative account.

(x) Banks are also advised to ensure that the amounts lying in inoperative accounts ledger are properly audited by the internal auditors / statutory auditors of the bank.

(xi) Interest on savings bank accounts should be credited on regular basis whether the account is operative or not. If a Fixed Deposit Receipt matures and proceeds are unpaid, the amount left unclaimed with the bank will attract savings bank rate of interest.

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

Yours faithfully,

(A.K. Khound)
Chief General Manager-in-Charge.