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1. INTRODUCTION

This Report No.2 of the Committee on Procedures and Performance Audit on Public Services (CPPAPS) deals with Government Transactions Relating to Individuals. The Committee has studied the Reserve Bank of India (RBI) facilities in the area of Government transactions as they impinge on the **individual** customer and the related instructions/procedures. These instructions/procedures relate to the operations of the RBI as also the authorised agents (essentially banks). The areas relating to individuals which are covered include tax payments and receipts, pension receipts and investments in bonds. In all these areas, the RBI has widespread interface with individuals, either directly or through the authorised agents. In many ways the overall quality of RBI services is reflected by the manner in which these services are delivered. It is vital that the procedures are hassle-free and it is necessary to ensure convergence of the intent and content of the facilities promised by the RBI are indeed provided by the RBI and its authorised agents. To the extent the authorised agents perform certain functions, any shortcomings in service do not absolve the RBI from its responsibility. Since the content of services provided by the RBI/authorised agents involve a substantial element of procedures, the Committee has necessarily had to go into the minutiae of procedures and has pinpointed very specific areas in which services need to be improved. The Committee recognises that the RBI has made valiant efforts to improve customer service. The Parthasarathy Report on Customer Service and the Jasbir Singh Working Group Report on Customer Service in Public Debt Offices (December 2001) have undertaken comprehensive examination of these issues. The present Committee has focused attention on empowering **common persons** and the recommendations of the Committee are essentially to safeguard the rights of the individual customer.

1.2 Chapter 2 of this Report sets out the overall framework for assessing these services while Chapter 3 relates to tax payments and receipts including pensions. Chapter 4 relates to the operation of various schemes of Government bonds. Chapter 5 is a summary of observations/recommendations of the Committee.

1.3 The Committee recognises that improved technology and the services provided are inter-twined and this issue relates not only to individual customers but all classes of customers. This issue has not been addressed in this Report but the Committee intends to take up this issue at some later stage of its work. The Committee is aware that major efforts are being made, both by the RBI and the banks, to upgrade technology, which would hopefully address some of the problem areas, pinpointed in this Report. Nonetheless, until the upgraded technology results in improved customer service, the Committee recommends that in the present state of art the RBI and banks may wish to address the various issues and recommendations set out by the Committee.

1.4 The Committee has, since its inception on January 1, 2004 held seven formal meetings and a large number of informal meetings.

1.5 The Committee benefited from discussions with Deputy Governor Dr. Rakesh Mohan and Executive Director Smt. Shyamala Gopinath. The Committee is appreciative of the patience with which the DGBA under Shri V.S. Das, Chief General Manager-in-Charge and Shri Prabal Sen, Chief General Manager responded to our queries. Shri V. Narasimhan, Deputy General Manager provided valuable support as the DGBA Nodal Officer. The Committee would like to express its deep sense of gratitude to Shri Vinay Baijal, General Manager for unstinted help in enabling the Committee to comprehend

details of the DGBA operations and for providing superb support in preparing the Report. Smt. S.A. Talpade, Private Secretary and Shri G.K. Koshti, Typist provided invaluable assistance to the Committee.

2. OVERALL FRAMEWORK FOR ASSESSING SERVICES

2.1 In the course of deliberations within its remit, the Committee recognised that conceptually the entire exercise was one of empowering the customer of services provided by the RBI and the banking industry. The process of empowerment involves the devolution of customer rights. In this context, the Committee viewed three aspects: (a) the extent of customer rights built into a specific service, (b) the degree of awareness of customer rights and (c) modalities through which the customer is made aware of these rights on an on-going basis.

2.2 The Committee is of the considered view that the process of empowerment would be infructuous if the customer is *ab initio* not aware of these rights because of the absence of any modality to communicate these rights.

2.3 The Committee's overall assessment was that customer rights are, conceptually, built into the framework of services provided in the area of Government transactions but with rapid changes in the market place, as also technological developments, there has been inadequate up gradation of services in terms of communication of customer rights. The degree of customer awareness is abysmally low. The detailed recommendations of the Committee are to be viewed not as a fault-finding exercise but a bridging of a gap in providing these services.

2.4 The Committee is of the view that the RBI and their authorised agents have, on many occasions, failed to develop even simple safeguards to ensure customer awareness of their rights. There is an abridgement of rights built into the present procedures and practices. The Committee recommends that the RBI should initially adopt a "physician heal thyself" approach with a failsafe mechanism to ensure that at the RBI end, there is no abridgement of customer rights. The RBI should then use strong suasion to ensure that the authorised agents also do not abridge customer rights.

2.5 The Committee believes that easy accessibility of information to customers regarding their **rights** is a precondition to good customer service. The Committee has taken note of the fact that the DGBA has recently placed on the Bank's website Frequently Asked Questions (FAQs) dealing with Savings Bonds 2003 (both taxable and tax free). There is, however, no systemic arrangement for disseminating information to the customers. The Committee is of the opinion that in the field of customer education, DGBA needs to cover a great distance. Currently, various facilities are available to investors in Relief/Savings Bonds but the officials at the agency bank branches appear oblivious of these facilities and as a result the public at large seem to be unaware of such facilities.

2.6 The Committee considers the abridgement of customer rights as reprehensible and this needs rectification forthwith. In a service industry like banking, which is a trustee of public funds, it is of paramount importance that customers are made aware of their rights. The Committee, therefore, recommends the following:

- (i) In the case of services involving the filling up of application forms (as distinct from vouchers) the deliverables must be spelt out in the form itself.
- (ii) As in the case of deposit interest rates, the customers' entitlements must be clearly displayed and updated as and when changes are made.

- (iii) Assurances given in the Citizens' Charter should be displayed. While in the case of banks, these matters should be examined by the *Ad hoc* Committees, the RBI should ensure that the Department of Government and Bank Accounts (DGBA) Citizens' Charter is developed as comprehensively as for other frontline departments. Moreover, the DGBA appears to be crowded out in the RBI website and this is unfortunate for a Department which has the maximum interface with individual customers.
- (iv) DGBA should immediately prepare Master Circulars and give them wide publicity. The Master Circulars which must be updated each year, should be available at bank branches and also placed on the Bank's website.
- (v) The Committee takes note of the fact that there is no institutional arrangement to ensure that the investors in Bonds are provided the services in terms of quality as well as timeliness as promised in the Government Notifications or as indicated in various communications to the agency banks. The DGBA cannot absolve itself of the current level of customer service in banks merely by issuing instructions to the agency banks. The Committee recommends that there is an urgent need for sensitization of the DGBA to render quality service to the investors. A mechanism should be evolved by the DGBA to obtain feedback that the agency banks are providing the prescribed standard of service. The need is all the more strongly felt in view of the fact that the RBI pays Commission to the agency banks for undertaking these items of work. There is a need for an institutional arrangement for a redressal mechanism, in full knowledge of the investors. The mechanism as also the authority to whom to approach for redressal should be in the public domain and be made a part of the application form.
- (vi) In cases where the customer is put to a loss due to delayed payment of interest or principal, a suitable compensation structure should be put in place; this should be applicable equally for RBI as well as the agency banks.
- (vii) Top Management of RBI and banks should endeavour to undertake *in cognito* surprise visits to the operating units. This will generate a culture of middle level management undertaking similar visits. Anecdotal evidence strongly points to the fact that senior officials do not undertake such activity and hence the need for early action on this front.

These are illustrative and the spirit of the Committee's recommendations need to be carried forward by the RBI and the banks.

3. PAYMENTS AND RECEIPTS OF TAXES, AND PENSIONS

3.1 Under the Reserve Bank of India Act (Sections 20 and 21) it is one of the statutory obligations on the Bank to function as banker to the Central Government. As a result, currently, the RBI provide full range of banking services, e.g., maintenance of accounts, payment and withdrawal of funds, acceptance of taxes as also collection and transfer of funds etc. Branches of commercial banks in India are also engaged as agents to transact Government business on behalf of the RBI. There is an agency agreement and for carrying on this work the banks are remunerated by the RBI with a "Turnover Commission" currently at the rate of 11.80 paise per Rs.100.

3.2 Details of total tax related transactions (receipts and payments) conducted by **individuals** during 2002-03 at RBI offices and agency bank branches are as under:

Government Receipts and Payments

No.	Item	(Rs. crores)		
		At RBI Offices	At Agency Banks Branches	Total
1	Receipts	2,545	37,738	40,283
2	Payments	1,925	736	2,661
3	Total Turnover (1 + 2)	4,570	38,474	43,044
4	Percentage Share in Turnover	10.62	89.38	100

Source: RBI, DGBA, Central Office, Mumbai.

3.3 The DGBA is of the considered view that although the RBI has authorised sufficient number of agency banks to collect taxes, the public tend to prefer RBI offices for payment of taxes. The DGBA has conducted an in-house Survey using the interview tool (Annex I). The Committee would not wish to belittle the comfort the RBI derives from the Survey. The Survey, is however, based on customers who come to the RBI counters and, therefore, bears the infirmity of customers who already prefer the RBI counters. The Committee is apprehensive that this Survey could lull the RBI into complacency. There is a clear bias in the sample and the Committee recommends that the DGBA should use the assistance of the Department of Statistics and Computer Services (DESACS), which has renowned skills in sampling techniques. For credibility, the Survey would need to cover those who do **not** prefer to come to the RBI. The fact that about 94 per cent of tax receipts are received at the agency banks branches points to the customer preference being in the opposite direction of what the DGBA Survey indicates. Hence, the Committee would caution that the RBI should not be too exuberant about the results of the Survey.

3.4 The branch where the customer has an account is the natural place for a customer to pay his taxes and the more the taxes are paid at the agency bank branches, the better for the system. The Committee strongly recommends that the RBI should shift its emphasis, from preoccupation with being a preferred place for tax payers, to improving the overall quality of customer service in the banking industry.

3.5 The overall framework of arrangements for tax payments is reasonably satisfactory but the detailed procedures and practices in actual operations leave a lot to be desired. As the Committee has reiterated its recommendations are not in the nature of fault finding but are made with the intention of improving customer service. In this context, the Committee has the following observations/ recommendations.

- (i) While the instructions are quite clear that RBI and authorised agents should issue tokens as acknowledgement of payments, a number of authorised agents do not issue tokens. In many cases, there are informal arrangements wherein the tax payer is asked to collect the challan after a specified date from the bank branches. What is worse is that in some instances a box is left in the branch and customers are allowed to freely pick up their challans without any identification. This is a dangerous practice. The Committee recommends that the system of tokens for tax payments should be made mandatory and deviations from this procedure should invite adverse action by the RBI.
- (ii) The RBI and authorised agents are required to ensure that the challans can be collected by tax payers in 4-5 days. In many instances this is observed in the breach including by the RBI. The Committee recommends that the stipulated waiting time should not be exceeded and deviations should invite adverse action by the RBI.

- (iii) The challans are required to have a double date stamp indicating the date of tender and the date of realisation. In many cases only one date is indicated. This may be adverse to the tax payers unless the tender and realisation date are the same. The Committee recommends that the procedure on recording tender date and realisation should be scrupulously observed and any deviation should invite adverse action by the RBI.
- (iv) In the case of lost challans the procedure set out for issue of a Certificate of Credit is quite satisfactory. The Committee is, however, apprehensive that in the absence of a system of tokens being made mandatory the determination of the fault as between the tax payer and the authorised agent gets blurred.
- (v) While the Accounting System for Direct Taxes and the Dos and Don'ts for banks are quite clear there is no machinery to ensure compliance.
- (vi) In cases where chartered accountants/tax consultants submit tax challans on behalf of their clients, the chartered accountants/tax consultants submit the challans with cheques of their clients who have accounts in different banks. Banks on many occasions are reluctant to accept cheques drawn on other banks. In view of this a pernicious practice has developed wherein chartered accountants/tax consultants accept cheques from their clients on their own name and in turn issue cheques from their account to meet the clients tax payments. This is an unhealthy practice. The Committee recommends that banks should be required to accept cheques drawn on other banks while receiving tax challans.

3.6 The Committee recognizes that the procedures laid out for tax payments and receipts are well structured but there is a great divide between precept and practice. The Committee, therefore, recommends that the RBI should focus its attention on these matters and all these issues should be also remitted to the *Ad hoc* Committees, which, in turn, could report on the specific compliance by each bank with the procedures and practices laid out by the RBI regarding retention custody and delivery of challans.

3.7 Although the RBI does not undertake pension payments directly, the agency banks do undertake this work. To the extent the *Ad hoc* Committees observe any problems in the procedures and practices these could be taken up by the RBI with the Government. There are, however, two issues which need attention from the view point of provision of banking services to customers:

- (i) At present pensioners are required to open a separate account in their individual name. This causes considerable distress to incapacitated pensioners as also beneficiaries in the case of demise of the pensioner. In many cases the beneficiaries are asked to produce a succession certificate which is not practical in the case of small balances. The Committee recommends that the issue of allowing a joint account for pensioners could be taken up with the Government.
- (ii) In cases where the pensioner becomes non-resident the account is treated as a Non-Resident Ordinary Account (NRO) and the scheme for payment of pension stipulates that these balances are not repatriable. The Committee recommends that on matters relating to repatriation of funds by NROs these pension accounts should be given the same facilities as prescribed by RBI for all other NRO Accounts. The RBI could take up the matter with the Government.

3.8 *The Jasbir Singh Working Group Report on Customer Service in Public Debt Offices of RBI (December 2001)* contains a number of useful recommendations which would improve services provided to individual customers. The present Committee strongly recommends that the Report should be revisited by the RBI.

FACILITIES RELATING TO BONDS

4.1 The RBI as banker to Government undertakes the issue and servicing of all Government loans. Since 1987 the RBI has been issuing and servicing Relief Bonds which have essentially been targeted to individuals. Subsequently, different series of Relief Bonds were introduced and from 2002 a new series of Savings Bonds has been introduced. Since this Report relates to individuals the Committee's examination has been restricted to the retail activity relating to these special schemes. The Relief Bond Scheme (tax free) and its successor the Savings Bond Schemes (taxable and tax free) are very popular and as distinct from all other Government securities these securities are in popular parlance called **RBI Bonds**. In fact, a number of authorised agents openly advertise these schemes as RBI Bonds. By and large the customer service presently provided is satisfactory but with the quantum jump in volumes the present procedures and practices are coming under pressure. What the Committee finds distressing is that on some aspects the **intent** of the schemes are not carried into the **formulation** of the schemes and moreover the comprehensive procedures are observed in the breach both by the RBI and the authorised agents. As such, the RBI image on customer service is clearly associated with these bonds and hence the Committee has given detailed attention to the procedures and practices of the RBI and the authorised agents with a view to enhancing the quality of customer service.

4.2 Information provided by the DGBA shows that there has been an explosive increase in the volume of these bonds. Despite successive reduction in interest rates these bonds have been popular as the effective interest rates are higher than on other instruments and the build up of the outstandings is so rapid that in the absence of an urgent streamlining of procedures and practices the situation could well explode. The build up of these bonds is set out in Annex II. For instance the 8.5 per cent Relief Bond (Tax Free) 2001 which had a currency of only one year received Rs.16,552 crore of subscriptions. Again, upto January 27, 2004 the subscriptions for the 6.5 per cent Tax Free Bonds 2003 were Rs.15,511 crore while for the 8 per cent (Taxable) Savings Bond 2003 the subscriptions were Rs.4,947 crore. While the RBI has data on the amount subscribed and outstandings under the various bond schemes the Committee recommends that data on number of holders should also be collected on an on-going basis.

4.3 In the recent period there has been a shift in business from direct subscriptions at the RBI counters to the agency banks. The data relating to the two current schemes is conclusive.

Subscriptions to the Savings Bonds 2003

(Rs. crores)

	Scheme	RBI Offices	Authorised Agencies	Total
1.	6.5 per cent Tax Free Bonds	1,419	12,379	13,798
2.	8 per cent Taxable Bonds	-	4,947	4,947
	Total	1,419	17,326	18,745

Source: RBI, DGBA, Central Office, Mumbai.

4.4 The 8 per cent taxable bonds are accepted only by the authorised agencies while in the case of the 6.5 per cent taxable bonds 90 per cent of subscriptions are at the authorised agencies. Thus, there is a quantum shift from RBI providing services directly to RBI providing their services through the authorised agencies. The Committee recommends

that there should be a major shift in the RBI's monitoring system from providing services to monitoring services. The Committee appreciates that the RBI has prepared a comprehensive Memorandum of Procedure (MOP) to be followed by the RBI and authorised banks. Again, the Notifications on the bonds are comprehensive. The Committee is of the view that in the case of bonds the precept and practice differ widely and there is a curtailment of customer rights and the basic rights implicit in the notifications and MOP are not communicated to the customer subscribing to the bonds.

4.5 The RBI has, since 1999, introduced a Bond Ledger Account, which the DGBA claims is a limited demat system. The Committee is constrained to unequivocally state that the system of a Bond Ledger Account is by no means a demat system. All that it does is to decentralise the issue of Certificates of Holding (COH) to the banks. The Committee observes that the intent of the Notifications points to a demat system but legal and procedural matters have derailed the intent. This matter is discussed later in this Chapter.

4.6 The Committee has located a number of deviations in practice, both by the RBI and the authorised agencies, and some of these are enlisted below to facilitate remedial action by the RBI:

- (i) The Committee is deeply concerned about the curtailment of investor rights and the disparate formats used by banks. The Committee, therefore, recommends that the forms and their attachments should be carefully formulated by the RBI to fully reflect the rights of the investors. This would also facilitate adverse action in case of infringements. In cases of serious and repeated irregularities the RBI should institute a system of penalties.
- (ii) The schemes for Savings Bonds provide for issue of the Certificate of Holding (COH) within seven days of tender of the application. This is not adhered to. The Citizen's Charter itself deviates from this stipulation to "**seven days after receipt of border forms**". In practice RBI and banks do not issue the COH **before three to four weeks** after the tender of the application. It is ironical that while the practice has been to elongate the commitment of seven days after tender, the Jasbir Singh Report envisages that after computerization the COH should be issued **five** days after the issue of the loan. The Committee recommends that the RBI should expeditiously try to recover its creditability by making it mandatory to issue the COH within the stipulated period of **seven** days from the date of tender. This undertaking should be given in the application form or in an attachment to the Form. The RBI should first ensure total compliance by itself before imposing it on the authorised agencies.
- (iii) The RBI and the agency banks are required to provide the COH against cash on the same day. The Committee recommends that the RBI should be able to issue the COH against cash instantaneously.
- (iv) In the case of senior citizens post dated interest warrants in respect of Bond Ledger Accounts is permitted **on specific request** (bold letter emphasis in the DGBA Circular Ref. No.CO.DT.13.01. 251/5029 dated March 28, 2001). The Committee finds such procedures to be anathema as it smacks of an elitist approach to assuage the mighty. The Committee strongly recommends that such a facility should be made available to all senior citizens or none at all. If the facility is made available this information should be incorporated in the form itself.
- (v) The Citizens' Charter refers to "Receipt of securities for repayment and repayment thereof" being done in seven days. In practice neither the RBI nor the authorised agents complete this action in the stipulated period. The Committee strongly recommends that the investor must be made aware of his rights, at the time of investment, as regards his entitlement to receive the repayment amount within seven days. The committee recommends that the RBI should also explore the possibility of redemption coupons which could obviate the need for submitting the duly discharged bonds and the problem of delays in receipt of maturity procedure by the bond holders.

- (vi) The Savings Bonds schemes provide for premature encashment of the tax free bond but this facility is not available for the taxable bond. The argument of the DGBA that the tax free bond holders requested for premature encashment while the holders of taxable bonds did not, is not convincing. In fact this measure smacks of lack of distributive justice. As far as individuals are concerned it is the relatively lower income segments which would invest in the 8 per cent Saving Bonds (Taxable). The Committee strongly recommends that the 8 per cent Saving Bonds (Taxable) should be provided premature encashment facilities.
- (vii) The Tax Deduction at Source (TDS) on 8 per cent Savings Bonds has been abolished and authorised agencies have been informed. While there is the technical issue of the Income Tax Act not being amended the Committee recommends that as part of transparency the present position should be made public.
- (viii) Nominations are not allowed in the case of joint holders, which does not take care of the problem, if the holders co-decease. The provisions of the Public Debt Act, 1944 are antiquated and insensitive to personal tragedies. The Committee urges that the RBI and Government should endeavour to work to an early enactment of the new Government Securities Bill and if this takes time this obnoxious and stipulation in the Public Debt Act should be amended or kept under suspension. There are heart rendering cases wherein beneficiaries are denied their legitimate funds. This matter has been under consideration for the past twenty years and the Committee recommends that the RBI should work towards resolving this issue and the Government and RBI should not be prisoners of the past.
- (ix) In the case of investors in bonds, using a Power of Attorney (PA) some agency banks insist on the Original PA to be left with the bank for scrutiny. Likewise, some agency banks insist on holding the Original birth certificate for scrutiny. The Committee recommends that the RBI should unequivocally advise the authorised agents that no Original certificates should be held by the agents even temporarily; they should be examined and returned on the spot.
- (x) The MOP requires that one month before the maturity date bond holders should be informed so that they can decide to reinvest or encash the bond; this is observed in the breach. The Committee recommends that immediate remedial action should be taken by the RBI.
- (xi) To the extent payment of interest is made directly to the account of the bond holder the MOP requires that the bond holder should be advised. There is anecdotal evidence that RBI and authorised agents do not send the interest advice or send the advice after an inordinate delay. The DGBA plea that the reasons for the advice not reaching the bond holder is due to "reasons beyond the control, i.e., postal delays strikes, receipt of advices are delayed/ misplaced lost." The Committee recommends that interest advices should be mandatory and failure to send advices should invite adverse action.
- (xii) While there are provision for transfer of accounts from one bond holder to another it is not clear in the MOP if a bond holder dissatisfied with the service of one agent can shift to another agent. The Committee recommends that such shifting should be made simple and easy to implement and the bond holder should not be pressured by the overarching influence of the authorised agency.
- (xiii) The MOP (Page 6) and the Notifications for Savings Bonds clearly intend the Bond Ledger Account to be a demat account (Annex III A and B), and a single Bond Ledger Account is to be provided and a periodic certificate of all holdings is to be given to bond holders. The intent and content of the scheme are totally derailed as the Bond Ledger Account is run as a regular Bond Certificate. The DGBA has with the Legal Department undertaken a rearguard action not to move over to a regular demat system which has a proven track record. The Committee on weighing the arguments marshalled is unconvinced by the DGBA/Legal Department stand. The DGBA/Legal Department need to absorb and not resist the inevitable change. The RBI Top Management should give strong support to a shift to a proper demat system. The Committee would like to caution that in the absence of a demat system the present operations/procedures for bonds will

breakdown because of the sheer volume of transactions, and also impact on reconciliation. A brief outline of a demat system is set out in Annex IV.

4.7 The various facilities on bonds and the Committee's comments are set out in tabular form in Annex V A and B.

4.8 The Government has proposed the introduction from April 1, 2004 of **Dada Dadi Bonds** for senior citizens. The Committee strongly recommends that the various shortcomings in the content, procedures and practices in the existing schemes pinpointed by the Committee should be remedied while formulating the **Dada Dadi Bonds** scheme and moreover this new scheme should have a genuine demat facility.

4.9 The Committee has drawn attention to the need for certain changes in procedures and practices relating to Bonds. The Committee, however, notes with satisfaction, from an on the spot visit to the Byculla Office of the RBI, that officials at the counters were well informed, courteous and efficiently rendering service to the public. Any drawback in the service was attributable to the RBI systems *per se* and not the frontline officials dealing with customers.

5. SUMMARY OF OBSERVATIONS/RECOMMENDATIONS

The Committee's observations/recommendations are as follows:

1. The Committee has focused attention on empowering **common persons** and the recommendations are essentially to safeguard the rights of the individual customer (Paragraph 1.1).
2. The Committee is of the considered view that the process of empowerment would be infructuous if the customer is *ab initio* not aware of these rights because of the absence of any modality to communicate these rights (Paragraph 2.2).
3. The Committee is of the view that the RBI and their authorised agents have, on many occasions, failed to develop even simple safeguards to ensure customer awareness of their rights. There is an abridgement of rights built into the present procedures and practices. The Committee recommends that the RBI should initially adopt a "physician heal thyself" approach with a failsafe mechanism to ensure that at the RBI end, there is no abridgement of customer rights. The RBI should then use strong suasion to ensure that the authorised agents also do not abridge customer rights (Paragraph 2.4).
4. The Committee considers the abridgement of customer rights as reprehensible and this needs rectification forthwith. In a service industry like banking, which is a trustee of public funds, it is of paramount importance that customers are made aware of their rights. The Committee has made detailed recommendations in this area {Paragraph 2.6(i)-(vii)}.
5. The branch where the customer has an account is the natural place for a customer to pay his taxes and the more the taxes are paid at the agency bank branches, the better for the system. The Committee strongly recommends that the RBI should shift its emphasis, from preoccupation with being a preferred place for tax payers, to improving the overall quality of customer service in the banking industry (Paragraph 3.4).
6. The overall framework of arrangements for tax payments is reasonably satisfactory but the detailed procedures and practices in actual operations leave a lot to be desired. The Committee has made a number of observations/recommendations {Paragraph 3.5 (i)-(vi)}.
7. The Committee recognises that the procedures laid out for tax payments and receipts are well structured but there is a great divide between precept and practice. The Committee, therefore, recommends that the RBI should focus its attention on these matters and all these issues should be also remitted to the *Ad hoc* Committees, which, in turn, could report on the

specific compliance by each bank with the procedures and practices laid out by the RBI regarding retention custody and delivery of challans (Paragraph 3.6).

8. *The Jasbir Singh Working Group Report on Customer Service in Public Debt Offices of RBI (December 2001)* contains a number of useful recommendations which would improve services provided to individual customers. The present Committee strongly recommends that the Working Group Report should be revisited by the RBI (Paragraph 3.8).

9. The Relief Bond Scheme (tax free) and its successor the Savings Bond Schemes (taxable and tax free) are very popular and as distinct from all other Government securities these securities are in popular parlance called **RBI Bonds**. By and large the customer service presently provided is satisfactory but with the quantum jump in volumes the present procedures and practices are coming under pressure. What the Committee finds distressing is that on some aspects the **intent** of the schemes are not carried into the **formulation** of the schemes and moreover the comprehensive procedures are observed in the breach both by the RBI and the authorised agents (Paragraph 4.1).

10. The Committee is of the view that in the case of bonds the precept and practice differ widely and there is a curtailment of customer rights and the basic rights implicit in the notifications and Memorandum of Procedure are not communicated to the customer subscribing to the bonds (Paragraph 4.4).

11. The Committee is constrained to unequivocally state that the system of a Bond Ledger Account is by no means a demat system. All that it does is to decentralise the issue of Certificates of Holding (COH) to the banks. The Committee observes that the intent of the Notifications points to a demat system but legal and procedural matters have derailed the intent (Paragraph 4.5).

12. The Committee has located a number of deviations in practice, both by the RBI and the authorised agencies, and some of these are enlisted to facilitate remedial action by the RBI {Paragraph 4.6 (i)-(xiii)}.

13. The Government has proposed the introduction from April 1, 2004 of **Dada Dadi Bonds** for senior citizens. The Committee strongly recommends that the various shortcomings in the content, procedures and practices in the existing schemes pinpointed by the Committee should be remedied while formulating the **Dada Dadi Bonds** scheme and moreover this new scheme should have a genuine demat facility (Paragraph 4.8).

Annexure II

Relief Bonds/Savings Bonds - Subscription Received and Balance Outstanding

	Particulars	Subscripti on Received	Balance Outstanding		
		As on	Amount (Rs.)	As on	Amount (Rs.)
1	9% Relief Bonds, 1987	05/09/1994	1163,64,89,200.00	30/09/2003	188,364,000.00
2	9% Relief Bonds, 1993	18/09/1997	881,85,14,000.00	30/09/2003	99,366,000.00
3	10% Relief Bonds, 1993	18/09/1997	254,44,24,000.00	30/09/2003	24,112,000.00
4	10% Relief Bonds, 1995	20/08/1999	71,74,73,46,000.00	30/09/2003	15,184,271,500.00
5	9% Relief Bonds, 1999*	11/02/2003	102,12,29,24,000.00	30/09/2003	102,12,29,24,000.00
6	8.5% Relief Bonds, 2001*	11/10/2003	165,51,94,96,000.00	30/09/2003	165,51,94,96,000.00
7	8% Relief Bonds, 2002*	15/11/2003	9327,87,37,000.00	30/09/2003	9327,87,37,000.00
8	7% Savings Bonds, 2002*	14/11/2003	6105,77,53,000.00	30/09/2003	6105,77,53,000.00
9	6.5% Savings Bonds(Non-Taxable) 2003*	27/01/2004	15510,91.67,000.00	30/09/2003	15510,91.67,000.00
10	8% Savings (Taxable) Bonds 2003*	27/01/2004	4946,80,19,000.00	30/09/2003	4946,80,19,000.00

* Repayment yet to commence

Note: Details of the number of bonds issued is not available as the Bonds were issued in the form of GP Note and Stock. Certificate

Source: DGBA

Government of India**Certificate of Holding (Non-Cumulative)**

6.5% Savings Bonds, 2003
Bond Ledger Account No. _____
 [See Para 8(i)(a)]

We hereby certify that Shri/Smt..... is the holder of 6.5% Savings Bonds, 2003 held in the Bond Ledger Account No..... with(Name of the RBI Office/Bank branch) as per details given below.

These bonds will bear interest @ 6.5% per annum payable half-yearly.

This is issued subject to the terms and conditions laid down in Government of India Notification No..... dated.....

Name of the Receiving Office
 Branch Code No.
 Official Seal

1. (Name)
 Designation

2. (Name.....)
 Designation

Nomination Registered
 at Sl.No.

Signature of the Head of
 the Receiving Office/the
 officer next to him

Note: this certificate is non-negotiable.

Details of Bonds held in the Bond Ledger Account

Sl. No.	Investment		Transfer		Due Date of Repayment *	Repayment		Balance	Initials under bank's seal
	Date	Amount	Date	Amount		Date	Amount		
1	2	3	4	5	6	7	8	9	10

- Due date of repayment to be indicated in the case of transfer.

Government of India
Certificate of Holding (Non-Cumulative)

8% Savings (Taxable) Bonds, 2003

Bond Ledger Account No. _____

[See Para 8]

We hereby certify that Shri/Smt..... is the holder of 8% Savings (Taxable) Bonds, 2003 held in the Bond Ledger Account No..... with(Name of the Bank branch) as per details given below. These bonds will bear interest @ 8% per annum payable half-yearly.

This is issued subject to the terms and conditions laid down in Government of India Notification No.F.4(10)W&M/2003 dated 21st March,2003.

Name of the Receiving Office

Branch Code No.

Official Seal.

1. (Name)
Designation

2.(Name.....)
Designation

Nomination Registered
at Sr.No.

Signature of the Head of
the Receiving Office/the
officer next to him

Note: This certificate is non-negotiable.

Details of Bonds held in the Bond Ledger Account

Sl. No.	Investment		Transfer		Due Date of Repayment *	Repayment		Balance	Initials under bank's seal
	Date	Amount	Date	Amount		Date	Amount		
1	2	3	4	5	6	7	8	9	10

* Due date of repayment to be indicated in the case of transfer.

PROPOSAL FOR DEMAT OF SAVINGS BONDS

Assumptions/prerequisites:

- Only 6.5% Saving bonds, 2003 and 8.0% Savings (Taxable) bonds, 2003 will be dematerialised.
- Only fresh issues will be dematerialised. Existing bonds (issued either in BLA or physical) will not be dematerialised.
- Out of 30 agency banks, 19 agency banks are Depository Participants (DPs) of NSDL. The other 11 banks need to become DPs of NSDL. Otherwise, these entities will not be able to issue and service fresh issue of bonds.
- Investors can get credit of these bonds in their existing Depository account or Limited purpose account (LPA) which will be opened by their DPs (without proof of identity & address). Investors will be permitted to hold only RBI bonds in these LPAs.
- Saving Bonds will be identified separately based on agency bank and type of bonds i.e. four ISINs per agency bank will be issued. e.g. For State Bank of India, 2 ISINs each for cumulative and non-cumulative option of 6.5% Saving bonds, 2003 and 8.0% Savings (Taxable) bonds, 2003.
- Electronic data sharing will be initially through Email, (with digital signature). Subsequently, connectivity between agency banks & NSDL at one end and CAS, Nag pur and NSDL on the other end, is envisaged.

Brief process flow:

- Existing arrangements relating to sale of these instruments, payment of interest, payment of redemption amount does not undergo any change.
- Agency banks will send the details of the allotment to NSDL.
- NSDL will confirm the credit only after confirmation of receipt of funds from CAS, Nagpur. All files to be exchanged would be digitally signed by the respective parties.
- Bank wise allotment details would be provided by NSDL to the designated office of RBI, at a periodicity as may be decided mutually.
- The intimation of credit of bonds into investors' accounts will be sent through a Transaction Statement (TS) generated by DP.
- NSDL will provide details of investors' holding for disbursement of interest/ redemption proceeds. NSDL will also provide agency-bank wise data to CAS, Nagpur so as to enable it to credit funds in accounts of agency banks.

Charge structure:

- Rs. 20 per record (per credit into NSDL system) for those investors, who have a depository account in NSDL. (RBI / GOI to pay)
- Rs. 25 per record (per credit into NSDL system) for those investors, who do not have depository account in NSDL. A limited purpose depository account (LPA) will be opened and credit will be given into that account. (RBI / GOI to pay)
- The above charges are all inclusive (except service tax, if applicable) and would cover custody for the entire tenure of the investment. If service tax is levied, it would be recovered in addition to above charges.
- Any other incidental charges (e.g. for transfer of bonds by way of gift or on transmission) will be levied separately. (Customer to pay)
- The billing will be at monthly intervals

		ii) Wealth - tax	exempt under IT Act, 1961. (ii) Bonds exempt from Wealth-tax	4(9)-W & M/2003 dt. 13.3.2003		
4.	Issue Price	At par		Para 5 of GOI Notification No.F-4(9)-W & M/2003 dt. 13.3.2003		
5.	Subscription	Payable in the form of Cash / Drafts / Cheques		Para 6 of GOI Notification No.F-4(9)-W & M/2003 dt. 13.3.2003	Cheques / Drafts should be drawn in favour of the receiving office and payable at that place.	
6.	Date of Issue of the bonds Continued.....	Cash - the bonds will be issued on the same day against cash.* Cheques _/ Drafts - the bonds will be issued on the date of realization of cheque/draft.		Para 7 of GOI Notification No.F-(9)-W & M/2003 dt. 13.3.2003		*(i) COH will be issued the Same day - Instructions issued to agencies vide our letter CO.DT. 13.01.272 /H.2921/2002-03 dt. 31st January 2003.
Sr. No.	Item	Reference to	Limits Specified	Conditions stipulated by RBI / Government of India	Documents to be submitted by investor	Remarks
(1)	(2)	(3)	(4)	(5)	(6)	(7)
						(ii) The Certificate of Holding (COH) will be issued within 7 days from the date of tender of the application as per instructions vide CO.DT. 13.01.272/2930/2002-03 dt. 26th November 2002
7.	Form	The bonds will be issued in the Form of Stock Certificate or Bond Ledger Account		Para 8 of GOI Notification No.F-(9)-W & M/2003 dt. 13.3.2003	(i) Stock Certificates will be issued only at RBI Offices.	Stock Certificates will be issued within 7 days by RBI. COH in respect of

		with Cumulative / Non-Cumulative options			(ii) BLAs can be opened at RBI Offices and at agencies.	BLA will be issued within 7 days from the date of tender of the application as per instructions vide CO.DT. 13.01.272/2930/2002-03 dt. November, 26, 2002
Sr. No.	Item	Reference to	Limits Specified	Conditions stipulated by RBI / Government of India	Documents to be submitted by investor	Remarks
(1)	(2)	(3)	(4)	(5)	(6)	(7)
8.	Applications	Applications Form 'A'		Para 9 of GOI Notification No.F-(9)-W & M/2003 dt. 13.3.2003	(i) Applications on behalf of minor should be supported by Birth Certificate in original along with one zerox for verification and return.** (ii) If the application is signed by a P.O.A. one copy with original should be submitted for verification and return.**	(i) Application Forms are available with the receiving offices and should be accompanied by necessary payment. **(ii) Indicated in the instructions and guidelines for the bonds issued along with the applications.
9.	Receiving Offices	i) RBI at 14 centres ii) Agencies 1600 branches spread all over India.		Para10 of GOI Notification No.F-4(9)-W & M/2003 dt. 13.3.2003.		
Sr. No.	Item	Reference to	Limits Specified	Conditions stipulated by RBI / Government of India	Documents to be submitted by investor	Remarks
(1)	(2)	(3)	(4)	(5)	(6)	(7)

10.	Nomination Facility	<p>i) Sole holder or a sole surviving holder being an individual can nominate</p> <p>ii) No nomination shall be made in respect of the bonds issued in the name of minor.</p> <p>b) If the signature is made by thumb impression</p>		Para 11 of GOI Notification No.F-4(9)-W & M/2003 dt. 13.3.2003	Form 'B' (Annex. 4) or as near thereto.	<p>(i) Every nomination and every cancellation or variation shall be registered at the receiving office where the bond is issued and shall be effective from the date registration.</p> <p>(ii) An NRI can also be nominated as a nominee by the holder and the remittances will be subject to the Exchange Control Regulations prevailing at the time of remittance.</p>
	Continued.....				b) The nomination form signed by thumb impression should be attested by a Magistrate / Notary Public / Treasury Officer / Bank Official under his seal.	
Sr. No.	Item	Reference to	Limits Specified	Conditions stipulated by RBI / Government of India	Documents to be submitted by investor	Remarks
(1)	(2)	(3)	(4)	(5)	(6)	(7)
						(iii) Para 1.17 of the MOP describes the procedures to PDOs /Agencies. Joint holders are not eligible to nominate.
11.	Transferability			Non transferable except by way of gift to a relative as defined in Section 6 of the Indian Companies Act, 1956 or to the nominee in case of death of the holder in terms of Para 12 of GOI Notification No.F-4(9)-W & M/2003 dt. 13.3.2003.	Transfer Form in Annex. 6 A or 6 B as applicable and execution of an affidavit by the holder.	
12.	Interest	Stock Certificate and Non-cumulative BLAs	Senior Citizens (age group 65		Simple letter to the RBI.	# Instructions issued to offices vide

	Continued.....	- payable half yearly on 1st July and 1st January.	years and above) are eligible to obtain			CO.DT.13.01.251/5029/2000-01 dt. 28.3.2001.
Sr. No.	Item	Reference to	Limits Specified	Conditions stipulated by RBI / Government of India	Documents to be submitted by investor	Remarks
(1)	(2)	(3)	(4)	(5)	(6)	(7)
			post-dated Interest Warrants in respect of BLAs at PDOs of RBI.#			(i) Interest will be paid by cheque /warrant or through ECS by credit to bank account of the holder as per the option exercised by the investor/ holder. (ii) An advice will be issued to the holder in terms of instructions contained in para 1.13 and 4.10 of the Memorandum of Procedure issued to the agency banks.
Sr. No.	Item	Reference to	Limits Specified	Conditions stipulated by RBI / Government of India	Documents to be submitted by investor	Remarks
(1)	(2)	(3)	(4)	(5)	(6)	(7)
13.	Advances / Tradability against Bonds	The bonds shall not be tradable and shall not be eligible as collateral for loans from banks etc.		Para 14 of GOI Notification No.F-4(9)-W & M/2003 dt. 13.3.2003		
14.	Tenure	5 years from the date of issue.		Para15(i) of GOI Notification No.F-4(9)-W & M/2003 dt. 13.3.2003		
15.	Premature encashment	After minimum lock-in period of three years from the of issue an investor can surrender the bond for premature redemption.		Para15(ii) of GOI Notification No.F-4(9)-W & M/2003 dt. 13.3.2003	Original Stock Certificate / COH will surrender to the issuing office.	50% of the interest due and payable for the last six months of the holding period will be recovered in cash.

EXISTING POSITION ON INVESTMENTS IN 8 %SAVINGS (TAXABLE) BONDS, 2003
(as made available by Department of Government and Bank Accounts (DGBA), Central Office)

Sr. No.	Item	Reference to	Limits Specified	Conditions stipulated by RBI / Government of India	Documents to be submitted by investor	Remarks	Cc
(1)	(2)	(3)	(4)	(5)	(6)	(7)	
1.	Eligibility for Investments	(i) Individual not being NRI e) Individual capacity f) Individual capacity on joint basis g) Individual capacity on anyone or survivor basis h) On behalf of minor as father/mother / legal guardian (ii) Hindu Undivided Family (iii) Charitable Institution to mean a Company registered under Section 25 of the Indian Companies Act, 1956 (iv) "University" means a university established or incorporated by a Central, State or Provincial Act, or declared under Section 3 of the UGC Act. 1956,		Para 2 of GOI Notification No.F-4(10)-W & M/2003 dt. 21.3.2003	d) Certified copy of Legal Guardianship Certificate and Birth Certificate (ii) HUF declaration. (iii) & (iv) Declaration to be submitted alongwith a true copy of a certificate by the applicant alongwith the application		Re: The not origi client perie be r The with infir cate allow cert are perr bon
Sr. No.	Item	Reference to	Limits Specified	Conditions stipulated by RBI / Government of India	Documents to be submitted by investor	Remarks	Cc
(1)	(2)	(3)	(4)	(5)	(6)	(7)	
2.	Limit of investment		No maximum limit	Para 3 of GOI Notification No.F-4(10)-W & M/2003 dt. 21.3.2003			
3.	Tax concession	iii) Income-tax iv) Wealth -tax	(i) Interest on the bonds exempt under IT Act, 1961. (ii) Bonds exempt from	Para 4 of GOI Notification No.F-4(10)-W & M/2003 dt. 21.3.2003	----		

			Wealth-tax				
4.	Issue Price	At par		Para 5 of GOI Notification No.F-4(10)-W & M/2003 dt. 21.3.2003			
5.	Subscription	Payable in the form of Cash / Drafts / Cheques		Para 6 of GOI Notification No.F-4(10)-W & M/2003 dt. 21.3.2003	Cheques/ drafts should be drawn in favour of the receiving office and payable at that place.		
Sr. No.	Item	Reference to	Limits Specified	Conditions stipulated by RBI / Government of India	Documents to be submitted by investor	Remarks	Co
(1)	(2)	(3)	(4)	(5)	(6)	(7)	
6.	Date of Issue of the bonds	i) Cash - the bonds will be issued on the same day against cash.* ii) Cheques _/ Drafts - the bonds will be issued on the date of realization of cheque/draft.		Para 7 of GOI Notification No.F-(9)-W & M/2003 dt. 21.3.2003		*(i) COH will be issued the Same day - Instructions issued to agencies vide our letter CO.DT. 13.01.272 /H.2921/2002-03 dt. 31st January 2003. (ii) The Certificate of Holding (COH) will be issued within 7 days from the date of tender of the application as per instructions vide CO.DT. 13.01.272/2930 /2002-03 dt. 26th November 2002	(i) In cash given (ii) T is c by Com that be s inve of atta
Sr. No.	Item	Reference to	Limits Specified	Conditions stipulated by RBI / Government of India	Documents to be submitted by investor	Remarks	Co

(1)	(2)	(3)	(4)	(5)	(6)	(7)	
7.	Form	The bonds will be issued in the Form of Bond Ledger Account with Cumulative / Non-Cumulative options		Para 8 of GOI Notification No.F-4(10)-W & M/2003 dt. 21.3.2003	BLAs can be opened at agencies.	COH in respect of BLA will be issued within 7 days from the date of tender of the application as per instructions vide CO.DT. 13.01.272/2930 /2002-03 dt. 26th November 2002	The reco BLA be imp reco sho exp syst
8.	Applications Continued.....	Applications Form 'A'		Para 9 of GOI Notification No.F-4(10)-W & M/2003 dt. 21.3.2003	(i) Applications on behalf of minor should be supported by Birth Certificate in original along with one zerox for verification and return.**	(i) Application Forms are available with the receiving offices and should be accompanied by necessary payment. **(ii) Indicated in the instructions and guidelines for the bonds issued along with the applications.	The reco of t inco its a Re.:
Sr. No.	Item	Reference to	Limits Specified	Conditions stipulated by RBI / Government of India	Documents to be submitted by investor	Remarks	Co
(1)	(2)	(3)	(4)	(5)	(6)	(7)	
					(ii) If the application is signed by a P.O.A. one copy with original should be submitted for verification and return.** iii) HUF declaration, if applicable iv)Charitable Institution/ University declarations		Re.: Re.: The pres deb

					(if applicable) supported by necessary documents.		which incc thes take Gov
9.	Receiving Offices	Agencies 1600 branches spread all over India.		Para10 of GOI Notification No.F-4(10)-W & M/2003 dt. 21.3.2003			
Sr. No.	Item	Reference to	Limits Specified	Conditions stipulated by RBI / Government of India	Documents to be submitted by investor	Remarks	Co
(1)	(2)	(3)	(4)	(5)	(6)	(7)	
10.	Nomination facility	<p>iii) Sole holder or a sole surviving holder being an individual can nominate</p> <p>iv) No nomination shall be made in respect of the bonds issued in the name of minor.</p> <p>b) If the signature is made by thumb impression</p>		Para 11 of GOI Notification No.F-4(10)-W & M/2003 dt. 21.3.2003	<p>Form 'B' (Annex. 4) or as near thereto.</p> <p>b) The nomination form signed by thumb impression should be attested by a Magistrate / Notary / Public / Treasury Officer / Bank Official under his seal.</p>	<p>(i) Every nomination and every cancellation or variation shall be registered at the receiving office where the bond is issued and shall be effective from the date registration.</p> <p>(ii) An NRI can also be nominated as a nominee by the holder and the remittances will be subject to the Exchange Control Regulations prevailing at the time of remittance. Instructions issued to Agencies vide CO.DT.13.01.2 99/H-3426/2003-04 dated 20th December 2003.</p> <p>(iii) Para 1.17</p>	In c dec put haro reco show actio Gov hold nom

						of the MOP describes the procedures to PDOs/Agencies. Joint holders are not eligible to nominate.	
Sr. No.	Item	Reference to	Limits Specified	Conditions stipulated by RBI / Government of India	Documents to be submitted by investor	Remarks	Cc
(1)	(2)	(3)	(4)	(5)	(6)	(7)	
11.	Transferability			Non transferable in terms of Para 12 of GOI Notification No.F-4(10)-W & M/2003 dt. 21.3.2003.			
12.	Interest	Non-cumulative BLAs - payable half yearly on 1st February and 1st August. Cumulative BLAs at the time of redemption.				(i) Interest will be paid by cheque /warrant or through ECS by credit to bank account of the holder as per the option exercised by the investor/holder. (ii) An advice will be issued to the holder in terms of instructions contained in para 1.13 and 4.10 of the Memorandum of Procedure issued to the agency banks.	The record case must advise created observe the fails
Sr. No.	Item	Reference to	Limits Specified	Conditions stipulated by RBI / Government of India	Documents to be submitted by investor	Remarks	Cc
(1)	(2)	(3)	(4)	(5)	(6)	(7)	
13.	Tax	Tax will be deducted at	Applicable	Para 14 of GOI			

	Deduction at source	source while making payment of interest on the non-cumulative bonds and from the interest portion of maturity value at the time of redemption in respect of cumulative bonds.	ity of TDS deleted by Notification dated 13th January 2004.	Notification No.F-4(10)-W & M/2003 dt. 21.3.2003 read with GOI Notification No.F-4(10)W&M 2003 dated 13th January 2004.				The the 13,2 wide mer the
14.	Advances / Tradability against Bonds	The bonds shall not be tradable and shall not be eligible as collateral for loans from banks etc.		Para 15 of GOI Notification No.F-4(10)-W & M/2003 dt. 21.3.2003				
15.	Tenure	6 years from the date of issue.		Para16 of GOI Notification No.F-4(10)-W & M/2003 dt. 21.3.2003				
16.	Premature encashment	Not available.						The reco hold encas bon the distr a fa plac