

Summary of the observations and recommendations of the Committee on Procedures and Performance Audit on Public Services (CPPAPS) - Banking Operations : Deposit Accounts and other facilities Relating to Individuals (Non-Business)

Preliminary Response of Department of Banking Operations & Development (DBOD)

Sl. No.	Recommendations of the Committee	Action taken / proposed to be taken by DBOD
1.	<p>The Committee's examination of issues has been largely focused on deposit and related facilities for individuals (non-business). The interests of the mass of depositors are, however, just not taken into account when formulating the complex regulatory framework. The Committee would wish to stress that it is no fault of the Department of Banking Operations and Development (DBOD) that the bulk of depositors are untouched by the regulatory system. This is merely a reflection that in the Indian firmament the sophistication of the entire regulatory framework is virtually irrelevant for the mass of depositors. This is not merely an issue of fault finding with the RBI but a general national issue of the mismatch between the complex regulatory framework – both banking and general - and the capacity of the mass of deposit account holders to comprehend the system. To the extent the mandate of the Committee is the common person the DBOD regulatory framework just does not reach out to the common person. The Committee is of the view that in the process of deregulation of the banking regulatory system the sequencing of deregulation has not received due attention resulting in haphazard regulation. There are various vital areas wherein the RBI, and a self-regulatory body like the Indian Banks Association (IBA) and the banks are silent and hence there is a vacuum when it comes to providing authentic information to the depositor. The Committee has made a myriad of self-contained comments/ recommendations on which the RBI could consider appropriate decisions.</p>	<p>RBI agrees with the need for a transparent depositor-friendly banking system.</p>
2.	<p>There has been a total disenfranchisement of the depositor. The depositor, the key stakeholder in the banking system, has been shorn off his rights. Reflecting the sorry</p>	<p>DBOD does not have a customer interface. IBA has brought out a Bankers' Fair Practice Code after extensive discussion and placed it in public domain for</p>

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	<p>state of affairs, as a frontline Department the DBOD has not deemed it fit to set out a Citizen's Charter which should have had the depositor as the centre piece; the Committee recommends that this should be rectified forthwith. The RBI and banks have taken depositor loyalty for granted and the depositors have reposed this loyalty to banks to the point of flagellation. The depositor can legitimately claim a bill of rights but everywhere he is in chains. How that came about is a matter of historical tragedy and years of neglect and the government, RBI and the banks all stand indicted. Lip service to the depositor customer has gone on for too long and if Governor Dr. Y.V. Reddy's directive to banks on the Common Person is to be given true meaning there must be a time bound roadmap to reverse the disenfranchisement of the depositor and the start of a process of empowering of the depositor.</p>	<p>comments. The Fair Practice Code comes into effect from 1st June, 2004.</p>
3.	<p>The banks' offerings are generally opaque - what is not charged is mentioned but what is charged is not mentioned - high hidden costs appear rampant and unjustified, thus banks enjoy undue enrichment. If a small customer goes to a bank and has a technical problem, anecdotal evidence suggests that he runs into enormous difficulties. The Committee notes with some sadness that there is substance in the widespread impression among the small depositor community that one needs to know someone higher-up for getting his/her job done. Intense depositor loyalty is the only plank on which the Indian banking systems is surviving. The banks have to understand that depositors are at the end of their tether and banks providing poor customer service will be punished by switching loyalty. The Committee recommends that the authorities should ensure that depositors dissatisfied with customer service have the facility to switch banks and banks should be cautioned that thwarting depositors from such switches would invite serious adverse action.</p>	<p>As indicated in Para 156 of the Annual Policy Statement for 2004-05 issued by Reserve Bank of India, banks will be advised to formulate by 31st July 2004 a transparent and comprehensive policy setting out the rights of the depositors in general and small depositors in particular. The policy would also be required to cover all aspects of operations of deposit accounts, charges leviable and other related issues to facilitate interaction of depositors at branch levels.</p>
4.	<p>Another aspect of banking services which reinforces the</p>	

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	<p>process of disenfranchisement, is the fact that the customer is in near-total, if not total, darkness about his entitlements. An appreciation of its ill effects on the customer and his eventual disenfranchisement should be of fundamental concern to the RBI and the banking system. The banks, therefore, need to be proactive and develop a social conscience. The Committee appreciates the role of market forces in rewarding an efficient player and penalising an inefficient one. But it does not accept that the market forces can be the only protector of customer interest. The banks and the regulator have responsibility to act proactively.</p>	-do-
5.	<p>The Committee has made a number of recommendations to enable a reversal of the disenfranchisement of the depositor and his eventual empowerment and these recommendations set out in Appendix I</p>	Detailed comments given para-wise in Appendix I
6.	<p>The Committee recommends that the process of undertaking the long journey from the existing disenfranchisement of the depositor to the eventual empowering of the depositor should be a systematic effort by the RBI and the banking system. The RBI and banks must emphasise that frontline staff must be the cream of the banking system and counter service should reflect the intelligent and sensitive application of rules and regulations. The Committee recommends that both RBI and banks should appoint Quality Assurance Officers who will ensure that the intent of policy is translated into the content and its eventual translation into proper procedures. The RBI and banks must work to fix the system and not punish the errant officials. Such a system would also give confidence to dealing staff to improve services.</p>	<p><i>Ad hoc</i> Committees should examine the recommendation for appointment of Quality Assurance Officers in their banks. RBI also agrees with this recommendation of appointment of Quality Assurance Officer in RBI Departments with public interface to improve customer service, for further action.</p>
7.	<p>While it is in no way even remotely suggested by the Committee that the RBI should intervene on overall service charges, the Committee would wish to enunciate the principle that these charges should not be regressive. The Committee has deliberated on the tabular material setting out the DBOD regulatory instructions relating to Deposit Accounts and Other Facilities to individuals (Non-Business)</p>	As advised in respect of item No.3 above.

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	and the Committee's Comments/ Recommendations are set out separately.	
8.	The Committee recommends that the DBOD Master Circular of April 14, 2003 should be amended to clarify that in NRO Accounts a non-resident can hold an account jointly with a resident.	Action has been taken vide RBI circular DBOD.No.Dir.BC 78/13.03.00/2003-04 dated 22nd April, 2004
9.	The Department of Banking Supervision (DBS) in an endeavour to prevent frauds has rendered infructuous the granting loans to third parties. Again the use of Power of Attorney facilities has been restricted. The Committee urges that the Foreign Exchange Department and the DBS should revisit these issues with a view to facilitating legitimate transactions.	<i>Ad hoc</i> Committees should examine the extant instructions and advise IBA their views with regard to the review of the policy in this regard.
10.	When banks insist on despatching cheque books to the depositor by courier, the depositor is forced to sign a declaration that the despatch is at the risk of the depositor. The Committee feels that this is an unfair practice and should be prohibited forthwith.	Instructions have been issued vide RBI circular DBOD.No. Leg. BC 74/09.07.005/ 2003-04 dated 10th April, 2004.
11.	The <i>Ad hoc</i> Committees should examine the problem of inadequate details regarding ECS/RBIEFTR remittances into statements on depositors account should be made comprehensible.	- do -
12.	Information should not be gathered in the name of KYC with the intention of using it for cross-selling of services. The banks should obtain the information required for opening an account independent of any other information that they may seek for cross-selling purposes. The forms containing this information must not be a part of the account opening form. While obtaining the other forms, permission of the customer for sharing information furnished to entities within the organisation for cross-selling purposes must be obtained specifically. In case the information is to be shared with an external agency while obtaining permission from the customer the name of the external agency should also be disclosed upfront by the bank. The <i>Ad hoc</i> Committees should examine the practices in their respective banks.	RBI has issued a circular DBOD.AML.BC No. 83/14.01.001/2003-04 dated 12th May 2004 advising the banks in this regard. <i>Ad hoc</i> Committees should also examine the practices in their respective banks.

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13.	<p>The two DBOD circulars of March and December 2000, on deceased depositors appear inadequate and ambiguous and should be, therefore, rescinded. The RBI should issue a comprehensive circular on the subject. The comprehensive RBI circular should reiterate that banks should not insist on Succession Certificate, Letters of Administration or Probated Will in cases where there are no disputes and the bank has no doubts as already stated in the aforesaid RBI circulars of March and December 2000. The new circular should set out the basic framework for dealing with these cases, and outline the extant position and the amended framework for various accounts, i.e., single, joint, either or survivor, anyone or survivor and all these with or without nomination. The banks could be advised to simplify their internal procedures and develop such system as would enable banks to obtain a satisfactory discharge from the survivors/nominees. The Committee recommends that each <i>Ad hoc</i> Committee should review the extant instructions in their bank <i>vis-à-vis</i> the practice actually followed with a view to minimising formalities and documentation in this area. All out efforts need to be made to ensure that all genuine problems of the families of the deceased customers are resolved with the least time consuming formalities. The Committee suggests that the IBA may be asked to issue a comprehensive model operational procedures which could be considered by banks.</p>	<p>IBA in consultation with <i>Ad hoc</i> Committees will examine the preparation of a uniform procedure for settlement of claims of deceased</p> <p>Depositors to ease the constraints and finalise the same in consultation with RBI for uniform adoption by all the banks. This will be completed by 30th September 2004.</p>
14.	<p>The Committee recommends that the IBA should launch a countrywide customer education campaign informing customers of difficulties arising out of single accounts, accounts without nomination, and jointly operated accounts. The customers may be advised about the benefits of accounts held on 'Either or Survivor' or 'Anyone or Survivor/s' basis. Depositors would then be able to make an informed choice based on the material provided and tailor their decisions based on their own particular circumstances.</p>	<p>- do -</p>
15.	<p>To the extent there are either or survivor or anyone or</p>	

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	<p>survivor accounts there appears to be general agreement that banks would not have difficulty in transferring the stock in the account of the deceased to a new account of the surviving account holders and this would provide an appropriate discharge for the bank.</p>	<p>- do -</p>
16.	<p>In regard to flows, the Committee recommends a two-pronged approach. First, an account could be opened styled as 'Estate of ----- the Deceased' where all pipeline flows in the name of the deceased account holder may be allowed to be credited provided no withdrawals are made. This matter may be examined. This approach meets the objective to a very limited extent as it only allows collection of flows but denies access to these funds to the family of the deceased and extensive procedures are required before the survivors/heirs can receive the money. The second approach could be for the bank to return the inflows to the remitter with the remark "Account holder deceased" and intimate the survivor account holders accordingly. The survivors/heirs can then approach the remitter to issue a cheque/ECS transfer in the name of the appropriate beneficiary. The Committee recognises the diverse nature of inflows into the account of the deceased depositor as also locational problems and, therefore, recommends that it should be done in consultation with the survivors in the account/nominees as appropriate.</p>	<p>- do -</p>
17.	<p>In cases where there are no disputes banks should be urged not to call for Succession Certificate/Letters of Administration or Probate of Will and follow simplified procedures to release the money expeditiously and any case not exceeding six months. Banks should be required to report to their Boards an annual return with size-wise details of the number of cases pending beyond six months with separation of data where there are disputes and where there are no disputes.</p>	<p>- do -</p>
18.	<p>The Committee would urge the RBI to consider incorporating into its comprehensive circular the suggestion</p>	

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	that in the Account Opening Form itself (and in existing accounts) the account holders could be given the option to indicate the disposal of the balances in the account upto the date of death and the flows into the account upto a period of say six months. Similarly, in the case of term deposits, the account holders can stipulate that in the event of a death of a depositor, premature termination of term deposit should be allowed and the depositor could stipulate as to who could be the beneficiary for the term deposit. This would then amount to a proper discharging of the bank's liability	-do -
19.	If the implementation of the recommendations in paragraph 18 above it is not feasible, to ameliorate the suffering of common persons the Committee recommends that an amendment could be made in the Banking Regulation Act similar to what already exists in Section 45 ZA of the Banking Regulation Act regarding Nomination which could provide that the account holder may designate or name a person/persons to whom the flows due to him for a period upto say six months after the death of the account holder, may be paid. Such provisions could have the same effect as nomination has with respect of stock . Since the latest instructions by the depositor would be available in the bank's records this should not require the intervention of the Courts. This matter is examined.	-do-
20.	The Committee recommends that the RBI should expeditiously issue a clear circular on various types of operations of Lockers in the event of death of a Locker hirer. IBA should subsequently prepare a document for uniform guidance of banks regarding Locker facilities and the document should be given wide publicity and placed in the public domain.	The issues concerning operation of locker in the event of death of the locker hirer would also be included in the Policy to be framed by IBA as advised in respect of Item No.13.
21.	The Committee recommends that the RBI may draw attention of the government to the need for quick disposal of requests for obtention of succession certificate, letters of Administration and Probate of Will within the present legal framework.	We would be writing to Govt. on the need for various legal changes that would be necessary based on a comprehensive review.

Appendix I (vide Para 2.10 of the Report)

Sl. No.	Recommendations of the Committee	Comments of DBOD
(i)	Training in technical areas of banking to the staff at delivery points must be intensified. Given the constraints in relieving the staff for training purposes, the Committee recommends that banks should adopt innovative ways of training/delivery ranging from job cards to roving faculty to video conferencing.	<i>Ad-hoc</i> Committees would be advised to take action in this regard.
(ii)	While the RBI has asked the banks to adopt credit/investment/ALM policies, the Committee has not noticed any instructions on deposit policy. The plea of the DBOD, and not without substance, is that matters relating to depositors has been largely deregulated, this is true but in the absence of a depositor facility framework for scheduled commercial banks chaos prevails. The Committee does not recommend that the RBI should revert to micro regulation but it recommends that the RBI should ensure that a proper system is put in place. The Committee recommends that the Indian Banks Association should forthwith evolve a model deposit policy recognizing the rights of the depositor and circulate it among its members for adoption by the individual bank Boards. The RBI should stipulate that the Comprehensive Deposit Policy be adopted by banks by the end of June 2004. The IBA should undertake a meaningful and on-going depositor education campaign to develop awareness of depositor rights.	RBI agrees with the observations of the Committee. As indicated in Para 156 of the Annual Policy Statement for 2004-05 issued by Reserve Bank of India, banks will be advised to formulate by 31st July 2004 a transparent and comprehensive policy setting out the rights of the depositors in general and small depositors in particular. The policy would also be required to cover all aspects of operations of deposit accounts, charges leviable and other related issues to facilitate interaction of depositors at branch levels.
(iii)	Such a policy should be explicit in regard to secrecy and confidentiality. Providing other facilities by "tying-up" with placement of deposits is clearly a restrictive practice.	
(iv)	Banks should periodically place a statement before their boards analysing the complaints received. The statement of complaints and its analysis should also be disclosed by banks along with their financial results.	Banks/ <i>Ad-hoc</i> committees would be advised to streamline the procedure.
(v)	In their evaluation of a bank's performance, the RBI should also give adequate weightage to depositor complaints.	Action will be taken at the time of inspection of banks.

(vi)	<p>The Committee has observed that over time, the drafting of DBOD circulars leaves much to be desired. They appear to have been drafted, perhaps, consciously, in ambiguous language. The Committee recommends that the RBI/banks should take necessary steps to ensure that circulars are in a language easy to understand but have the exactitude in matching contents with intent. Furthermore, the Committee recommends that to the extent the RBI regulation are in force, the Master Circular on Deposits just cannot be on interest rates but be comprehensive to cover all aspects of deposit accounts. The Committee recommends that the DBOD should consolidate its scattered circulars relating to deposit accounts of scheduled commercial banks and the IBA could quickly issue a Master Circular on Maintenance of Deposit Accounts modeled on the UBD Circular with suitable modifications. All DBOD Circulars should have a 12 months sunset clause.</p>	<p>Based on a review to be undertaken by IBA, recommendations of the Committee on all aspects of maintenance of deposit accounts, settlement of claims of deceased depositors, a master circular will be issued.</p>
(vii) (viii)	<p>Any change in the deposit and related services should be communicated upfront to each customer individually - when they visit the branch, and also be prominently displayed.</p> <p>While changing any service offerings or introducing new products, the banks should have customer at the centre of their consideration. For this purpose, the Committee is of the view that the banks should clearly establish a New Product and Services Approval Process which should require approval by the Board especially on issues which compromise the rights of the Common Person.</p>	<p>Please see item No. (ii) above.</p>
(ix)	<p>Banks should undertake a survey of depositor satisfaction in regard to their services annually and should have an audit of such services done every three years. The survey, as also the audit, should be focused on ascertaining the customer-friendliness of deposit services. Both these reports should be placed before the Board of Directors.</p> <p>The Committee recommends that the RBI should also arrange for teams to periodically radiate through the country to assess at the grassroots level the operation of policies say by June 2005, e.g., a year after the issuance of a model policy by the IBA. To start with the RBI should immediately undertake</p>	<p>Banks would be advised by RBI.</p> <p>The Committee's recommendation is noted and will be implemented.</p> <p>Inspecting Officers would review the implementation issues while carrying out their branch inspection work. For a wider coverage, association of outside agencies would also be</p>

	comprehensive work on assessing deposit and related services of banks are in keeping with depositor rights. As regards how this work should be undertaken there are two viewpoints in the Committee. The first alternative is that the RBI could send out its own officers. The objection to this is that the regulator should not get into such activity. The second alternative is for the RBI to farm out this work to outside agencies. The objection would be that outside agencies have difficulty understanding the requirement. The Committee feels that RBI may choose either alternative.	considered.
(x)	Finally, the Committee visualises significant qualitative contribution from the bank Boards in the new paradigm shift and the Committee recommends that each bank should be asked to evolve a mechanism to achieve the meaningful involvement of its Board in the area of deposit policies and their implementation.	Board reviews will be part of the deposit policy to be formulated by banks (item (ii) above).

Appendix II (vide Para 3.4 of the Report)

Sl. No.	Recommendations of the Committee	Comments of DBOD
(i)	As regards the Drop Box Facility (Item 1 of the tabular material) it is important that there should not be any curtailment of the rights of the depositor to obtain an acknowledgement by going to the concerned counter. <i>Per Contra</i> a depositor who uses the drop box cannot expect an acknowledgement.	Circular has already been issued vide RBI circular DBOD.No.Leg.BC 74/09.07.005/2003-04 dated 10th April, 2004.
(ii)	As regards immediate credit of local/outstation cheques	The suggestion of the Committee is being examined taking

	(Item 2 of the tabular material) there is a flagrant violation which is surely in the know of the DBOD. The DBOD has only two choices. First, it should take strong adverse action if the banks do not comply. Secondly, if the RBI does not envisage action it should withdraw the regulation. As a general rule the DBOD should not set out a regulation and not take adverse action when it is breached. As regards the RBI instruction on charging Rs.5 per local cheque the Committee recommends that the RBI should just delete this instruction.	into account the improvements in payment and settlement system.
(iii)	The reference to a maximum withdrawal upto Rs.10,000 for outstation cheques (Item 3) is inconsistent with Item 2, reflecting slipshod regulation. This should be brought in line with the figure of Rs.15,000 referred to in Item 2. The reference to centres with 100 branches does not appear practical, as branch network is dynamic. Furthermore, each bank branch cannot be expected to have an updated list of such centres and moreover the customer would not be in the knowledge of this matter. The Committee recommends that the DBOD should review this.	-do-
(iv)	As regards adding charges without advance intimation (Item 6) the Committee deplores the recourse to stealth banking and recommends that any changes in charges should be made known to all depositors in advance with one month's notice.	Banks would be advised suitably as at item No. 7 above.
(v)	As regards disposal of deposits on maturity (Item 10), the Committee recommends that banks should give the option to depositors to indicate disposal of deposits in the case of the death of one of the depositors and they should be given the option to indicate that survivors can prematurely terminate the deposit. Such a clause could be added even for existing deposits.	The legal implications would be examined by IBA in consultation with banks for further appropriate action as indicated in item no. 13 above
(vi)	Forcing depositors to place deposits with banks for locker facilities (Item 13) is clearly a restrictive practice and the Committee recommends that this should be stopped forthwith. <i>Ad hoc</i> Committees should report on compliance.	<i>Ad hoc</i> Committees should examine the extant practices and report compliance.
(vii)	While service charges (Item 16) are a matter for banks to decide the Committee strongly recommends that there should be no stealth charges.	As at (iv) above
(viii)	As regards Senior Citizens deposit accounts, the Committee	Banks would be advised to include this aspect in the deposit

	recommends that changes in any instructions (Item 17) on the operation of the account should be confirmed within one month to the depositor in writing.	policy. <i>Ad hoc</i> Committees/banks should report compliance.
(ix)	Banks which send statements of Accounts should adhere to the monthly periodicity prescribed by RBI and <i>Ad hoc</i> Committees should report compliance.	Instructions have been issued vide our circular dated 10th April, 2004.
(ix)	The Committee deplores that even in large metropolitan branches Enquiry Counters are non-existent and in some cases even hostile (Item 20). The <i>Ad hoc</i> Committees should examine this matter.	<i>Ad hoc</i> Committees should examine the point.