

RBI/2004/189
D.O.DCM (NE) No. 497 /08.01.06/2003-04

May 08, 2004

Shri / Mr.

Chairman / Managing Director / Chief Executive Officers of all scheduled banks

Dear Shri / Mr.

Committee on Procedures and Performance
Audit on Public Services (CPPAPS)

You may recall that the Governor, Dr. Reddy, in the mid-term review of the Monetary and Credit Policy for the year, 2003-04, had indicated setting up of a Committee on Procedures and Performance Audit on Public Services. The Committee under the chairmanship of Shri S.S. Tarapore has since submitted its Report dealing with Currency Management: Services Relating to Individuals (Non-Business). We enclose a summary of the recommendations made by the Committee as Annexure I together with the preliminary responses of the RBI on these recommendations as well as action taken by the Bank in this regard at Annexure II.

2. I also invite a reference to our letters DBOD.Nos.Leg.BC.60 & 70/09.07.005/2003-04 dated December 27, 2003, and February 17, 2004, regarding setting up of the Ad-hoc Committee on Procedures and Performance Audit on Customer Services in your bank.

3. The Ad-hoc Committee may please be apprised of the recommendations made by the Committee and the action taken by the Reserve Bank. The responses of the Ad-hoc Committee may please be forwarded to us by May 22, 2004, at e-mail/fax number of the Department of Currency Management of RBI – hksoni@rbi.org.in, Fax No.022-22670570.

With regards
Yours sincerely

Encls: As above

(P.K. Biswas)

ANNEXURE I

SUMMARY OF OBSERVATIONS/RECOMMENDATIONS OF THE COMMITTEE ON PROCEDURES AND PERFORMANCE AUDIT ON PUBLIC SERVICES (CPPAPS) – REPORT NO. 4 – CURRENCY MANAGEMENT: SERVICES RELATING TO INDIVIDUALS (NON-BUSINESS)

The Committee's observations /recommendations are as follows:

1. The Committee takes note with satisfaction that, in recent years, with the help of concerted efforts by RBI and government, the chronic shortages of notes and coins have been largely alleviated and to that extent the severe hardships faced by the **Common Person** have been eased (Recommendation No. 1).
2. The Committee strongly recommends that the transparency introduced in the RBI Annual Report for 2001-02 on currency management should be replicated in the Annual Report for 2003-04 as it is important to reveal the indent and supply as also separate information on notes and coins where there is a parallel circulation (Recommendation No. 2).
3. The Committee commends the measures relating to the Clean Note Policy and the Currency Verification and Processing Systems and these measures provide succour to the **Common Person** seeking facilities at RBI/banks (Recommendation No. 3).
4. The Committee observes, with some element of regret, that for certain operations the woes of the **Common Person** far from being alleviated are probably accentuated in the recent period (Recommendation No. 4).
5. The Committee has observed that there are already segments of shortages in certain denominations and therefore, recommends that concerted efforts should be made to eliminate, or at least minimize, the shortages in the incipient stages (Recommendation No. 5).
6. The Committee recommends that the government and RBI should work towards an early introduction of the Rs.10 coin (Recommendation No. 6).

7. The Committee would like to stress that long periods of parallel supply of notes and coins of the same denomination is not sustainable. The Committee, therefore, recommends a strong and unequivocal policy to totally phase out the Rs.5 note (Recommendation No. 7).
8. The Committee recommends that where RBI instructions are violated strong adverse action should be taken or if the RBI has reason to believe that the banks' non-implementation is justified the RBI should withdraw its instructions. The Committee stresses that it is not the severity of the penalty that is relevant but the putting in the public domain the imposition of the penalty. The Committee strongly recommends that the RBI should review its instructions and where the instructions are retained violation should invite adverse action and such action should be put in public domain. The Committee recommends that the Currency Chest Agreement (both existing and new) should be revised so that there is a provision for a monetary penalty for non-compliance with RBI instructions (Recommendation No. 8).
9. The Committee recommends that in the area of notes and coins there must be clear cut Master Circulars written in intelligible language and there should be a 12 months sunset clause on all circular instructions (Recommendation No. 9).
10. The Committee is of the view that the DCM – Regional Offices relationship should be reviewed and the system of internal instructions should be revamped. The Committee recommends that the DCM should not try to micro manage the Regional Offices particularly if the Regional Directors are accountable for the operations of their offices (Recommendation No. 10).
11. The Committee is of the view that resorting to strong-arm tactics when dealing with a crowd of say 30 persons, at opening time, is reprehensible. The Committee recommends that a Systems Study of the Mumbai Regional Office, Banking Hall, arrangements should be commissioned to

- an outside specialised agency which would surely be able to resolve the bottlenecks to smooth flow of transactions (Recommendation No. 12).
12. The Committee recommends that the problem of **Money Changers** needs to be studied in depth and the RBI should consider suitable measures to separate location/time for services to Money Changers and other individuals (Recommendation No. 13).
 13. The endeavor should be to meet the overall demand in full rather than rationing which results in the kind of problems the Mumbai Regional Office faces. The Committee reiterates that shortages, if any, should be rectified in the incipient stages and these problems should not be allowed to snowball (Recommendation No. 14).
 14. The Committee recommends that the Citizens' Charter for Currency Exchange Facilities needs to be revamped into a meaningful and comprehensive document written in easily understandable language and the document should be freely available to customers visiting the RBI Banking Halls (Recommendation No. 16).
 15. The Committee recommends that access to new notes should not be a restricted privilege but also be available to the **Common Person** (Recommendation No. 17).
 16. One of the terms of the delegation of authority to the bank branches is that they should **prominently exhibit** a notice that soiled currency notes and notes with slight mutilation are freely exchanged at the bank branch. Anecdotal experience available to the Committee suggests that many bank branches do not display such notices in their premises. The Committee has witnessed some improvement in the recent period as the RBI has gone into a strong overdrive in the past three months (Recommendation No. 18).
 17. The Committee recommends that the grey area relating to the specified branches where the Note Exchange Facility is available should be unequivocally clarified by the RBI to ensure that the **Common Person** is not subject to hardships (Recommendation No. 19).

18. The Committee strongly recommends that the **RBI Note Refund Rules** should be written in easily understandable language. The Committee recommends that the Note Refund Rules should be put on the website and the RBI should launch periodic public education campaigns to give wide publicity to the Note Refund Rules by inserting advertisements in regional and national dailies and also by way of printed posters to be displayed in bank branches (Recommendation No. 20).
19. The Committee strongly recommends that RBI should immediately review the existing system and practices relating to supply of fresh note packets at the RBI counters with a view to ensuring that all genuine needs of individuals are met without any hassle and that fresh notes are equitably distributed throughout the country without special favours only to known customers. The Committee recommends that the RBI market intelligence should periodically survey the kind of premia charged by Money Changers to the Common Person. If the supply is dispersed the chances of premia would be less (Recommendation No. 21).
20. Findings of the ASCI study are very useful and the Committee recommends that DCM should revisit the findings and take appropriate action to remove the “**inconveniences**” experienced by the public in using banks for obtaining their requirement of notes and coins including exchange of soiled and mutilated notes, and as also uncurrent and current coins (Recommendation No. 22).
21. The Committee recommends that the whole issue of pasting of notes should be reviewed by the RBI (Recommendation No. 23).
22. Some of the items provided by DCM and the Committee’s comments / recommendations are given below (Recommendation No. 24):
- (i) The facility of exchanging soiled/mutilated notes is being by and large provided by the Public sector banks though some banks do not provide this facility. The Committee recommends that the RBI needs to take hard decision as to what kind of adverse action

- should be taken when the RBI instructions on the facility of exchanging soiled/ mutilated notes are violated by banks.
- (ii) As regards delegation of full powers under RBI Note Refund Rules to public sector banks, the Committee has observed that the list of bank branches that have been authorised is not readily available and even when made available the information is incomplete and does not facilitate the **Common Person** as to the specific branches of banks where these facilities are available.
 - (iii) For the facility of exchanging soiled/ mutilated notes, RBI has made it mandatory for currency chest maintaining branches of public sector/ private sector/ foreign banks to accept and exchange mutilated notes while for non-currency chest maintaining branches of public sector banks it is a “**request**” to extend this facility as per their convenience. For **empowerment of the common person** the Committee recommends that a simplified dispensation for classification of bank branches for exchange of soiled/ mutilated notes may be prescribed and the information should be given wide publicity and be easily accessible to the common person.
 - (iv) As regards acceptance of coins DCM has issued instructions to banks. But many banks are reluctant to provide these facilities for uncurrent coins, as there are difficulties in transmitting coins from banks to RBI/Mints. The Committee recommends that incentives for return of coins, on the lines of incentive for distribution, are imperative as the metal value could be more than the face value of the coins.
 - (v) The RBI cash counters at the Mumbai Regional Office are not customer friendly when it comes to receiving uncurrent coins. Frequent changes in the dates on which uncurrent coins can be tendered has greatly inconvenienced customers. The Committee notes that at the Mumbai Regional Office uncurrent coins are now accepted on all days.

Recommendations and action points on Report No.4 on Currency Management: Services Relating to Individuals(Non-Business)

Given below is the table indicating the observations made by the Committee in brief relevant to commercial banks and the comments / action taken by the RBI.

Sl. No.	Recommendations of the Committee	Action to be taken / proposed to be taken
1.	Recommendation No 1. The Committee takes note with satisfaction that, in recent years, with the help of concerted efforts by RBI and government, the chronic shortages of notes and coins have been largely alleviated and to that extent the severe hardships faced by the Common Person have been eased.	The good work will be continued and efforts to further improve the supply of notes and coins will be taken so as to ease the further hardships faced by the Common Person . Banks on their part should also ensure that the supply of notes and coins available with them in currency chests especially fresh notes, are distributed liberally to the public. Ad-hoc Committee in each bank may please review and ensure this is being done.
2.	Recommendation No 2. The Committee strongly recommends that the transparency introduced in the RBI Annual Report for 2001-02 on currency management should be replicated in the Annual Report for 2003-04 as it is important to reveal the indent and supply as also separate information on notes and coins where there is a parallel circulation.	Accepted and will be implemented.
3.	Recommendation No 3. The Committee commends the measures relating to the Clean Note Policy and the Currency Verification and Processing Systems and these measures provide succour to the Common Person seeking facilities at RBI/banks.	Noted. The Clean Note Policy will continue to be pursued and use of Currency Verification and Processing Systems will be enhanced till complete mechanization of processing / sorting / verification. Banks on their part should also implement the Clean Note Policy more vigorously by avoiding stapling of notes, proper

		<p>sorting of notes at branches and chests, putting only reissuable quality notes into circulation and providing liberal exchange facilities to public for exchange of soiled and defective notes. Banks should also provide currency sorting machines at currency chests as already advised by RBI.</p> <p>Ad-hoc Committee in each bank may please ensure implementation.</p>
4.	<p>Recommendation No 4.</p> <p>The Committee observes, with some element of regret, that for certain operations the woes of the Common Person far from being alleviated are probably accentuated in the recent period.</p>	<p>Noted.</p> <p>Ad-hoc Committee in each bank should examine the reasons for accentuation of the woes of the Common Person and review their procedures and practices for customer services to bring about improvements to ensure qualitative and timely service to the customers. RBI will also adopt similar approach.</p>
5.	<p>Recommendation No 5.</p> <p>The Committee has observed that there are already segments of shortages in certain denominations and therefore, recommends that concerted efforts should be made to eliminate, or at least minimise, the shortages in the incipient stages.</p>	<p>Accepted.</p> <p>RBI will try to ensure that they are liberal in the distribution of notes and coins so as to ward off any impression of shortages.</p> <p>Banks may also take similar suitable steps at their public counters. Ad-hoc Committee in each bank to monitor the same.</p>
6.	<p>Recommendation No 6.</p> <p>The Committee recommends that the government and RBI should work towards an early introduction of the Rs.10 coin.</p>	<p>Accepted.</p> <p>RBI is seized of the matter and supported by the recommendations of the Committee, coinisation will be accelerated. Subject to final decision of the GoI, RBI will be in a position to introduce Rs 10 coin during 2005.</p>
7.	<p>Recommendation No 7.</p> <p>The Committee would like to stress that long periods of parallel supply of notes and coins of the same denomination is not sustainable. The Committee, therefore, recommends a strong and unequivocal</p>	<p>Accepted and will be kept in view for implementation on an urgent basis, with support of the Government of India.</p>

	policy to totally phase out the Rs.5 note.	
8.	<p>Recommendation No 8.</p> <p>The Committee recommends that where RBI instructions are violated strong adverse action should be taken or if the RBI has reason to believe that the banks' non-implementation is justified the RBI should withdraw its instructions. The Committee stresses that it is not the severity of the penalty that is relevant but the putting in the public domain the imposition of the penalty. The Committee strongly recommends that the RBI should review its instructions and where the instructions are retained violation should invite adverse action and such action should be put in public domain. The Committee recommends that the Currency Chest Agreement (both existing and new) should be revised so that there is a provision for a monetary penalty for non-compliance with RBI instructions</p>	<p>Accepted.</p> <p>With a view to implementing the suggestion, the RBI will review the existing measures for imposition of penalty on erring banks and currency chests. The recommendation of the Committee relating to review of currency chest agreements will be implemented in consultation with the Bank's DBOD and the Legal Department.</p>
9.	<p>Recommendation No 9.</p> <p>The Committee recommends that in the area of notes and coins there must be clear cut Master Circulars written in intelligible language and there should be a 12 months sunset clause on all circular instructions</p>	Accepted. The master circular will be issued shortly.
10.	<p>Recommendation No 10.</p> <p>The Committee is of the view that the DCM – Regional Offices relationship should be reviewed and the system of internal instructions should be revamped. The Committee recommends that the DCM should not try to micro manage the Regional Offices particularly if the Regional Directors are accountable for the operations of their offices.</p>	Will be reviewed in two months.

11.	<p>Recommendation No 12.</p> <p>The Committee is of the view that resorting to strong-arm tactics when dealing with a crowd of say 30 persons, at opening time, is reprehensible. The Committee recommends that a Systems Study of the Mumbai Regional Office, Banking Hall, arrangements should be commissioned to an outside specialised agency which would surely be able to resolve the bottlenecks to smooth flow of transactions.</p>	<p>Accepted. A Systems Study, as suggested by the Committee, will be conducted.</p>
12	<p>Recommendation No 13.</p> <p>The Committee recommends that the problem of Money Changers needs to be studied in depth and the RBI should consider suitable measures to separate location/time for services to Money Changers and other individuals</p>	<p>A Task Force will be set up to study the problem of Money Changers and to explore the possibility of providing separate locations/time for services to Money Changers and other members of the public.</p>
13	<p>Recommendation No 14.</p> <p>The endeavour should be to meet the overall demand in full rather than rationing which results in the kind of problems the Mumbai Regional Office faces. The Committee reiterates that shortages, if any, should be rectified in the incipient stages and these problems should not be allowed to snowball.</p>	<p>Access is constrained at operational levels but all Regional Offices of RBI will be suitably advised in the light of this recommendation.</p> <p>Ad-hoc Committee in each bank may also review their operations and give suitable instructions to their branches.</p>
14.	<p>Recommendation No 16.</p> <p>The Committee recommends that the Citizens' Charter for Currency Exchange Facilities needs to be revamped into a meaningful and comprehensive document written in easily understandable language and the document should be freely available to</p>	<p>Accepted.</p> <p>The Citizens' Charter for Currency Exchange facilities will be revamped and arrangements will be made to host the updated version on the Bank's website besides making it freely available to the customers visiting RBI Banking Halls. Banks may also take steps to introduce and publicise such</p>

	customers visiting the RBI Banking Halls.	Citizens' Charter in respect of currency exchange facilities at their branches.
15.	Recommendation No 17. The Committee recommends that access to new notes should not be a restricted privilege but also be available to the Common Person .	All Regional Offices of RBI have been once again advised in the light of this recommendation. Banks should also review and take steps to ensure availability of new notes to the public without any discrimination.
16.	Recommendation No 18. One of the terms of the delegation of authority to the bank branches is that they should prominently exhibit a notice that soiled currency notes and notes with slight mutilation are freely exchanged at the bank branch. Anecdotal experience available to the Committee suggests that many bank branches do not display such notices in their premises. The Committee has witnessed some improvement in the recent period as the RBI has gone into a strong overdrive in the past three months.	Ad-hoc Committee in each bank should review and ensure that such notices are prominently displayed at their branches.
17.	Recommendation No 19. The Committee recommends that the grey area relating to the specified branches where the Note Exchange Facility is available should be unequivocally clarified by the RBI to ensure that the Common Person is not subject to hardships.	Accepted. Necessary clarification will be issued and Regional Offices of RBI will be advised to prepare a list of bank branches where services by way of adjudication of defective notes and exchange of soiled notes are available and publicise the same.
18.	Recommendation No 20. The Committee strongly recommends that the RBI Note Refund Rules should be written in easily understandable language. The Committee recommends that the Note Refund Rules should be put on the website and the RBI should launch periodic public education campaigns to give wide	Accepted The Reserve Bank will review the existing RBI Note Refund Rules to make its language simpler. Adequate publicity will also be given as suggested by the Committee.

	publicity to the Note Refund Rules by inserting advertisements in regional and national dailies and also by way of printed posters to be displayed in bank branches.	
19.	<p>Recommendation No 21.</p> <p>The Committee strongly recommends that RBI should immediately review the existing system and practices relating to supply of fresh note packets at the RBI counters with a view to ensuring that all genuine needs of individuals are met without any hassle and that fresh notes are equitably distributed throughout the country without special favours only to known customers. The Committee recommends that the RBI market intelligence should periodically survey the kind of premia charged by Money Changers to the Common Person. If the supply is dispersed the chances of premia would be less.</p>	The task force set up at SI No. 12 will review the system and use of market intelligence to keep a tab on premia being charged by Money Changers.
20.	<p>Recommendation No 22.</p> <p>Findings of the ASCI study are very useful and the Committee recommends that DCM should revisit the findings and take appropriate action to remove the “inconveniences” experienced by the public in using banks for obtaining their requirement of notes and coins including exchange of soiled and mutilated notes, and as also uncurrent and current coins.</p>	Accepted and will be done.
21.	<p>Recommendation No 23.</p> <p>The Committee recommends that the whole issue of pasting of notes should be reviewed by the RBI.</p>	Accepted and will be done.
22.	<p>Recommendation No 24.</p> <p>Some of the items provided by DCM and the Committee’s Comments/ Recommendations</p>	

<p>are set out below</p> <p>(i) The facility of exchanging soiled/mutilated notes is being by and large provided by the Public sector banks though some banks do not provide this facility. The Committee recommends that the RBI needs to take hard decision as to what kind of adverse action should be taken when the RBI instructions on the facility of exchanging soiled/ mutilated notes are violated by banks.</p> <p>(ii)As regards delegation of full powers under RBI Note Refund Rules to public sector banks, the Committee has observed that the list of bank branches that have been authorised is not readily available and even when made available the information is incomplete and does not facilitate the Common Person as to the specific branches of banks where these facilities are available.</p> <p>(iii)For the facility of exchanging soiled/ mutilated notes, RBI has made it mandatory for currency chest maintaining branches of public sector/ private sector/ foreign banks to accept and exchange mutilated notes while for non-currency chest maintaining branches of public sector banks it is a “request” to extend this facility as per their convenience. For empowerment of the common person the Committee recommends that a simplified</p>	<p>(i)As already mentioned at item 8 above, RBI will review the existing measures for imposition of penalty on erring banks.</p> <p>(ii) Regional Offices of RBI will be advised to publicise list of such branches for the benefit of the public</p> <p>(iii) Accepted. Wide publicity will be given for the list of such branches.</p>
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<p>dispensation for classification of bank branches for exchange of soiled/ mutilated notes may be prescribed and the information should be given wide publicity and be easily accessible to the common person.</p> <p>(iv)As regards acceptance of coins DCM has issued instructions to banks. But many banks are reluctant to provide these facilities for uncurrent coins, as there are difficulties in transmitting coins from banks to RBI/Mints. The Committee recommends that incentives for return of coins, on the lines of incentive for distribution, are imperative as the metal value could be more than the face value of the coins.</p> <p>(v)The RBI cash counters at the Mumbai Regional Office are not customer friendly when it comes to receiving uncurrent coins. Frequent changes in the dates on which uncurrent coins can be tendered has greatly inconvenienced customers. The Committee notes that at the Mumbai Regional Office uncurrent coins are now accepted on all days</p>	<p>(iv)The suggestion of the Committee to introduce incentives for return of coins is accepted. A detailed scheme will be worked out in consultation with IBA in one month.</p> <p>(v)Regional offices of RBI will be advised to review existing facilities for acceptance of coins and to further improve it and ensure that they are customer friendly. The Central Office will facilitate the process.</p>
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