

**XII****CURRENCY MANAGEMENT**

12.1 The core central banking function of note issue and management of currency in circulation is performed by the Reserve Bank with the objectives of ensuring adequate availability of notes and coins in the economy and maintaining the quality of notes in circulation. This is done through its 18 regional Issue Offices/sub-offices and a wide network of currency chests, repositories and small coin depots spread across the country. In 2002-03, the sub-offices of the Issue Department at Bhopal and Chandigarh and the currency chest at Jammu were converted into full-fledged Issue Offices. Sixty-four additional currency chests and 46 additional small coin depots were opened during the year. The demand for notes and coins was addressed by sending remittances to currency chests and by issue of notes and coins over the counters of Issue Offices. With improvements in the supply position of fresh notes and coins, efforts were directed towards improving the quality of notes in circulation through a number of measures. Adequate supply of fresh notes to bank branches during episode of liquidity stress was ensured by keeping the vaults of Issue Offices open beyond office hours and also on sundays/public holidays.

**Notes in Circulation**

12.2 The slowdown in rural economic activity in 2002-03 resulted in a deceleration in the value of notes in circulation. In volume terms, there was a decline of 2.7 per cent in circulation of notes, mainly because of the Reserve Bank's efforts to increase notes of Rs. 20 and Rs. 500 denominations in lieu of notes of Rs. 10 and Rs.100 denominations, respectively. The major decline in volume was in Rs.10 denomination notes (Table 12.1). Indents for fresh notes were met by the printing presses to the extent of more than 90 per cent in terms of volume and more than 100 per cent in terms of value.

**Clean Note Policy - Quality of Notes in Circulation**

12.3 In pursuance of the Clean Note Policy, efforts for improving the quality of notes in circulation were directed towards replacing soiled notes in circulation by fresh or reasonably good quality notes. Key measures in this regard included mechanisation of note processing-cum-verification and eco-friendly destruction of soiled notes, widening of the currency

**Table 12.1 : Notes and Coins**

(Value in crore of Rupees/Pieces in million)

Denomination	End-March 2003		End-March 2002	
	Pieces	Value	Pieces	Value
1	2	3	4	5
Rs.2	2,416	483	2,493	498
Rs.5	3,479	1,739	2,724	1,362
Rs.10	9,088	9,088	11,989	11,989
Rs.20	1,713	3,425	766	1,531
Rs.50	7,038	35,191	7,120	35,601
Rs.100	11,539	1,15,386	11,804	1,18,041
Rs.500	1,876	93,813	1,370	68,512
Rs.1,000	160	15,971	72	7,179
<b>Total</b>	<b>37,309</b>	<b>2,75,096</b>	<b>38,338</b>	<b>2,44,713</b>
	<b>(-2.7)</b>	<b>(12.4)</b>	<b>(7.3)</b>	<b>(15.2)</b>

**Note:** Figures in brackets are percentage variations over the previous year.

chest network, non-stapling of note packets, speeding up handing over and taking over of remittances by the chests, and continuation of anti-counterfeit steps.

12.4 The process of mechanisation, which began on an experimental basis in 1998 by installation of Currency Verification and Processing Systems (CVPSs) at Bhopal and Chandigarh Offices, was carried forward with the installation and commissioning of higher capacity CVPSs (of 50,000 to 60,000 bank notes per hour) at all the Issue Offices. In addition to the 22 CVPSs purchased during Phase I, 20 more machines were purchased during the year under Phase II. The old lower capacity machines at Chandigarh and Bhopal were replaced with new higher capacity machines under buy-back arrangements, taking the total number of CVPSs in the Issue Offices to 48. As a result, the processing capacity during the year increased by about 1,755 million pieces. The working of the machines at all the sites has stabilised; on an average, the machines provided 90 per cent of the rated output. In the recent period, considerable emphasis has been placed on non-stapling of notes in banks to improve the quality of notes (Box XII.1).

12.5 In order to enable the disposal of soiled notes in an environment friendly manner, Shredding and Briquetting Systems (SBSs) have been installed and made operational at all centres. A total of 18 Shredding and Briquetting Machines were purchased during 2002-03, taking the total number of SBSs to 24.

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**Box XII.1****Non-stapling of Notes**

In 1996, the Reserve Bank issued instructions to all banks to stop stapling of fresh note packets. In 1998, the instructions were reiterated in the case of re-issuables. Since the instructions were not being implemented by the banks, the Reserve Bank issued a directive in November 2001, under Section 35 A of the Banking Regulation Act, 1949 to all banks prohibiting stapling of bank notes, tendering soiled notes to the Reserve Bank in unstapled condition and issuing only clean notes to the public. Notes in unstapled condition facilitate easy processing of soiled notes under the mechanised environment of the Reserve Bank.

With stapling being an old age practice and a stitched note packet being equated with accuracy of 100 notes in a packet, there have been some misapprehensions on the part of banks' cashiers regarding handling of unstapled notes. The general rule is that a packet, whether stitched or banded,

must contain 100 note pieces. The Reserve Bank has, therefore, instructed banks that their chests should hold the balance only in unstapled condition and the amount of stapled note balances should be treated as non-chest balance. The Reserve Bank has also launched a publicity campaign on the benefits of non-stapling through films and press advertisements.

All banks have been advised to secure note packets with paper/polymer bands or twines instead of wire staples. As a supplement to this system, banks are required to install dual display note counting machines for the satisfaction of their staff as well as their customers. The Reserve Bank's inspectors have been given guidelines to include an assessment on the quality of sorting of notes by branches. By end-July 2003, more than 4,400 currency chests had destapled the stock of notes lying in their vaults.

12.6 The Reserve Bank launched a special drive for a faster disposal of soiled notes accumulated in the vaults of its offices as well as in currency chests. The total disposal of soiled notes during 2002-03 was to the tune of 15.6 billion pieces as compared with 10.6 billion pieces during the previous year. In view of the continuous withdrawal of soiled notes from circulation, the accumulation of soiled notes in the Issue Offices and currency chests has been contained to 4,132 million pieces at end-July 2003 as compared with 4,121 million pieces at end-July 2002. The time lag between receipt and disposal of soiled notes also narrowed considerably. Furthermore, to provide an incentive to the banks maintaining currency chests and to ensure better customer service, chest-maintaining branches have been allowed to levy a service charge of Re.1 per packet (irrespective of denomination) on the cash that is deposited by the non-chest branches. The cash tenders by regional rural banks and co-operative banks under Remittance Facility scheme have been exempted from service charges.

12.7 The mopping up of soiled and mutilated notes of Re.1, Rs.2 and Rs.5 denominations and distribution of coins was maintained. The Issue Offices launched campaigns through mobile vans and bank branches to encourage people to get such notes exchanged either for coins or notes. Issue Offices were allowed to send coin remittances through reputed private transport operators without being accompanied by cash department staff. Banks were advised to keep open identified currency chests on sundays for exchange of soiled and mutilated notes and also for distribution of coins. With a view to supplementing the efforts of the banking network in distribution of

coins, the Reserve Bank would take the help of other organisations which have a wide network such as post offices, railways and State-run transport undertakings. A pilot scheme was launched in Maharashtra and Goa in association with the postal authorities under which the General Post Office collects coins from the Reserve Bank's office against payment and sends them to the post offices for distribution to the public. The scheme has been widely appreciated by the public. Other regional offices have been advised to put similar arrangements in place.

*Counterfeit Notes*

12.8 In order to mitigate the difficulties faced by the public on account of counterfeit notes, the Reserve Bank has undertaken several measures to enhance public awareness. A film on security features of Rs.100 denomination notes was produced in addition to the film on Rs.500 denomination notes and was telecast on Doordarshan and other TV channels. Banks were advised to establish Forged Note Vigilance Cells at their Head Offices for dissemination, monitoring and implementation of the Reserve Bank's instructions on forged notes.

12.9 Tracking of new type of forgeries and scrutiny in association with the Security Paper Mill and Note Printing Presses is an important step. The Reserve Bank's main thrust continues to be on dissemination of security features of bank notes to the public and other agencies like banks, Government departments, police and intelligence agencies (Box XII.2).

12.10 Enhanced security features in the form of improved public features and machine-readable features in bank notes are being incorporated in consultation

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## Box XII.2

## New Security Features in Bank Notes

Security features of bank notes need to be reviewed and upgraded from time to time in order to take advantage of research and technology in the field to combat counterfeiting. The notes issued in any series/design by the Reserve Bank continue to be legal tender for all time, although over a period, notes in a particular series/design may not be seen any more because of discontinuance of printing issues in that series/design. In some countries, where the volume of notes in circulation is small, a new design replaces an old design every 5-6 years and the old design is discontinued as legal tender. In such a situation, prevention of counterfeiting is strengthened. In India, while it is difficult to remove an old design by way of withdrawing its legal tender, the Reserve Bank is attempting to phase

out the old design by not re-issuing it once it comes to the currency chests or the Reserve Bank's offices.

Although the predominant reason for new security features is to make counterfeiting difficult, they also assume importance in the context of the mechanised cash processing activities by high-speed currency verification and processing systems (CVPSs). The success of these systems in achieving the authenticity and rated capacity depends greatly on the notes having machine-readable security features.

The Government of India and the Reserve Bank are currently in the process of introducing additional security features in the existing design of bank notes.

with the Government of India. The notes in the Ashoka Pillar Series, *i.e.*, Ashoka Pillar in watermark window, are being phased out from circulation as they do not contain adequate anti-counterfeit security features as compared with the Mahatma Gandhi series notes which were introduced in 1996 (Box XII.3).

12.11 The number of counterfeit notes detected at the Reserve Bank's regional offices and branches of commercial banks increased sharply during 2002-03. The increase was mainly on account of Rs.100 denominations, partly offset by lower detections of Rs.500 denominations. The value of counterfeit notes detected at Rs.3.5 crore during 2002-03 was higher than in the previous year (Table 12.2). The value of forged notes detected as a proportion to the total value of notes in circulation remained miniscule.

**Table 12.2 : Forged Notes Detected at the Reserve Bank Offices and Bank Branches**

Denomination	2002-03		2001-02	
	Pieces	Value (Rs.)	Pieces	Value (Rs.)
1	2	3	4	5
Rs. 1,000	39	39,000	13	13,000
Rs. 500	35,398	1,76,99,000	53,661	2,68,30,500
Rs. 100	1,72,597	1,72,59,700	67,168	67,16,800
Rs. 50	3,488	1,74,400	3,013	1,50,650
Rs. 20	34	680	72	1,440
Rs. 10	198	1,980	588	5,880
<b>Total</b>	<b>2,11,754</b>	<b>3,51,74,760</b>	<b>1,24,515</b>	<b>3,37,18,270</b>

#### Establishment of Currency Chests

12.12 The Reserve Bank has been endeavouring to increase the number of chests in view of the need for

## Box XII.3

## Phasing Out of Ashoka Pillar Series Notes

Portraits of human beings have been recognised as a strong security feature on bank notes all over the world. The watermark with a human face is a unique and an inimitable feature which provides the desired light and shade effects. In particular, a human face brings into focus the shine/gleam in the eyes. The portraits involve deep engravings with very minute details and are difficult to counterfeit. The choice of the personality from the security point of view should be such that the face should be expressive and should have lots of lines and folds so that there is an ample scope of engravings of different depths, which would be difficult for counterfeiters. The Government and the Reserve Bank, therefore, introduced a portrait of Mahatma Gandhi on bank notes as well as in the watermark window.

The notes in Mahatma Gandhi series were introduced in 1996. Some additional security features like windowed security thread, latent (hidden) denominational image, micro

printing, registration mark and raised identification mark for identification of a denomination by visually impaired were also incorporated in these notes as anti-counterfeiting measures. The printing of notes with Ashoka Pillar emblem on notes and in watermark window was then discontinued. The notes in Ashoka Pillar series circulating among the public had deteriorated in quality. Moreover, in the absence of advanced security features in the Ashoka Pillar series notes, the public was finding it difficult to identify counterfeit notes of this series. The Government and the Reserve Bank, therefore, decided to phase out the Ashoka Pillar series notes from circulation. Accordingly, the Reserve Bank Issue Offices and currency chest branches of commercial banks have been instructed not to re-issue these notes to the public. These notes shall, however, continue to be legal tender. Furthermore, the Ashoka Pillar emblem, a national symbol and pride, continues to be printed on the notes of Mahatma Gandhi series.

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**Table 12.3: Number of Currency Chests**

Name of Agency	Number of Currency Chests	
	end-March 2003	end-March 2002
1	2	3
Treasuries	417	454
State Bank of India (SBI)	2,117	2,081
SBI Associate banks	1,002	998
Nationalised banks	897	843
Private sector banks *	32	26
Co-operative banks	1	1
Reserve Bank	20	19
<b>Total</b>	<b>4,486</b>	<b>4,422</b>

\* Including six chests of the Jammu & Kashmir Bank Ltd.

expanding distribution channels for fresh notes and coins and mopping up soiled notes from circulation. During 2002-03, 64 currency chests were established, taking their total to 4,486. At present, currency chests are predominantly held by the State Bank of India and its associate banks (around 70 per cent of the total) (Table 12.3). Efforts are being made to encourage other public sector banks (who hold around 20 per cent of the total chests) to open more currency chests in order to enhance their storage capacity and reduce the pressure on the Reserve Bank's Issue Offices. Furthermore, conversion of repositories into currency chests is in progress. The number of repositories came down to 193 from 265 in the previous year. The Reserve Bank is also encouraging the private sector and foreign banks to establish currency chests. 15 private sector banks have been granted chest facility so far. As a measure of safeguard, each bank is granted a limit for holding balances in its chest(s) depending upon its net worth.

*Computerisation of Issue Office Accounts*

12.13 Efforts are underway to design, develop and implement an Integrated Computerised Currency Operations and Management system. Computerisation will cover issue accounting, resource planning and distribution of currency, cash department operations, note exchange counters in Issue Department, claims section, currency chest reporting and management information systems in the Regional and Central Offices. The development of the application software is being outsourced.

*Currency Museum*

12.14 The Reserve Bank has envisaged the establishment of a Monetary Museum in Mumbai

with display and archival facilities which would house contemporary and ancient monetary artefacts and coins capturing the history of currency in India. The website for the proposed Monetary Museum has now been made a part of the Reserve Bank website.

**Bharatiya Reserve Bank Note Mudran Private Limited**

12.15 The Bharatiya Reserve Bank Note Mudran Private Limited (BRBNMPL), incorporated as a wholly owned subsidiary of the Reserve Bank, was set up in 1996 to take over the work of the new note press project. The company, which was awarded an ISO 9001:2000 certification in March 2001, became a private limited company from February 24, 2002. The company has two printing presses at Mysore (Karnataka) and Salboni (West Bengal), both of which have been fully operational since March 1999 and September 1999, respectively. Each of these presses has an annual capacity in single shift to print 4,770 million pieces of notes of all the denominations, *i.e.*, of Rs.5, Rs.10, Rs.20, Rs.50, Rs.100, Rs.500 and Rs.1000. The note presses are equipped with modern facilities for printing, process control, accounting and quality check in a secure environment for production of bank notes.

**Outlook**

12.16 The Reserve Bank would pursue its objective of meeting the currency demand of the economy and improving the quality of notes. Installation of additional Currency Verification and Processing Systems would be undertaken to ease the accumulation of soiled notes in the Issue Circles. Constant surveillance over the system of distribution of notes and coins would be strengthened with a view to enlarging/improving the distribution of fresh notes and coins. Innovative measures like distribution of coins through post offices would be expanded. Customer service would be upgraded through mobile issue of coins and introduction of Rs.10 coins. Enhanced security features in the form of improved public features in bank notes are being devised to prevent counterfeiting. These features will be complementary to the process of mechanisation of currency operations.