

FOR RESTRICTED CIRCULATION ONLY

MANUAL OF INSTRUCTIONS

(Upto 30 June, 1998)

ISSUED BY

**DEPARTMENT OF BANKING OPERATIONS &
DEVELOPMENT**

AND

DEPARTMENT OF BANKING SUPERVISION

AND

**INDUSTRIAL AND EXPORT
CREDIT DEPARTMENT**



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MUMBAI**

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**RESERVE BANK OF INDIA
MUMBAI**

532.1130954

RBI

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BRANCH EXPANSION

14.1 Section 23 of the Banking Regulation Act-Opening of new place of business, etc.

The banks, without the prior permission of the Reserve Bank of India, cannot open a new place of business in India or abroad or change otherwise than within the same city, town or village, the location of an existing place of business, as per the provisions of Section 23 of the Banking Regulation Act, 1949. Forms of applications to be made to the Reserve Bank of India for permission to open new place of business, etc. are given in the Annexure- I

14.2 Branch expansion policy relating to Indian scheduled commercial banks

The Board of Directors of banks should decide on the policy and strategy for setting up new branches taking into account the yearly business plan, potential for business at the new centres for opening of branches, profitability of the proposed branches, redeployment of staff where surplus manpower has been identified and for extending efficient and prompt customer service to the clientele of the bank.

14.3 Rural branches

- i) All branches at centres with population below 10,000 are treated as rural branches. The need for opening branches in rural areas could be on two counts.
 - (a) Service Area allocated to a bank branch may be found to be unmanageable due to large number of villages allotted, number of constituents to be catered to and long distances/difficult terrain involved in servicing the area, and
 - (b) the increase in business of a rural branch, justifiably warranting an additional bank branch, which could be viable.
- ii) Hilly/Tribal areas and sparsely populated regions should receive special attention on opening of additional branches. The rural centres identified by the banks for opening of branches should be first approved by the concerned District Consultative Committee and submitted to the Reserve Bank of India through the State Government (Directorate of Institutional Finance).

14.4 Semi-urban/urban and metropolitan branches

The banks could identify the semi-urban centres (population of ten thousand but less than one lakh), urban centres (population of one lakh but less than ten lakhs) and metropolitan (population of ten lakhs and above) for opening of branches depending upon the business potential and profitability of the proposed branches. Requests from the banks for opening branches at these centres will be considered by RBI on merits of each case.

14.5 Specialised branches

- i) The banks can open without the prior approval of RBI, the following categories of Specialised branches :-
 - (a) Industrial finance branches
 - (b) Overseas branches
 - (c) SIB/SSI branches
 - (d) Treasury branches, and
 - (e) NRI branches
- ii) Opening of other categories of specialised branches would require the prior approval of RBI. The banks should ensure that the specialised branches opened do not adversely affect the viability of other branches of the bank in the area.

14.6 Housing Finance branches

The banks should designate one of their specific branches in each district for the purpose of housing finance. The housing finance branch so designated could also undertake other normal banking functions.

14.7 Service branches

The banks could open, without the prior approval of RBI, Service branches/Regional Collection Centres for facilitating clearing and allied work at bigger centres.

14.8 Autonomy in opening bank branches

- i) The banks, which fulfil all the following four conditions, are given freedom to open branches at the centres identified by them :
 - a) Owned funds of Rs. 100 crores or more
 - b) Capital to Risk Weighted Ratio of 8 per cent or more
 - c) Gross NPA below 15 per cent of total gross advances
 - d) Net profit position for three consecutive years.
- ii) The banks, which fulfil the aforesaid criteria, should draw up Annual Plan for one year for opening of all types of branches. The plan, duly approved by the Board of Directors of the bank, should be submitted to RBI for clearance before opening of the branches at centres included therein. They should,

however, obtain the licence under Section 23 of the B.R. Act from the concerned Regional Office of DBOD before opening branches.

14.9 Splitting or part shifting of branches within the same centre

The banks could, without the prior approval of RBI, effect splitting of branches or part shifting of some of the departments of the parent branch to nearby locations due to space constraints, for better customer service, etc. The banks should not, however, conduct identical business from both the premises.

14.10 Spinning-off of business

The banks may resort to spin-off of business at a branch, such as, government business, small-scale industry business, etc. at their discretion without the prior approval of RBI.

14.11 Opening of Regional/Administrative/ Zonal/Controlling Offices

It is left to the discretion of the banks to open or close regional/administrative/ zonal/controlling offices.

14.12 (a) Shifting of rural and semi-urban branches

The shifting of branches in rural and semi-urban areas may be effected by banks themselves without obtaining the prior approval of RBI subject to their complying with the following conditions :

- i) Both the existing and proposed centres should be within the same Block and Service Area of the branch.
- ii) It should be ensured that the relocated branch would be able to cater adequately to the banking needs of the villages allocated under Service Area Approach.

14.12 (b) Shifting of rural branches outside the Block/Service Area and closure of Rural branches

- i) The shifting of rural branches outside the Block/Service Area may be allowed by RBI without insisting on the approval of District Consultative Committee (DCC) and State Government in the following cases :
 - (a) Branches which are in existence for five years or more and are incurring losses consecutively for the last three years.
 - (b) Branches located at centres suffering from problems beyond the control of the bank, such as, those which are prone to floods, landslides or likely to be submerged in

waters due to construction of dams or having underground fires, etc.

- (c) Shifting is necessitated on account of law and order problem or terrorists' activities posing threats to bank personnel and property.
 - (d) Cases where the premises occupied by the bank are dilapidated condition or burnt/destroyed and no suitable premises are available at the Centre/Block/Service Area.
- ii) It has also been decided to allow closure of loss-making rural branches without involving State Government and DCC. However, the banks will have to themselves settle the related matters such as transfer of assets and liabilities of the branch proposed to be closed to other branches of the same bank or different bank, reallocation of villages under Service Area Approach, re-deployment of staff etc.
 - iii) The permission for shifting and closure of loss-making rural branches will hereafter be given by the Chief General Manager/General Manager-in Charge of the concerned Regional Office of RBI. Accordingly, banks are advised to submit their proposals in this regard, duly approved by their Boards of Directors, to the concerned Regional Office of RBI under whose jurisdiction the centre falls, for prior approval.

14.13 Shifting of urban/metropolitan branches

The banks may shift their branches in urban/metropolitan centres within the same locality/municipal ward without the prior approval of RBI. For shifting branches outside the locality/municipal ward, banks have to obtain prior approval of the concerned Regional Office of DBOD, RBI.

14.14 Closing/swapping of bank branches

- i) Closure of rural branches would require the prior permission of the Reserve Bank of India. Further, while closure of the loss making branches at rural centres having a single commercial bank branch is not permitted, at centres served by two commercial bank branches (excluding RRBs) the decision for closure of one of the branches may be taken by the concerned banks by mutual consultation. Matters, such as, transfer of all assets and liabilities of the branch proposed to be closed to another branch of the same or different bank, reallocation of villages under the Service Area Approach, redeployment of staff, etc. should be sorted out by the banks. Due notice would have to be given to the constituents of the branches which are proposed to be closed. The proposal for closing a rural branch, duly approved by the concerned District Consultative Committee should be sent to RBI through the State Government for its prior approval.

- ii) The banks have the freedom to close down branches other than in rural areas as well as swap their unremunerative branches or those in remote areas with other banks.

14.15 Conversion of full-fledged rural branches into Satellite Offices

- i) The banks may themselves decide the proposals for conversion of their existing loss making branches at rural centres into Satellite Offices keeping in view the cost-benefit aspect and the likely inconvenience that may be caused to the existing clientele. The final decision in regard to conversion of rural branches and semi-urban branches (where they cater to Service Area) should, however, be taken in consultation with District Administration/State Government.
- ii) The following guidelines for Satellite Offices may be followed by the banks:
 - (a) The Satellite Offices should be established at fixed premises in the surrounding villages to be controlled and operated from a base branch located at a Central Village/Block Head Quarters.
 - (b) Each Satellite Office should function on a few specified days in a week (at least twice) at specified hours.
 - (c) All types of banking transactions may be conducted at these offices.
 - (d) The customers of the Satellite Offices may be permitted to transact business at the base branch on non-operating days of such offices.
 - (e) While separate ledgers/registers/scrolls may be maintained for each Satellite Office, all the transactions carried out at these offices may be incorporated in the books of account of the base branch.
 - (f) The staff attached to the base branch, preferably consisting of a member of supervising staff, a cashier-cum-clerk and an armed guard, may be deputed to the Satellite Offices.
 - (g) Adequate arrangements for insurance of furniture, cash-in-transit, etc. may be made.

14.16 Mobile Offices

Where the banks do not find it economical to open full-fledged or Satellite branches, they could open Mobile Offices. The scheme of Mobile Offices envisages the extension of banking facilities through a well protected van with arrangements for two or three officials of the bank sitting in it with books, safe containing cash, etc. The mobile unit would visit the places proposed to be served by it on certain specified days/hours. The mobile office would be attached to a principal branch of the bank.

14.17 Opening of Extension Counters(ECs)

- i) The banks at their discretion and without obtaining the prior permission of RBI can open ECs at the premises of the institutions of which they are the principal bankers. They could open ECs within the premises of big offices/factories, hospitals, military units, educational institutions, etc. where there is a large complement of staff/workers, students, who because of their identical working hours and non-availability of banking facilities at a reasonable distance find it difficult to carry out their banking transactions. ECs should not generally be opened at residential colonies, shopping complexes, market places, etc. The banks should prefer to open full-fledged branches at such places. The ECs should carry out limited type of banking business, such as, acceptance of deposits, issuing of drafts, etc, advances against fixed deposits of their customers and facility of safe deposit locker, provided adequate security arrangements could be made.
- ii) The bank should furnish particulars of the ECs in parts I and II of the format given in the Annexure II, to the concerned Regional Offices of DBOD.

14.18 Upgradation of ECs into full-fledged branches

- i) The banks should obtain prior approval of RBI for ungrading ECs into full-fledged branches. The proposals are approved by the Regional Offices of DBOD if the following conditions are fulfilled:
 - (a) the Extension Counter has been functioning for a minimum period of five years,
 - (b) the number of deposit accounts exceeded 2,000 during the last one year,
 - (c) the average deposits (i.e. on a monthly basis) for the last three years are more than Rs.3 crore for metropolitan centres and Rs.2 crore for other centres.
- ii) The proposals wherein any of the conditions are not fulfilled, are referred by the concerned Regional Office to Central DBOD which considers the proposals on merits.

14.19 Opening of branches by Regional Rural Banks (RRBs)

i) RRBs which are freed from Service Area Obligations

The 69 RRBs, which have been freed from Service Area Obligations, are generally not allowed to open new branches. They may, however, relocate their loss making branches at Taluka/Block headquarters, village markets, mandis, agricultural produce centres or similar centres (hereinafter referred to as 'specified centres') preferably within the same block. Alternatively, they may convert their loss making branches into Satellite/Mobile offices. Further, where two loss making branches of a RRB are in close proximity to

each other (i.e. within a distance of about 5kms,) they may consider merging the two branches.

ii) RRBs which are not freed from Service Area Obligation

- (a) The RRBs, which have to adhere to SA approach, can relocate their loss-making branches at specified centres within their Service Area or may consider converting loss making branches into Satellite/Mobile Offices provided such conversion does not impair continued performance of Service Area Obligations.
 - (b) Further, in case another branch of the same RRB is operating within a distance of about 5 kms in a geographically contiguous Service Area, these RRBs may consider merging the two branches with a view to rationalising the spatial spread and reducing establishment/operating costs. These RRBs may also consider opening of new branches at specified centres, on a very selective basis, within their area of operations.
- iii) All proposals relating to opening of new places of business, relocation of branches, conversion into Satellite/Mobile Offices, etc. should be approved by the bank's Boards of Directors as also the sub-group of DCC. However, the approval of sub-group of DCC is not necessary where no additional staff is to be recruited. The proposals duly recommended by NABARD, are required to be sent to Central Office of DBOD for approval.

14.20 General :-

i) Automated Teller Machines (ATMs)

- (a) The banks need not obtain permission of the Reserve Bank of India for installation of ATMs at branches and Extension Counters (ECs) for which they hold licences issued by the Reserve Bank. The banks should, however, report to the Central Office of DBOD and its concerned Regional Offices as and when the ATM is installed at a branch or an Extension Counter.
- (b) In addition to the installation of ATMs at branches and Extension Counters, banks may install ATMs at other places identified by them. After installation of an ATM at such places, they should obtain a licence therefor from the concerned Regional Office of DBOD on a post facto basis, as installation of an ATM is construed as opening of a new place of business requiring a licence under Section 23 of the Banking Regulation Act, 1949. The functions of such non-branch/ "stand-alone" ATMs should be restricted only to deposits and withdrawals.
- (c) The following functional facilities may be provided at non-branch / "stand-alone" ATMs:
 - (i) PIN changes

- (ii) Requisition for cheque books
 - (iii) Statement of accounts
 - (iv) Balance enquiry and
 - (v) Inter account transfer - restricted to accounts of the same customer at same centre.
- (d) Telephone communications between the “stand-alone” ATMs with branch ATMs and Shared Payment Network System (SPNS) can be provided.
- (e) No person other than security guard should be posted at such “non-branch”/ “stand-alone” ATM centres.

ii) Opening of offices of commercial banks in the National Capital Territory (NCT) of Delhi, No Objection Certificate (NOC) from Delhi Development Authority (DDA)

Under the provisions of Master Plan of Delhi-2001, banks are permitted to open offices in Commercial Use Zones and in the commercial centres in Residential/Industrial Use Zones. Further, under Mixed Use Regulation of Master Plans, banks could function on the ground floor of residential premises to the extent of 25 per cent of ground floor coverage or 50sq.mt. area, whichever is less. The banks, while applying for licences for opening of offices in the NCT of Delhi, should give a declaration that the proposed locality/premises of the branch is in conformity with the norms/provisions of MPD-2001. Where the banks are not able to give such declaration, the licences will be issued only on submission of NOC from DDA.

iii) Opening branches in Haryana-No Objection Certificate (NOC) from Haryana Urban Development Authority

While applying for licences for opening branches/offices in Haryana, the banks have to ensure that they are located in conforming areas approved for commercial use by Haryana Urban Development Authority.

iv) Delegation of powers to Regional Offices of DBOD

Banks should approach Regional Offices of DBOD for necessary prior permission for shifting their branches outside the Municipal ward/locality in urban and metropolitan centres and for upgradation of extension counters. In cases where they can open the offices without prior permission of RBI (e.g. Extension Counter, certain types of specialised branches, Administrative Offices, etc.) they should immediately after finalising the infrastructural facilities such as premises, etc. approach the concerned Regional Offices of DBOD for necessary licences. In the case of shifting of offices, licences should be submitted to Regional Office for change of address. Banks should surrender the licences to the concerned Regional Offices within 15 days for cancellation in the case of swapping/closing of branches.

v) Rural branches-Non-public business working day

The banks should declare one day in a week as “non-public business working day” in all their rural branches. The only exceptions are those rural branches where government transactions are conducted or where there is preponderance of non-agricultural activity and the closure of the branch would cause inconvenience. The non-public business working day chosen should fall between two working days. The non-public business working days should be utilised by the branch managers exclusively for visiting villages in the command area for contacting existing and potential customers, mobilisation of deposits and recovery of dues. The other staff at the branch could devote the non-public business working day to keep the house-keeping work up-to-date.

vi) Loss -making branches

The banks should submit statements showing the classification of loss-making branches category-wise as in the Proformae given in Volume II of the Manual (Item Nos.27 and 28). The statements should relate to the position as at the end of March each year and should be accompanied with the review note placed before the Board of Directors. The statement should reach the Central Office of Department of Banking Supervision and its concerned Regional Offices before the end of October each year.

vii) Branch banking statistics

- (a) The banks should submit monthly returns in the proformae given in Volume II of the Manual (Item No. 29) in respect of new offices/branches opened and changes in status/merger/closure of existing branches, etc. within 7 days of the next month succeeding to the month to which they relate to the Regional Offices of DBOD and to Central Office of DESACS. ‘Nil’ return should be sent in case there is nothing to report.
- (b) The banks should submit return in Form VII given in Volume II of the Manual (Item No. 30) giving details of opening/closing of offices during the quarter to the concerned Regional Office of DBOD in whose jurisdiction Head Office of the bank is situated. The return should be submitted within one month from the close of the quarter to which it relates.

ANNEXURE - I

[Paragraph-14.1]

Form of application for permission to open a new place of business or change the location (otherwise than within the same city, town or village) of the existing place of business under Section 23 of the Banking Regulation Act, 1949 Rule 12 Form VI

1. Name of the Banking Company
2. Proposed Office
(Give the following information)
 - (a) Name of city/town/village:
(in case the place is known by more than one name, the relative information should also be furnished)
 - (b) Name of the locality/location:
 - (c) Name of i) Block, ii) Tehsil, i) ii)
iii) District, iv) State, iii) iv)
 - (d) Population of the
i) Village, ii) Block i) ii)
 - (e) Status of the proposed office :
 - (f) The distance between the proposed office and the nearest existing commercial bank office together with the name of the bank and that of the centre/locality :
 - (g) Name of the Commercial banks and the number of their offices functioning within the radius of 5 kms. together with the names of centres where these are functioning :
 - (h) No. of bank's branches in the Block :
Other bank's branches :
the bank's branches :
3. Previous application:
(Give particulars of applications if any previously made to the Reserve Bank in respect of the proposed place of business)

4. Reasons for the proposed office:
(State detailed reasons for the proposed office and give statistics and other data, as under, which may have been collected for the proposed office)

- (i) Population of the place:
- (ii) Particulars of the command area (i.e. the area of the operation) of the proposed office:
 - (a) Approximate radius of the command area :
 - (b) Number of villages in the command area :
 - (c) Population of the command area :
- (iii) The volume and value of the agricultural mineral and industrial production and imports and exports in the area of operation of the proposed office as under :

Commodity	Production		Imports		Exports	
	Volume	Value	Volume	Value	Volume	Value
(1)	(2)	(3)	(4)	(5)	(6)	(7)

- (iv) If there are schemes for agricultural mineral or industrial development, give details of the same and their probable effects on the volume and value of the present production, imports and exports.
- (v) If the existing banking facilities are considered inadequate, give reasons :
- (vi) Prospects: Give as under as estimate of minimum business which the banking company expect to attract at the proposed office within 12 months:

- a) Deposits : Rs.
- b) Advance : Rs.

5. Change of location of an existing office
(Give the exact location of the office which is proposed to be closed and of the place where it is proposed to be shifted giving particulars of the new location as in Item 2,3, & 4)

6. **Expenditure :**

(State the amount already spent or proposed to be spent on staff, premises, furniture, stationery, advertising etc. in connection with the proposed office. Also State that minimum income which the banking company expects to earn at the proposed office within 12 months)

***Estimate of annual Expenditure**

a)	Establishment Charges	Rs.
b)	Stationery & Miscellaneous	Rs.
c)	Rent & Bldg.	Rs.
d)	Interest to be paid on deposits	Rs.
e)	Interest on funds borrowed from H.O.on Rs. @ %	Rs.
	TOTAL	Rs.

Estimated annual Income :

a)	Interest on advances	Rs.
b)	Commission	Rs.
c)	Exchange	Rs.
d)	Interest on funds lent to	Rs.

H.O.

TOTAL : Rs.

Estimated Profits Rs.

7. **Other particulars:**

(Any additional facts which the banking company may wish to add in support of its application)

- * The portion not applicable to be struck off. The information need be furnished only in the case of application for centres with a population of less than one lakh.

ANNEXURE - II

[Pragraph 14.7 (ii)]

Particulars to be furnished by the bank in respect of its request for an Extension Counter (E.C)

PART - I

1. Name of the bank
2. Name of the institution & its full postal address where Extension Counter is sought to be opened.
3. Name & address of the base office of the bank to which E.C. is proposed to be attached.
4.
 - i) Distance between the base office and the proposed extension counter.
 - ii) Distance between the proposed E.C. and the nearest office of the applicant bank (including E.C., mobile office, satellite office etc.)
 - iii) Distance between the proposed E.C. and the nearest offices / extension counters, mobile offices etc. of *Other banks (including urban-Co.op. banks)

	Name of bank	Type of office	Distance
	_____	_____	_____

(i)
 (ii)
 (iii)

* Other than the bank applying for the counter
 - iv) Particulars of Employees' Co-op. Credit Society, if any, functioning in the premises.
5.
 - i) Name of the **Principal Banker** to the institution at which the Extension Counter is sought to be established.

ii) Whether the institution has agreed to provide accommodation for housing the E.C?

iii) Whether the institution has any objection to the members of the public other than the staff / employees / workers / institution being allowed access for availing of banking facilities within the campus /premises at the extension counter? If so, the reasons therefor.

(A LETTER FROM THE COMPETENT AUTHORITY OF THE INSTITUTION AS IN THE PRESCRIBED PROFORMA GIVEN IN PART II OF THE APPLICATION SHOULD BE ENCLOSED IN SUPPORT OF THE ABOVE)

6. i) Name/s of the banker/s other than the Principal Banker to the Institution referred to in 5(i)

ii) The type of accounts & extent of deposits maintained by the institution with each of the above banker/s.

7. i) Number & types of clientele specifically attached to the institution whose banking needs are to be catered to (Please give separate figures)

Staff/Workers/Students/Teachers/Others* (specify)

TOTAL

=====

ii) Estimated No. of other general public etc. whose requirements are to be met

=====

8. (a) Amount of deposits expected within two years of operation at the counter from :

<u>First Year</u>	<u>Second year</u>
No. of Amt.	No. of Amt.
A/cs.	A/cs.
-----	-----

- i) Staff/ Workers/ Students / Teachers * of the institution itself
- ii) The institution
- iii) The General Public

- (b) Daily quantum of cash transactions

Number Amount Number Amount

* Delete whichever is not applicable

- 9. Reasons for opening an E.C.
- 10. Nature of transactions to be conducted at the proposed E.C.
- 11. Amount of rent, if any, payable (excluding incidentals) by the bank, rate of rent & areas offered for locating the extension counter.
- 12. Amount of commercial rate of rent as prevalent in the area or as approved by State/Central Govt.
- 13. Brief calculations as to the viability/ economics of the proposal for a period of 3 years.

Date: _____

(Signature & Seal of the applicant bank)

Declaration to be made by the competent authority of the institution in the premises of which the E.C. is proposed to be opened

PART - II

Date: _____

1. We have requested _____ to open its extension counter in the

(Name of the bank)

premises of _____ for the benefit of the

(Name & full address of the institution)

following persons attached to the above institution. @

* Workers

* Staff/Employees

* Students

* Teachers

Please indicate
actual numbers
separately

@ (Where there are more than one institution being managed by the authority issuing this letter which are also to be benefitted by the E.C., the names of these institutions, their distance from the proposed location of the extension counter, the number of students/staff etc. attached separately to **each** of the institutions, the name and the distance of their bankers should also be indicated **separately**).

* (Strike out whichever is not applicable)

2. (a) _____ is our
(Name of the bank and place)

principal banker.

We also deal with the following bankers (give names of bankers and their distance from the institution).

1. _____

2. _____

3. _____

(b) Extent of our Accounts with the principal banker and other bankers as
on _____

(latest position please)

Name of the bank

Type of account(s)
maintained _____

Amount
(Rs. in _____)

1.

2.

3.

4.

3. We undertake to provide necessary accommodation for the extension counter within the premises of our institution (mentioned at S. No. 1 above).
4. We have no objection to allow outsiders to have access to the extension counter.
5. If the extension counter is proposed to be allowed to a bank other than the principal banker, the reasons therefor.
6. Whether a similar letter to any other banker for the purpose has been issued :

(Signature of Competent Authority on behalf of the institution mentioning designation and seal, if any)

To be filled in by the applicant bank

The information furnished by the institution in para 1 is verified by us and found to be correct.

(Signature & seal of the applicant bank)

This certificate should be submitted **in original**, by the applicant bank to Reserve Bank of India alongwith its application for E.C. in the prescribed proforma.

CHAPTER - 15

PARA-BANKING ACTIVITIES

CHAPTER - 15

PARA BANKING ACTIVITIES

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PARA BANKING ACTIVITIES

15.1 Subsidiary Companies

Under the provisions of Section 19(1) of the Banking Regulation Act, the banks may form subsidiary companies for undertaking types of banking business which they are otherwise permitted to undertake (under clauses (a) to (o) of Sub-section 1 of Section 6 of Banking Regulation Act), carrying on the business of banking exclusively outside India and for such other business purposes as may be approved by the Central Government. Prior approval of the Reserve Bank of India should be taken by a bank to set up a subsidiary company.

15.2 Investment ceiling in financial services companies, etc.

A banking company cannot hold shares in any company whether as pledgee or mortgagee or absolute owner of an amount exceeding 30 per cent of the paid-up capital of that company or 30 per cent of its own paid-up share capital and reserves, whichever is less. Besides, the investment by a bank in a subsidiary company, financial services company, financial institution, stock and other exchanges should not exceed 10 per cent of the bank's paid-up capital and reserves and the investments in all such companies, financial institutions, stock and other exchanges put together should not exceed 20 per cent of the bank's paid-up capital and reserves.

15.3 Equipment leasing, Hire purchase business and factoring services

The banks with the prior approval of the Reserve Bank of India could form subsidiary companies for undertaking equipment leasing, hire purchase business and factoring services. The subsidiaries formed should primarily be engaged in any of these activities and such other activities as are incidental to equipment leasing, hire purchase and factoring services. In other words, they should not engage themselves in direct lending or carrying on of activities which are not approved by the Reserve Bank and financing of other companies or concerns engaged in equipment leasing, hire purchase and factoring services.

15.4 Equipment leasing, Hire purchase and factoring services as departmental activities

The banks could either form subsidiaries to undertake equipment leasing, hire purchase and factoring services or opt to undertake these activities departmentally. Prior approval of the RBI is not necessary for undertaking these activities departmentally. The banks should, however, report to the RBI together with the names of the branches from where these activities are taken up. The banks should

comply with the following prudential guidelines when they undertake these activities departmentally.

- i) As activities like equipment leasing and factoring services require skilled personnel and adequate infrastructural facilities, they should be undertaken only by certain select branches of banks.
- ii) These activities should be treated on par with loans and advances and should accordingly be given risk weight of 100 per cent for calculation of capital to risk asset ratio. Further, the extant guidelines on income recognition, asset classification and provisioning would also be applicable to them.
- iii) The facilities extended by way of equipment leasing, hire purchase finance and factoring services would be covered within the exposure ceilings with regard to single borrower (25% of the bank's capital funds) and group of borrowers (50% of the capital funds; 60% of the bank's capital funds in case of infrastructure projects i.e. power, telecommunication, roads and ports).
- iv) Banks should maintain a balanced portfolio of equipment leasing, hire purchase and factoring services vis-a-vis the aggregate credit. Their exposure to each of these activities should not exceed 10 per cent of total advances.
- v) Banks are required to frame an appropriate policy on leasing business with the approval of the Boards and to evolve safeguards to avoid possible asset liability mismatch. While banks are free to fix the period of lease finance in accordance with such policy framed by them, full depreciation should be provided for during the primary lease period of the asset.
- vi) Banks undertaking equipment leasing departmentally should follow prudential accounting standards. The entire lease rental should not be taken to the bank's income account. The lease rentals comprise two elements - a finance charge (i.e. interest charge) and a charge towards recovery of the cost of the asset. The interest component alone should be taken to the income account. The component representing the replacement cost of the asset should be carried to the balance sheet in the form of a provision for depreciation.
- vii) Banks should not enter into leasing agreement with equipment leasing companies and other non-banking finance companies engaged in equipment leasing.
- viii) Lease rental receivables arising out of sub-lease of an asset by a Non-banking Financial Company undertaking leasing should not be included for the purpose of computation of bank finance for such company.
- ix) Banks undertaking factoring services departmentally should carefully assess the client's working capital needs taking into account the invoices purchased. Factoring services should be extended only in respect of those invoices which represent genuine trade transactions. Banks should take particular care to ensure that by extending factoring services, the client is not overfinanced.

15.5 Mutual Fund business

- i) Prior approval of the RBI should be obtained before undertaking mutual fund business. Bank-sponsored mutual funds should comply with guidelines issued by SEBI from time to time.
- ii) The Reserve Bank's prior approval is, however, not necessary for floating individual schemes after approval has been accorded by the Reserve Bank allowing a bank to undertake mutual fund business.
- iii) The bank should forward to the DBOD, RBI the offer document details of the scheme and the amount collected in respect of each scheme floated by them within one month from the date of closure of the scheme.
- iv) In the case of Off-shore mutual funds, prior approval of the Exchange Control Department of the RBI and the Government of India will be necessary. Copies of the application made to the Exchange Control Department/Government of India should be sent to the DBOD, Central Office, RBI.
- v) The bank sponsored mutual funds should not use the name of the sponsoring bank as part of their name. Where a bank's name had been associated with a mutual fund a suitable disclaimer clause should be inserted while publicising new schemes to the effect that the bank is not liable or responsible for any loss or shortfall resulting from the operations of the scheme.

15.6 Relationship with the subsidiaries

The sponsor bank is required to maintain an "arms length" relationship from the subsidiary/mutual fund sponsored by it in regard to business parameters such as, taking undue advantage in borrowing/lending funds, transferring/selling/buying of securities at rates other than market rates, giving special consideration for securities transactions, overindulgence in supporting/financing the subsidiary, financing the bank's clients through them when the bank itself is not able or is not permitted to do so, etc. Supervision by the parent bank should not, however, result in interference in the day to day management of the affairs of the subsidiary/mutual fund. Banks should evolve appropriate strategies such as :

- i) The Board of Directors of the parent/sponsor bank may review the working of subsidiaries/mutual fund at periodical intervals (say once in six months) covering the major aspects relating to their functioning and give proper guidelines/suggestions for improvement, wherever considered necessary.
- ii) The parent bank may cause inspection/audit of the books and accounts of the subsidiaries/mutual fund at periodical intervals, as appropriate, and ensure that the deficiencies noticed are rectified without lapse of time. If the bank's own inspection staff is not adequately equipped to undertake the inspection/audit, the task may be entrusted to outside agencies like firms of Chartered Accountants. In case there is technical difficulty for causing inspection/audit (e.g. on account of non-existence of an enabling clause in

the Memorandum and Articles of Association of the subsidiary or Asset Management Company) steps should be taken to amend the same suitably.

- iii) Where banks have equity participation by way of portfolio investment in companies offering financial services, they may review the working of the latter at least on an annual basis.

15.7 Credit Card business

- i) Banks can undertake credit card business either departmentally or through a subsidiary company set up for the purpose. They could also undertake domestic card business by entering into tie up arrangement with one of the banks already having arrangements for issue of credit cards. Prior approval of the Reserve Bank of India is not necessary for banks desirous of undertaking credit card business either independently or in tie-up arrangement with other card issuing banks. Banks desirous of setting up a separate subsidiary for undertaking credit card business would, however, require the prior approval of the Reserve Bank of India.
- ii) Banks engaged in credit card business should place before their Boards of Directors/Managing Committee of the Board a comprehensive review report, on half yearly basis, which should cover essential data on credit card business, such as category and number of cards issued and outstanding, debts classified as NPAs and provisions held thereagainst, or amounts written off, details of frauds in credit cards, profitability analysis of the business, etc.

15.8 Money Market Mutual Funds (MMMFs)

The banks could set up Money Market Mutual Funds with the prior approval of the Reserve Bank of India. The salient features of the scheme of money market mutual funds are given in the Annexure.

15.9 Stockinvest Scheme

Banks can introduce the Stockinvest scheme with the approval of their Board, and need not forward the scheme drawn up by them to the Reserve Bank of India. Banks issuing stockinvest are required to follow the following guidelines :

- i) Stockinvest can be issued only to individuals and mutual funds. Stockbrokers, corporate bodies, banks and FIs are not allowed the facility of SIs.
- ii) A ceiling of Rs. 50,000/- per individual per capital issue has been prescribed for issue of SIs by banks. This ceiling is, however, not applicable to Mutual Funds.
- iii) Stockinvests should be issued only against lien on term deposits, credit balances available in savings bank or current accounts. Banks should not issue Stockinvests by granting loan or by allowing overdraft or against unutilised drawing power in any of the borrowal accounts of the investor.

- iv) Validity period of SI should not exceed 4 months from the date of its issue. No payment should be made to the company after the expiry of the validity period of the SI unless it is revalidated. The banker's lien on the deposit account of the investor should not be lifted before the expiry period of the SI, viz., 4 months. The lien on the depositor's account can be lifted under the following circumstances :
 - (a) when a valid Instrument is presented,
 - (b) when a cancelled SI is surrendered,
 - (c) (i) when an indemnity bond is executed in favour of the bank after the expiry period of four months, in cases where the investor has not received the advice of allotment.
(ii) In case the investor is not able to produce the cancelled SI, the bank may at its own discretion and risk, lift the lien on production of a letter from the Registrar confirming non-allotment and the date of despatch of the cancelled SI.
- v) As SI is a guaranteed payment instrument, banks should not issue duplicate SI in the event of loss/theft.
- vi) As the contract between the depositor and the bank issuing SI for marking lien on his deposit account is irrevocable, banks should not normally entertain request for 'Stop Payment' advice received from account holders.
- vii) Banks should not accept applications accompanied with Xerox copies of SI.
- viii) Stockinvests should not be issued in blank. SI should be marked 'A/c Payee' and made payable to the company. The banks should fill in the names of capital issuing companies and sign the instrument before delivering it to the applicants.
- ix) SIs are to be used within 10 days of issue and the last date for use must be prominently indicated on the face of the instrument.
- x) Stockinvests should not be issued against third party deposits.
- xi) Stockinvests can be issued by banks, provided they have made payment arrangements at all the mandatory centres as decided by SEBI from time to time.
- xii) Stockinvests should be utilised by the purchaser(s) and the purchaser's name/name of one of the purchasers should be invariably indicated as the first applicant in the share application form.

ANNEXURE

[Paragraph 15.8]

SCHEME OF MONEY MARKET MUTUAL FUNDS

Salient features of Money Market Mutual Funds (MMMFs) are indicated below.

1. Eligibility to set up MMMFs

MMMFs can be set up by scheduled commercial banks and public financial institutions as defined under Section 4A of the Companies Act, 1956 or through their existing Mutual Fund/Subsidiaries engaged in Funds Management as also by Mutual Funds set up in the private sector with the prior approval of the RBI. Private sector Mutual Funds would also require clearance of the SEBI for setting up of MMMFs.

2. Structure of MMMFs

- (a) MMMFs can be set up departmentally in the form of a Division / Department, i.e. In-house MMMFs, wherein the assets and liabilities of the MMMFs would form part of the sponsoring institution's balance sheet or as a separate entity in the form of a 'Trust'.
- (b) MMMFs can be operated either as Money Market Deposit Accounts (MMDAs) or MMMFs. MMDA scheme would be operated either by issuing Deposit Receipts or through issue of Pass Book without cheque book facility. MMMFs could float both open ended and close ended schemes.
- (c) Where MMMFs are set up as a Trust, a Board of Trustees should be appointed by the sponsoring institution to manage it. The day-to-day management of the schemes under the Fund, as may be delegated by the Board of Trustees where the Fund is set up as a Trust, should be looked after by a full time Executive Trustee or separate Funds Manager if set up as a Division of a bank/financial institution/mutual fund/subsidiary.
- (d) Banks and public financial institutions are free to formulate special schemes as per their requirements, subject to the guidelines stipulated by the Reserve Bank of India. MMMFs should forward the details of the scheme, together with copies of offer letter, application form, etc. to the Reserve Bank of India at least one month before announcing the launching of any scheme.

3. Size of MMMFs

Presently there is no ceiling on the minimum size of MMMFs or for raising resources under various schemes of MMMFs set up by banks/FIs etc.

4. Who can subscribe

The units of MMMFs can be issued to those investors who are eligible to subscribe to units of other mutual funds. However, in respect of investments by non-resident investors, the dividend/income on such subscriptions would be allowed to be repatriated. The principal amount of subscription would, however, not be allowed to be repatriated abroad.

5. Minimum size of investment by a single investor

MMMFs would be free to determine the minimum size of investment by a single investor.

6. Investment objectives and policies

The sponsoring institution should lay down the investment objectives and policies of MMMFs and the MMMFs while inviting subscription from the public should make a clear statement of the investment objectives and policies besides the terms and conditions of the scheme. MMMFs should not give any guarantee or indication as to the rate of return on investment while announcing any scheme.

7. Investment by MMMFs

The resources mobilised by MMMFs should be invested in money market instruments viz.

- (a) Treasury bills and dated government securities having an unexpired maturity upto 1 year.
- (b) call/notice money.
- (c) commercial paper.
- (d) commercial bills arising out of genuine trade / commercial transactions and accepted / co-accepted by banks and
- (e) certificates of deposit.
- (f) rated corporate bonds and debentures with a residual maturity of upto one year.

While there are no ceilings on the limits on investment in individual instrument, not more than 3% of the resources of a MMMF can be invested in commercial paper and rated corporate bonds and debentures with a residual maturity of upto one year issued by an individual company.

8. Delivery of instruments

MMMFs should invariably take delivery of money market instruments purchased and give delivery of the instruments sold.

9. Reserve requirement

In the case of the MMMFs set up by banks, the resources mobilised by them would not be considered as part of their net demand and time liabilities and, as such, these resources would be free from any reserve requirements.

10. Minimum lock-in-period and repurchase

The minimum lock-in-period for investments in MMMFs would be 15 days. The MMMFs would be free to offer repurchase facilities to the investors, subject to the minimum lock-in-period. The details of the repurchase facility, including the relative procedures, should be made clear in the offer document.

11. Insurance cover

The funds invested in MMMFs would not have insurance cover from the Deposit Insurance and Credit Guarantee Corporation of India.

12. Stamp Duty

The shares/units issued by MMMFs would be subject to stamp duty. Similarly, transfer of units of MMMFs after holding for a lock-in-period of 15 days would also be subject to stamp duty.

13. Security aspect

Since units are freely transferable, due care must be exercised by the MMMF in the matter of printing/safe custody of the instrument. They should be signed by two or more authorised signatories.

14. Regulation of MMMFs

The Reserve Bank of India shall have the powers, in the interest of banking policy and public interest, to issue directions, call for any information and inspect the books and accounts of the MMMFs; any inspection of private sector MMMFs would be undertaken by the SEBI.

15. Accounting

The accounts of MMMFs should be kept distinct and separate from those of the parent institution. In the case of "In-house" MMMFs, it should be ensured that there was no conflict of interest between MMMFs and their parent organisation. The transfer of assets between MMMFs and the sponsoring institution should be at market rate and should be subject to the approval of the sponsoring institution's Board.

16. Statement of Accounts and Disclosure

MMMFs should maintain separate accounts of each scheme launched by them, segregating the assets under each scheme. MMMFs should prepare an annual statement of accounts in respect of each of their schemes which could contain, inter alia, statements of assets and liabilities and income and expenditure account duly audited by qualified auditors, other than the auditors of the parent organisation. An

abridged version of the annual accounts, together with the reports of the auditors, should be published for the information of the subscribers to the concerned schemes.

17. Management of MMMFs

“In-house” MMMFs should take adequate and effective measures to ensure that management, accounting and custody of their assets should be kept distinct and separate from those relating to the bank/financial institution/subsidiary/mutual fund.

18. Net Asset Value

MMMFs should calculate Net Asset Value (NAV) of each scheme and disclose the NAV periodically for the benefit of the investors.

19. Expenses

The total expenses of the Funds, including pre-issue expenses, trusteeship fees/management fees etc. should be kept at reasonable levels and should be disclosed fully in the Fund's Annual Reports/Balance Sheets.

20. Furnishing Reports to Reserve Bank of India

The sponsor bank/financial institution/subsidiary/mutual fund should furnish to the Reserve Bank of India, in duplicate, the following reports on a regular basis :

- (a) quarterly report indicating the performance of the MMMF as a whole and each scheme thereof,
- (b) audited annual statement of accounts, together with the reports of the Auditors,
- (c) scheme-wise details of investment portfolio of the Fund, value of such investments, changes in the portfolio since the annual report and asset-wise exposure, and
- (d) specific information on investments in certain segments of the money market as may be called for by the Reserve Bank of India.

CHAPTER - 16

INSTRUCTIONS RELATING TO FOREIGN BANKS' OPERATIONS IN INDIA

CHAPTER -16

FOREIGN BANKS OPERATIONS IN INDIA

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FOREIGN BANKS OPERATIONS IN INDIA

Certain instructions applicable specifically to foreign banks operating in India are dealt with in this Chapter.

16.1 Capital Adequacy requirements

- i) In terms of the provisions of Section 11 of the Banking Regulation Act, the aggregate value of paid-up capital and reserves shall not be less than Rs.15 lakhs, and if the bank has a place or places of business in the city of Mumbai or Calcutta or both, Rs.20 lakhs and this amount shall be kept in deposit with the Reserve Bank either in cash or in the form of unencumbered approved securities or partly in cash and partly in the form of such securities. Besides, as soon as the expiry of each year 20 per cent of the profit as disclosed in the Profit and Loss account shall be deposited with the Reserve Bank either in cash or in the form of unencumbered approved securities. 'While complying with the above requirement, foreign banks should retain in Indian books, a separate reserve account for such profits viz. 20% of the profits of the Indian operations as disclosed in the annual accounts every year. The separate reserve account so created out of the retained profits will be permanent in nature and form part of the owned funds of the bank. Any withdrawals from it can be made only with the approval of Reserve Bank of India.'
- ii) Foreign banks operating in India should maintain a minimum capital adequacy ratio of 8 per cent in relation to their risk weighted assets in India. Foreign banks opening offices in India should bring in as capital minimum US\$.25 million. Remittance of US\$.10 million should be for the first branch, another US\$.10 million for the second branch and US\$.5 million for the third branch.
- iii) Format of the application to open a maiden branch in India is given in the Annexure. I
- iv) For foreign banks 'capital funds' for the purpose of complying with capital adequacy requirements, would include the following elements:

(a) Tier I Capital

- (i) Interest-free funds from Head Office in a separate account in Indian books specifically for the purpose of meeting the capital adequacy norms.
- (ii) Statutory reserves kept in Indian books.

- (iii) Remitable surplus retained in Indian books which is not repatriable so long as the bank functions in India.
- (iv) Capital reserve representing surplus arising out of sale of assets in India held in a separate account and which is not eligible for repatriation so long as the bank functions in India.
- (v) Interest free funds remitted from abroad for the purpose of acquisition of property and held in a separate account in Indian books.

(b) Tier II Capital

The elements of Tier II capital, in the case of Foreign banks for the present, include:-

- i) Revaluation reserves at a discount of 55%. These are to be reflected in the balance sheet as 'Revaluation reserves.'
- ii) General provisions and loss reserves, which will be admitted upto a maximum of 1.25% of the risk weighted assets.

16.2 'Capital Funds' for the purpose of determining the ceiling on exposure norms

The following components of capital funds should be taken into account for the purpose of determining the ceilings on the exposure of foreign banks to individual borrower and group of borrowers in India.

- i) Tier I and II capital (excluding revaluation reserves) as on 31st March of the previous year
- ii) Average of the outstanding foreign currency loans granted to Indian companies at the end of each month during the previous year ended March.

The foreign currency loans granted by the bank and its wholly owned subsidiary/ies to Indian companies only can be included under this head.

- iii) Average monthly outstandings for the previous year ended 31st March under the lines of credit granted to banks in India under PCFC and other schemes approved by the Reserve Bank .
- iv) Average monthly outstandings for the previous year ended 31st March under the foreign currency line of credit granted by the Head Office/ other offices of the bank to the Indian branch under PCFC and other schemes approved by the Reserve Bank.
- v) The ceiling should not exceed 25% in the case of an individual borrower and 50% in the case of borrowers in a group, of the total of items (i) to (iv).

16.3 Provision for bad and doubtful debts, depreciation in investments, immovable properties, etc.

- i) Foreign banks operating in India should make necessary provisions for loans and advances as per Reserve Bank of India norms for sub-standard, doubtful and loss assets. (Please also see paragraph number 6.4 of the Manual).
- ii) Besides, the banks should make full provisions for liabilities like Provident Fund, Gratuity and Pension Schemes. These liabilities are to be estimated on an actuarial basis.
- iii) Provisions are also required to be made with regard to:
 - (a) All problem exposures, which are not backed by any security, or are backed by security of doubtful value.
 - (b) Even in cases where a bank has filed suits against another bank or party for recovery, such exposures should be evaluated, and provision should be made to the satisfaction of auditors.
 - (c) Any claim against the bank should also be taken note of and provision made to the satisfaction of the auditors.
- iv) Depreciation provision on Investments in Government and other securities should be made as per guidelines issued by Reserve Bank of India.
- v) All usual and necessary provisions are required to be made to the satisfaction of the auditors, out of the bank's income, before arriving at the remittable profits, and are to be held in the books in India. This includes provisions for bad and doubtful debts, gratuity and other retirement benefits, and also provisions for any liability or diminution in the value of its assets in India. The provisions made should be on a gross-tax basis. In case the bank's profits are not adequate, or its working shows a loss, it should bring in funds from Head Office to meet its commitments in India.

16.4 Capital Reserve

The profit on sale of land and premises is a capital profit and will not be allowed to be remitted abroad but should be kept as capital reserves in India.

16.5 Treatment of remittable surplus as Tier I capital

- i) The remittable surplus that the bank opts to retain in India should be kept in a separate account entitled "Amount retained in India for meeting CRAR requirement" under Capital funds. The bank should submit at the end of each financial year details in the format [given in Volume II of the Manual (item No. 31)] of the break-up of the remittable surplus retained in India. The bank should give an undertaking to the effect that the bank will not remit abroad the remittable surplus retained in India and included in Tier I

capital so long as the bank functions in India. An auditor's certificate to the effect that these funds represent surplus remittable funds to Head office once tax assessments are completed or tax appeals are decided and do not include funds in the nature of provisions towards tax or for any other contingencies, should also be furnished.

- ii) When the bank treats any part of the remittable profits as a capital fund for capital adequacy purposes, these funds cannot be hedged.

16.6 Acquisition/leasing of premises

- i) Foreign banks are required to obtain prior approval from Reserve Bank of India for:-
 - (a) shifting the branch as a whole to a new premise in the same/different locality.
 - (b) shifting part of an establishment to any other premise in the same/different locality, even if the functions of the divisions/departments to be shifted are of administrative/supportive nature.
- ii) Foreign banks need not bring in specific funds from abroad, for the purpose of acquisition of property provided the bank complies with capital adequacy norms prescribed by RBI from time to time, and if the book value of the aggregate investments in immovable property does not exceed 50% of Tier I capital.
- iii) If the book value of aggregate investment in immovable properties exceeds 50% of Tier I capital, the bank will have to fund any additional acquisition by foreign exchange remittance from abroad, and /or by retention of repatriable profits.

16.7 Engagement of expatriate officers

- i) A foreign bank would be entitled to have three expatriates for the 1st branch (Head Office) in India and two expatriates for each subsequent branch in India having deposits of Rs.5 crore and above, or the limit approved by Reserve Bank of India, whichever is lower.
- ii) No approval from the Central Office of DBOD would be necessary if the engagement of expatriates is within the entitlement/limit fixed.
- iii) Specific prior approval of the Central Office of DBOD in each case would be necessary, if the engagement of an expatriate exceeds the entitlement.
- iv) The appointment of the Chief Executive Officer of the bank in India, and the terms and conditions of his appointment, including emoluments, would

require the prior approval of the Reserve Bank of India (vide provisions of sections 10B and 35B of the Banking Regulation Act, 1949). Reference is also invited to Chapter No.3 (Paragraph 3.1)

- (v) Annual return in Form A regarding Indianisation of staff, is to be submitted as on 31st March, to the Central Office of DBOD, within 15 days. The format is given in Volume II of the Manual (Item No.32).

16.8 Cross border processing of banking data

Foreign banks should not undertake cross border processing of their banking data pertaining to Indian operations without prior approval of the Reserve Bank of India.

16.9 Local Advisory Board

The guidelines on Constitution and Functions of Local Advisory Boards (LAB) are as under:

i) Constitution

- (a) All foreign banks operating in India should constitute LABs as soon as they commence banking business in India.
- (b) LAB should consist of Indians only except the Chief Executive Officer of the bank who may be an ex-officio member.
- (c) The Chairman of the Board should be a non-industrialist and preferably a person having knowledge of banking and finance.
- (d) Non-industrialists should be in majority.
- (e) One of the members should invariably represent the interests of small scale industries. Other members should have special knowledge of banking, economics, accountancy, law and financing of foreign trade especially export trade.
- (f) The members shall suffer from the disabilities with regard to borrowings from the bank as applicable to the directors of Indian banks (vide Section 20 and 20A of the Banking Regulation Act, 1949).
- (g) Persons associated with non-banking financial institutions, as Directors on the boards or otherwise of financial companies, chit/kuri business, investments, money lending, hire purchase, leasing and other para-banking companies, board of trustees of mutual funds and asset management companies may be considered for appointment as Chairman/member of the LAB subject to their complying with the following two conditions:

- (i) the non-banking financial institutions with which the proposed appointees are associated do not enjoy any financial accommodation from the concerned banks; and
 - (ii) they do not have “substantial interest”, as defined in Section 5(ne) of the Banking Regulation Act, 1949, in these institutions.
- (h) While proposing names for appointment as members/Chairman of the LAB, the bank should ensure that, it has not provided any type of facilities (either funded or non-funded based) to any company/firm with which the proposed appointee is associated as a shareholder having substantial interest within the meaning of Section 5(ne) of the Banking Regulation Act, 1949 or as a director/partner/proprietor. The bank should also not extend any type of facilities (either funded or non-funded based) to any company/firm with which the Chairman/member of its LAB is associated as shareholder having substantial interest within the meaning of Section 5(ne) of the Banking Regulation Act, 1949, or as a director/partner/proprietor.
- (i) The persons recommended for appointment should not normally be more than 65 years of age.
- (j) The members are to be appointed with the prior approval of the Reserve Bank of India for a term not exceeding three years at a time subject to a maximum tenure of eight years. In no case, a member/chairman would be allowed to continue on the LAB for a period exceeding eight years.
- (k) The persons who were earlier associated with other foreign banks in India should not normally be proposed for appointment.
- (l) Bio-data of the proposed appointees should be submitted to the Reserve Bank of India in the prescribed format which is given as Annexure-II.

ii) Functions of the Local Advisory Board

Functions of the LAB will be broadly as under:-

- (a) The LAB is expected to effectively participate in policy formulation and important aspects of the working of the bank’s Indian branches.
- (b) The LAB should be consulted with regard to all policy matters concerning the bank’s resources and their utilisation. The bank’s plan for participation in Indian joint ventures, syndications, export promotion and other wholesale banking efforts should be periodically taken up for review.
- (c) In so far as the LAB’s recommendations relate to matters within the discretionary powers delegated to the bank’s Chief Executive Officer in India, decisions on such recommendations should be taken without

reference to the Head Office. Matters falling outside such discretionary powers will also be referred to the LAB and its recommendations may be referred to the bank's Head Office.

- (d) The LAB should meet as frequently as is necessary taking into account the business of the bank concerned and in any case, at least 6 times a year.
- (e) It is open to the Board to tender advice on staff promotion and industrial relations policies and issues relating to Indianisation of staff and mechanisation and computerisation of operations.
- (f) The inspection reports and all policy circulars and guidelines issued by the Reserve Bank of India/Government should be placed in the meetings of the LAB.
- (g) Government of India and Reserve Bank of India attach considerable importance to financing of priority sectors. The bank should , therefore, bestow special attention on the financing of priority sectors, particularly, SSI, exports, transport operators, retail trade, etc.(vide Reserve Bank's circular D.O.RPCD.NO.PS.BC.13/C.464 (A)-84 dated 14th September 1984). The Board may make a periodical review of the achievements of the bank in this direction.
- (h) The LABs should ensure greater involvement of banks in the rehabilitation of viable sick industrial units particularly where rescue packages are prepared, scrutinised and approved by all India term lending institutions , like Industrial Development Bank of India, Industrial Credit and Investment Corporation of India, Industrial Finance Corporation of India. LABs should ensure that in all consortium lendings, terms and conditions decided by the lead bank are enforced by all banks.
- (i) While reviewing the deposit mobilisation efforts of banks, the LABs should, inter alia, ascertain whether the bank had resorted to any restrictive policy in the opening of deposit accounts.
- (j) Compliance with Cash Reserve Ratio/Statutory Liquidity Requirements may be looked into by the LAB.
- (k) Statement of loans and advances (including bills purchased and discounted) sanctioned and guarantees and letters of credit (inland and foreign) issued beyond specified limits, by the bank's executives may be placed before the Board.
- (l) Review of out-of-order/irregular/stagnant/sticky loans and advances beyond a cut off point with comments on the steps taken/proposed to be taken for recovery/regularisation thereof may be put up to the Board twice a year.

- (m) The operating results of the bank may be reviewed by LAB at periodical intervals.
- (n) The internal audit/inspection reports as well as reports- usual and Long Form-of Statutory Auditors may be placed before the LAB.
- (o) The Board should pay attention to house keeping particularly in regard to reconciliation of inter -office accounts.
- (p) Particulars of frauds including staff aspects should be reported to LAB.
- (q) Review of securities transactions undertaken by the bank from time to time.
- (r) The bank should bring to the notice of the Chairman and members of the LAB the various instructions of the Reserve Bank relating to the powers and responsibilities of the LAB.

ANNEXURE - I

[Paragraph 16.1(iii)]

Application by a foreign bank to Reserve Bank of India for grant of licence to open its maiden branch in India

I. General Information

1. Name of the applicant bank :
2. Place and date of incorporation :
3. Address of Head office :

II. Ownership & Management

1. List of names and addresses of directors and their qualifications and principal business

Name & address	Qualifications	Principal business

2. Details of shareholders holding 10 per cent or more of voting stock and their principal business
3. Name of the Chief Executive :
Officer
4. Name & designation of :
senior official at Headquarters
who will be responsible
for the bank's operations in India

III. Structure

1. Organisational chart showing subsidiaries and associated companies.
2. Countries in which the bank and its subsidiaries operate

IV. Financial position

1. Highlights of financial position of the bank based on last three years financial statements.
2. Capital adequacy ratio as per BIS standards indicating Tier - I and Tier - II capital separately.
3. Ranking in home country and global ranking.
4. Credit ratings by international credit rating agencies.

V. Supervisory Arrangements

1. Details of supervisory arrangements to which the bank is subject in its country of origin.
2. Home country regulations on entry of foreign banks

VI. Details of existing relationship with India

1. Details of correspondent banking relationships with Indian banks and the aggregate amount of lines of credit or other limits extended to them
2. Details of foreign currency loans extended to Indian companies and other types of business transacted such as underwriting of equity/debt issues of Indian companies, etc.

VII. Details of proposed branch operations in India

1. Proposed location of branch :
2. Details of proposed initial capitalisation :
3. Number of expatriate officials proposed to be posted in India :
4. Purpose of opening the branch in India, the benefits to the different sectors in the Indian community and activities proposed to be undertaken

VIII. Documents to be enclosed

1. Copies of Memorandum and Articles of Association or similar documents
2. Last three years financial statements
3. Certificate from supervisory authority that the applicant is duly authorised as a bank, is of good standing.
4. Copy of the approval/authorisation given by the home country supervisory authority for the bank to operate in India.

ANNEXURE - II
[Paragraph 16.9(i) (I)]

(To be furnished by Foreign Banks at the time of submitting their proposals for appointment as Members of Local Advisory Board)

B I O - D A T A

1. Full Name
2. Date of Birth - Age
3. Qualifications
4. Address
5. Previous assignments/experience
6. Present occupation [also indicate from which date]
7. Details of Director-ship in Companies
Name of the Company / (Please furnish as Annexure)
Whether Director/Chairman
8. Whether in any firm or any business concern, if so details
9. Whether on the Board of any bank, if so name of the bank and period
10. Special knowledge/practical experience
11. Whether he has special knowledge/practical experience in agriculture and rural economy, co-operation or SSI. (Furnish details)
12. Whether associated with any
Mutual Funds/Assets management
company, Financing, Investment.
Leasing, Hire purchasing, money
lending etc. companies either as
director or as share holder. Yes/No
If Yes, details thereof
13. Whether he has substantial interest
in any non banking financial company/
firm within the meaning of Section 5(ne)
of the Banking Regulation Act, 1949

14. Details regarding shareholding in companies with which he is associated. Please indicate details regarding his holdings in non banking financial companies/firms (percentage and amount) separately.
15. Whether any of the company/firm with which he is associated as director or where he holds substantial interest, enjoy financial accommodation (either funded or non-fund based) from the bank, on the Board of which he is proposed to be appointed.
If so, details.
16. Whether he has substantial interest, within the meaning of Section 5(ne) of the Banking Regulation Act, 1949
OR whether he is an employee, manager or managing agent of
 - a. Any company not being a company registered under section 25 of the Companies Act, 1956.
 - b. Any firm which carries out any trade, commerce or industry and which in either case is not a small scale industrial concern.
17. Whether he is proprietor of any trading, commercial, or industrial concern, not being a small scale industrial concern.
18. Whether any of the companies where he is director has defaulted in the repayment of loans availed of from any bank,
If so, details, thereof.

CHAPTER - 17

OPERATIONS OF OVERSEAS BRANCHES OF INDIAN BANKS

CHAPTER - 17

OPERATIONS OF OVERSEAS BRANCHES OF INDIAN BANKS

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OPERATIONS OF OVERSEAS BRANCHES OF INDIAN BANKS

17.1 Guidelines covering important aspects to be followed in regard to the overseas operations by banks

- i) The guidelines for internal control over foreign exchange business issued by the Exchange Control Department of the Reserve Bank of India may be treated as a model or base for devising suitable guidelines for their overseas branches.
- ii) At places where more than one of the Indian banks are functioning, Inter-bank Consultative Forums should be set up. The forums should function as effective vehicles for co-ordination and co-operation amongst the overseas branches, especially in regard to matters relating to exchange of credit information and other aspects of mutual interest.
- iii) The International Divisions at the Head Office should have a proper set up for appraisal of credit proposals, scrutiny of control returns and for taking necessary follow-up action. The International Divisions should issue policy guidelines to the overseas branches indicating the overall objectives they would expect the branches to achieve during a specific period.
- iv) With a view to ensuring quick decisions on business proposals involving large credit commitments, the International Divisions at the Head Offices in India should devise suitable machinery and procedures for considering such proposals at short notice and conveying prompt decisions, rather than confirming commitments of the overseas Managers post-facto.
- v) In line with the international practices, it is advisable that the credit officers of the banks get associated with the Finance Directors of the borrower companies in the process of negotiations for export project proposals and make available professional advice to the latter.
- vi) The business proposals of foreign banks to on-lend to their clients, etc. by the overseas branches of Indian banks for specific periods by offering a small service margin should meet the normal criteria and discipline in regard to lending and placements. In other words, there is need to be circumspect in entertaining such proposals. Further, the interest rates on such accommodation should be in alignment with the current market rates and the amount involved are reasonable and within the maximum exposure limits laid down by the banks.
- vii) The overseas branches should not rely substantially on borrowed funds for asset expansion above the tolerance levels.

- viii) They should discourage advances against FCNR deposits to clients of Indian origin to enable them to make deposits in India for the purpose of interest arbitrage.
- ix) Where FCNR deposits have been taken as securities for Letters of Credit, guarantees, etc., the overseas branches should satisfy themselves that the transactions are of a genuine nature connected with the legitimate trade and business operations of the parties.

17.2 Systems for Overseas Operations (SOO)

- i) The Working Group set up in 1984 for reviewing and formulating guidelines on the Systems for Overseas Operations (SOO) should be followed by the banks. The systems recommended by the group given in the Annexure-I broadly cover three areas of foreign operations.
 - (a) Management of risk assets, particularly credit portfolio
 - (b) Asset-liability management system
 - (c) Administrative policies
- ii) The overseas branches should put in place a proper Asset-Liability Management (ALM) system based upon the guidelines covering the following areas :
 - (a) Control of funding risk and liquidity management (vide Annexure IIA)
 - (b) Control of maturity mismatching in asset liability structure (vide Annexure IIB)
 - (c) Control of interest rate exposure (vide Annexure IIC)
 - (d) Control of exchange risk exposure (vide Annexure IID)

17.3 Exposure norms in respect of borrowers resident in India

The exposure norms on single borrower limit and the group exposure in respect of borrowers resident in India should be as under:

- i) The exposures, both at domestic and overseas branches in the case of borrowers resident in India, should be taken into account irrespective of the currency in which the exposures were denominated . The exposure ceiling in such cases shall not exceed 25% of owned funds of the bank in the case of single borrower and 50% in the case of "borrower group".
- ii) No distinction was to be made between borrowers in the private sector and public sector for the purpose of exposure limits. In other words, single borrower limit will also apply to exposures assumed on public sector borrowers in India.
- iii) The exposure limit on a borrowing company in India should include exposure on subsidiaries and joint ventures in which an Indian company has

majority stake or management control and the total limits for the entire group companies in India and abroad should not exceed 50% of the owned funds of the bank.

- iv) Advances made under Letters of Credit established by Indian branches or guaranteed by them but booked at and funded by foreign branches should be included for the purpose of computing exposure ceilings.
- v) The host country norms should prevail if they are more conservative than the norms indicated above.

17.4 Joint ventures / subsidiaries - abroad

- i) In order to ensure that Indian banks do not take unduly high exposures on joint ventures abroad, they should restrict their stake to a sum not exceeding 50 per cent of the outlay entailed and the balance should be financed either by other foreign or locally owned banks.
- ii) The banks should submit quarterly statements to the Reserve Bank of India (Central Office of DBS) regarding the assets and liabilities, contingent obligations, problem credits, profitability, etc. of the subsidiaries/joint ventures in the proformae given in Volume II of the Manual (item no. 33) within one month after the end of the quarter to which they relate.

17.5 Delegation of powers

The undernoted guidelines in regard to the delegation of powers to the foreign offices should be followed :-

- i) Banks may fix suitable discretionary lending limits for the branch management (one or more executives) of its foreign offices on the basis of detailed and careful assessment of the business potential and competitive environment of each branch.
- ii) The delegation of discretionary powers in respect of sanctioning of credit facilities and incurring of expenditure to officials of overseas branches at different levels should be periodically reviewed, having regard to business and control considerations. It is imperative that a system for immediate reporting of credit allowed in excess of discretionary/sanctioned limits by the overseas branches for confirmation by the higher competent authorities is effectively implemented. Deterrent punitive action should be taken against officials not conforming to this discipline, as also in observance of other prescribed safeguards and control procedures.
- iii) Banks may also establish a Committee system comprising two or more officials for grant of loans and advances under delegated lending authority to branch management for sanctioning large credit limits, say, in excess of US\$ 1,00,000.
- iv) The delegated lending powers may be exceeded by the management of branch/es abroad when these are exercised by the branch manager/executive

or the Committee-on emergent occasion, or as warranted by business exigencies, but within a properly defined supplementary zone of discretion for temporary period, which also should be stipulated.

- v) Such supplementary lending powers may be indicated by the banks in respect of limits or credit lines sanctioned by the Indian Headquarters (i.e. the Board or Head Office Executives) also.
- vi) Overlimit lending by foreign branch executives should be regulated, both in terms of amounts and period (of transgress).
- vii) The parameters of the temporary supplementary amount of lending whether in relation to the delegated authority or sanctioned limit-should be fixed not only in terms of a proportion (say 5% or 10%) of the amount of delegated authority or sanctioned credit limit but also by stipulating a monetary ceiling (say \$ 25,000 or £ 10,000). In fixing the parameters, distinction between secured and unsecured lending will, obviously, be pertinent.
- viii) The “additional” loaning being temporary, it should be reported by the foreign branch management immediately to the Head Office for ratification and the branch should have it confirmed or covered by sanction by the appropriate authority during the operative period allowed for such “excess” lending.
- ix) No lending beyond supplementary lending authority by the management of the foreign branch should be permitted except with the prior and explicit approval of the Chairman or a Committee of Executives set up at the Head Office of a bank for the purpose.

17.6 Personnel placement policies

- i) The top managements of banks should ensure that only ‘fit and proper’ officers are deputed to their overseas offices. It is essential that only personnels who had been properly trained including in computer operations and are considered to have the necessary job competence and maturity should be deputed to overseas branches. The banks should lay down proper criteria for selecting candidates for overseas assignments. The deputations should be for specific periods and a system of rotation of staff should be strictly enforced. The repatriation of the officers should be suitably phased out to ensure continuity and the “four eyed” principle.
- ii) An Officer should be posted abroad for a maximum period of 5 years at a stretch except in U.K. where the maximum period of posting should be 3 years. This should be inclusive of the training period, if any, spent by the officer abroad. No extension should be given to officers completing their term, on the plea that substitute is not available, work permit is not available, etc. On completion of the period, the officer should return to India and serve for at least 5 years before being considered for posting abroad again. Such subsequent posting should be at a region different from where he worked earlier.

- iii) The banks should incorporate suitable conditions in the orders of posting of officials to overseas offices which could act as an effective deterrent to the reprehensible tendency of leaving the bank's services while on deputation abroad, often after committing serious irregularities. The officers posted or sent on deputation abroad and continuing with their overseas assignments (with one or more branches) beyond a period of five years should immediately be brought back to India and substitutes posted in their places.
- iv) In the case of lateral movement of staff from one overseas branch of a bank to that of another bank or of persons who are in the employment of another bank in the immediate past, the banks should observe a code of conduct of making reference to and obtaining prior clearance of the present/previous employer before offering employment to an employee of another bank.

17.7 Review of staff position and loss making branches

- i) The banks should review the staff position at the overseas branches at periodical intervals and attempt a linear outfit at the overseas offices. The branches should be extremely cost conscious.
- ii) The banks should review the operational viability of overseas branches which are incurring losses and where the prospects of viability of a branch is uncertain, steps should be taken to close it.

17.8 Liaison with Indian Embassy

The Managers of overseas branches should periodically call on the Head of the Local Indian Embassy/Consulate at least once in a half-year. They should also meet the officials of the Ministry of Finance (Department of Economic Affairs) when they happen to be on tour at the centres concerned.

17.9 D.O. letter to the Deputy Governor of Overseas Operations

The bank's Chairman should send a monthly D.O. letter to the Deputy Governor, in-charge of DBOD in regard to their overseas operations. The letter should, inter-alia, cover the following matters :-

A) Matters connected with Overseas Regulatory Authorities

- (i) Any changes in the regulatory framework affecting the banks..
- (ii) Issues, if any, discussed by the banks' officials with the banking supervisory authorities of the host countries and observations, if any, made by the authorities.
- (iii) Details of any non-compliance with the host country regulations indicating the circumstances under which the non-compliance had occurred.

B) Business environment

- (i) Changes in business environment and how it is likely to affect the operations of the branches.
- (ii) Perceptions of new business opportunities and plans, if any, for taking advantage of these opportunities.
- (iii) Any aspect that needs to be brought to Reserve Bank's attention on the general working of the branches.

C) Credit and control areas

- (i) Profile of major credit limits sanctioned during the reporting period.
- (ii) Problem signs, if any, noticed in major credit (US \$2 million and over) and steps taken to tackle them.
- (iii) Open positions in foreign currencies beyond US \$1 million during the month, reasons therefor and whether limits prescribed by the Board/Head Office were exceeded.
- (iv) Credit lines extended by one overseas branch to another and transfer of borrowal accounts and the reasons therefor. Similar transfers to/from connected exchange companies/affiliates are also to be reported.

D) Instances of frauds/serious irregularities

- (i) Details of frauds noticed.
- (ii) Instances of gross irregularities committed by the branch officials in the credit appraisals, disbursements and supervision of credit and non-compliance with the Head office instructions.

E) Audit/Inspection

Major features brought out in the audit/inspection reports and action taken/proposed to be taken to set right the matters.

F) General

In addition to the foregoing, any other development which the Chairman would like to report. The banks should separately refer to the DBOD full details of cases indicated in the D.O. letter by the bank's Chairman for action that may be necessary.

17.10 Visits of Chairman/Executives

The Chairman and Executive Directors of banks when they visit the overseas offices should take the opportunity of making a general assessment of their performance. The reports on visit of overseas branches should be sent to the

Reserve Bank of India and the Government of India. The report should contain the following aspects :

- i) Country assessment of critical aspects relating to financial sector in respect of the country visited, analysis of financial and economic aspects of that country, its ramification on the Indian economy (particularly on the banking sector) and future approach.
- ii) An overall assessment of the branches visited, which should take into account the H. O. Rating, Rating accorded by the Regulatory Authorities of the Host Country. The changes between the last and present visit by the executives and major developments during the interregnum at the branch/Host Country which had impacted the working of the branches.
- iii) Whether level of business generated by the branch/territory having regard to its/their existence justified the presence the branch/all branches. Whether there is a case of relocation/consolidation. The level of customer satisfaction with regard to the services rendered and the facilities made available at the branch.
- iv) Visit on account of any specific purpose should focus on the aspects requiring indepth study.
- v) Whether the risk management system is adequate. If there were deficiencies what measures have been taken/proposed to be taken. [The observations/comments by the regulatory authorities/reporting accounts could be relied upon].

17.11 Review and Reporting System

i) **RALOO statements**

- (a) The banks should submit the following statements named 'Report on Assets and Liabilities of Overseas Offices' (RALOO) to the Reserve Bank of India (Central Office of Department of Banking Supervision – OSMOS DVN.) on the operations of their overseas offices. The formats are given in Volume II of the Manual (item no. 34).

Nature of information	Statement No.	Periodicity
1	2	3
1. Report on Assets & Liabilities		
(a) Statement of Assets & Liabilities	I-“A”	Quarterly
(b) Details of off balance sheet items	I-“B”	Quarterly
(c) Analysis of Customer Credit	I-“C”	Quarterly

2. Summary of problem credits and provisions	II	Quarterly
3. Account-wise details of credits which have been classified as non-performing during the quarter (New problem credits)	III	Quarterly
4. Maturity pattern of liabilities and assets	IV	Quarterly
5. List of large borrowers to whom credit exposure (including non-funded) of US \$ 2 mn. and above sanctioned during the quarter	V	Quarterly
6. Currency position	VI	Quarterly
7. Account-wise details of problem credits of US \$2 mn. and above	VII	Annual
8. Country-exposure and maturity	VIII	Annual
9. List of large borrowers with funded and non-funded facilities of US \$ 2mn.and above	IX	Annual
10. Operational results for the year	X	Annual

(b) The data should be forwarded in floppy diskettes in the format as given below :-

Input media : 3.5"
(Floppy Disk)

Lotus Notes

The banks should ensure timely submission of the statements within the prescribed period i.e. 45 days from the close of the quarter/year to which they relate.

- ii) The banks should submit to the Reserve Bank of India, (CGM, DBS, C.O.) as per proforma furnished in Volume II of the Manual (item No. 35) as at the end of March and September every year, information regarding problem credits and the provisions held thereagainst.
- iii) The International Divisions of banks should review every quarter the problem credits with outstandings of US\$.1 million and above. The review notes should be submitted to the top management of the bank and a copy thereof forwarded to the Reserve Bank of India, CGM, DBS, Central Office.
- iv) The International Division should submit to the respective Boards at half-yearly intervals 'Account Status Reports' on the top 10 large

borrower/borrower group exposure. A copy of the review note submitted to the Board (along with Status Reports) should be sent to the Reserve Bank of India, CGM, DBS, Central Office, together with the observations of the Board. Further, a monthly review of the problem loans should be carried out at the level of an executive not below the rank of the General Manager at the bank's International Division.

- v) The International Divisions should make an in-depth and detailed 'reviews' of the working of the overseas branches in each country at reasonable intervals of not more than a year and put up such reviews for the consideration of the top management and Board of Directors. The reviews should inter-alia cover important aspects such as maturity-wise/currency-wise analysis of assets/ liabilities, critical comments on large borrowers, problem credits and sticky debts, reasons for incurring large losses by some of the branches, steps to make them viable and comments on the competence of the personnel working at the branches. Copies of the reviews together with the Board's observations should be sent to the Reserve Bank of India, CGM, DBS, Central Office.
- vi) Banks should ensure that all important developments, connected with or affecting their overseas branches including changes in policy environment as well as relationships with local authorities and public, are promptly reported by their branches to the Head Office which, in turn, should report such major developments to the Reserve Bank of India, CGM, DBS, C.O. promptly. Similarly, frauds, defalcations, losses, etc. involving significant amounts should also be reported to the Reserve Bank of India, CGM, DBS, C.O.
- vii) The internal audit and inspection system relating to overseas branches should be reviewed and strengthened. A system of placing before the Board of Directors, "Summary" reports, at periodical intervals, of such audit/inspection report highlighting problem areas as also strengths and weaknesses in the functioning of the overseas branches, may be introduced, if such practice was not in vogue. Further, banks should also forward copies of such "Summary" reports to the Reserve Bank of India, CGM, DBS, C.O.

ANNEXURE - I

[Paragraph 17.2(i)]

Prudential guidelines and recommended control systems for credit portfolio management

The credit risk assumed by a bank increases substantially when lending is concentrated in any one area of risks. Banks, therefore, should seek diversification of exposures in terms of borrower/borrower groups, banks, industry and country/country groups. The norms for limiting credit exposures are set out below. These norms would not, however obviate the need for the usual credit appraisal drill :

1. Individual borrowers

- (i) Credit exposures at overseas branches on any one (non-bank) customer shall not exceed 20% of the bank's own funds (i.e. paid up capital and free reserve/s as per the Balance Sheet) or an amount equivalent to US \$ 10 million, whichever is less.
- (ii) In the case of banks where the single borrower lending (SBL) limit amounts to less than US \$ 2.5 million on the basis of the above norm, SBL limit may be fixed at an amount not exceeding US \$ 2.5 million.
- (iii) SBL limit should include both funded and non-funded exposures on the borrowers.
- (iv) The limits indicated are the ceilings, i.e. the maximum that a bank may go up to. It is expected that bank managements will fix SBL limits for their overseas branches at realistic levels after a detailed review of the present and prospective profiles of loan portfolios and the credit discipline that is considered appropriate.
- (v) The ceiling limits fixed as above will be subject to any regulations relevant to the single borrower exposures that may be in force in the host country, where the bank's branch/es is/are operating. The host country norms shall prevail if they are more conservative than the above norms.
- (vi) **These norms are subject to the following exemption :**
 - (a) SBL limit shall exclude exposures assumed on public sector borrowers in India.
 - (b) Advances made under letters of credit established by Indian branches or guaranteed by them but booked at/funded by foreign branches may be excluded for the purpose of computing SBL limit.
 - (c) Credit outstandings to the extent covered by cash deposits or gilt edged securities on which the bank has right of set off/charge, may be excluded.

2. Borrower groups

Banks should also fix lending ceilings in respect of borrower groups at the foreign branches. Borrower group lending (BGL) limit may be fixed at a level not exceeding 150% of the SBL limit set up by the bank.

Identifying a borrower group could sometimes be a complex task in international lending and banks have to be alert to the possibility of dealing with 'front' companies; they should, therefore, enforce this norm with circumspection.

3. Banks

Banks should develop proper credit rating and monitoring/review systems and set up realistic exposure limits on other banks. Contingent claims such as those arising under confirmations to Letters of Credit, guarantees etc. should also be taken into account. Taking exposures on banks with poor credit rating should be avoided to the extent possible. It is essential to differentiate between banks and near-banks such as deposit taking and financial companies as the latter are subject to lower levels of supervision by host country authorities and relatively greater care has to be exercised in setting up limits on them.

The bank limits have to be set up and monitored on a global basis with sub-limits allocated to major branches.

The discipline of credit limits should comprehend other Indian banks as well.

4. Industry/Economic Sector

Banks may review their exposures on major industries/economic sectors at periodical intervals - preferably once in half year and apprise the board of the industrial and sectoral composition of their international portfolio; the reviews shall contain analytical comments and assessments on their current and prospective economic status in the international markets.

5. Country Risk Management

All our banks engaged in international business should establish an adequate country risk management system based on country limits and this should be undertaken for the overseas sector on a priority basis. The objective of a country risk management (CRM) system is to enable the bank to balance its exposures in different countries commensurate with the evaluation of the risks. The system thus rests on two supportive exercises viz. Country risk evaluation and balanced distribution of international assets and exposures amongst various countries. The two exercises converge in setting of country limits within which the exposures need to be controlled.

The prudential guidelines for fixing country limits for overseas branches (sector) are indicated as under :

- (i) Country limits may be fixed with reference to the total assets of the foreign branches held in the four "free" currencies (of US Dollar, Pound Sterling,

Japanese Yen and Deutsche Mark) and having regard to the risk rating of the country.

- (ii) For the purpose of country risk rating, four-fold categorisation of countries may be employed as under :

- (a) 'Low-risk'
- (b) 'Moderate risk'
- (c) 'High risk'
- (d) 'Off credit'

The country categorisation is evidently specific to point or period of time.

- (iii) The country limits may be fixed by each bank having regard to two ceilings - one, limiting the total credit exposure in an individual country in each risk category (other than 'Off-credit') and another, governing the aggregate exposures in all countries in that risk category. The following exposure ceilings for single country and risk category aggregates in terms of the bank's free currency assets are recommended.

	Single Country	Category aggregate
(a) Low risk	25%	No ceiling
(b) Medium risk	10 %	40% with a ceiling of 15% for category (c)
(c) High risk	5 %	

- (iv) The above limits are, however, subject to the following considerations :

- The overseas branches may not enforce the country exposure limit in respect of the home country (i.e. India) subject, however, to any regulations to the contrary in the host country where the branch(es) is (are) operating.
- Both funded and non-funded credit exposures should be taken into account for the purpose of measuring/monitoring country exposures. Banks may fix sub-limits for non-funded commitments for better control of country exposures. This control through sub-limits may be by way of borrower limits rather than country limits.

- (v) In 'high risk' countries, exposures of short term nature may only be preferred/undertaken.
- (vi) Country limits may normally be reviewed at annual intervals.
- (vii) For the purpose of country limit measurement and monitoring, the following exposures may be excluded.

- (a) Credit risks guaranteed by the parent organisation of the borrower or a third party located in a country of lower risk category may be taken as risk shifted or transferred to the latter country.
 - (b) Credit exposures which are guaranteed or insured against credit and/or transfer risks by Government-owned or highly reputed private institutions issuing guarantee/insurance cover. The guarantee organisation should be located in a country other than a high risk/off-credit category country.
- (viii) It is considered desirable that a common country rating shall be adopted by all Indian banks jointly, preferably, at the Inter-bank Consultative Forums, at places where more than one of the Indian banks are functioning to the extent possible, and that a central agency may organise this function.
- (ix) For the purpose of measuring and monitoring exposures in individual countries, a Country Exposure Structural Analysis (CESA) format is given in Appendix which may be adopted.
- (x) As the country risk has to be managed essentially by individual bank with reference to their international portfolio, the perceptions and skills of those charged with the function of managing country and other 'additional' credit risks of international business should be strengthened both at the operating and control levels.

Appendix [To Annexure I]

Country exposure - Structural Analysis (C.E.S.A.)

Part A

(By nature of exposure and category of borrower)

Nature of exposure		(US \$ 000)			
A.	Assets/Claims	Banks	Public Sector	Private Sector	Total
	1	2	3	4	5
	(i) Syndicated loans				
	(ii) Other loans				
	(iii) Trade credits/receivables				
	(iv) Deposit placements (with banks)*				
	(v) Market investments*				
	(vi) Other monetary assets				
	Total assets (i) to (vi)				
B.	(a) Commitments (irrevocable) to extend credit				
	(vii) Letters of Credit				
	(viii) Committed lines of credit				
	(b) Under co-obligations				
	(ix) Guarantees				
	(x) Bonds				
	Total Commitments (vii to x)				
C.	Total exposure (A + B)				
	Total exposure				
	Plus				
	External funding of local assets @				

	1	2	3	4	5
D. Country exposure (Gross)					
Less : Assignments/transfers					
(a) Claims covered by external guarantees					
(b) Claims secured by liquid/tangible collateral held outside the country					
E. Country exposure (net)					
* Interest bearing (only)					
@ Representing excess of local currency outstandings over local currency liabilities.					

PART - B

(By maturity of claims/assets)

Nature of exposure (Assets)	Short (Within one year)	Medium (Over 1 year & within 3 years)	Long term (Over 3 years)	Total
1	2	3	4	5

A. Syndicated loans

B. Other loans

C. Trade related finance

D. Deposit placements (with banks)*

E. Market investments*

F. Other monetary assets

Total Assets :

* Interest bearing (only)

Annexure - II A

[Paragraph 17.2(ii)(a)]

Control of funding risk and liquidity management

(a) Rationale of the control

The liquidity of a bank or branch operating the strategy of liability management (LM) is derived from the ability to roll over the existing liabilities and to acquire new liabilities. Liquidity risk, in the LM context, thus stems from the possibility that the bank/branch may be unable to raise funds in wholesale money markets to fund its “liquidity gaps” and could raise funds only at unacceptable cost. The strategy of liquidity management should, therefore be geared to controlling the funding risk by ensuring that the bank's ability to fund in the “market” remains unimpaired, this implies, inter alia, avoiding excessive funding requirements in the short-run time-frame by controlling liability maturities.

(b) Prudential guidelines

1. Management of operational liquidity or liquidity in the short-term, by its very nature, has to be delegated to local (or branch) management as part of local treasury function.
2. Given that liquidity management is concerned with the management of funds flows on a day-to-day basis and within short-run planning horizon (say upto six months or even one year), monitoring the cash maturity of various assets and liabilities within the planning period is logical and essential. An exercise of charting foreseeable inflows and outflows of funds in various time-bands of the plan period has to be undertaken for the purpose of identifying liquidity gaps; this helps in arranging to obtain funds when they are needed for meeting anticipated liquidity gaps as well as unanticipated outflows. For measuring and monitoring liquidity gaps, an analytical tool under which assets and liabilities are arranged in a “maturity ladder” is generally employed and management limits are set up on the net **gap** between the maturing assets and liabilities during any given time-band and on the **cumulative gap**.

(c) Recommended system

A Liquidity Planning Schedule (LPS) in the following format may be employed for charting **cash** inflows and out-flows of the “treasury” unit (single or “nodal” branch) in each major currency :

Date of review : (Currency-in thousand or million of units of
a currency as the case may be)

Time-band	Maturing	Maturing	Net	Cumulative
	liabilities	assets	position	net position

Sight

One day - 7 days

8 days - 1 month

1 - 3 months

3- 6 months

The following broad guidelines are indicated in operating LPS system :

- (a) LPS should be prepared at the beginning of every working day and should be perused by the Branch Manager.
- (b) The Manager should issue necessary instructions to the Money Dealer(s) to raise sufficient funds for the day and should also indicate whether and, if so, to what extent and for what maturities additional funds may be raised, maximum amount and maturity bands need alone be indicated.
- (c) Whenever funding problems are faced, the matter should be immediately reported to Head office by telex/telephone.
- (d) Once a week, or more often if needed, the Branch Manager should, in consultation with the dealers, lay down broad parameters regarding the extent to which funding gaps may be allowed in various time bands. While doing so, due assessment should be made of the possible movement of interest rates.

ANNEXURE - II B

[Paragraph 17.2(ii)(b)]

Control of maturity mismatching in asset liability structures (i.e. structural mismatch)

a) Rationale of Control

A long term aspect of controlling liquidity risk (as well as interest rate risk) for a bank is concerned with limiting the levels of maturity transformation or the resultant mismatching in a bank's asset-liability structure. In the context of bank offices (abroad) operating liability management strategy, a major control should be to regulate the extent of recourse to or dependence on borrowings in inter-bank markets for funding loan assets or what it amounts to, funding liquidity gaps arising out of large structural maturity mismatching. The control strategy for management should, therefore, consist in **establishing limits:-**

- (a) on the extent to which assets may be mismatched **for given periods** of time on a roll-over basis and
- (b) on minimum maturities **for the various types of borrowings** to avoid concentration that might cause renewal problems, if all the liabilities were to mature at the same time.

In this context, it is to be noted that the bank supervisory authorities in several foreign countries regulate the levels of short funding by banks; they either require banks generally to raise long-term resources so as to reduce the levels of maturity mismatching or stipulate prudential ceilings or tolerance limits on the maturity mismatching permitted to them.

b) Prudential guidelines

In countries, where the mismatching in the maturity structures is subject to regulatory or supervisory guidelines, the same shall be controlled locally within the host country regulatory or prudential parameters.

Additionally, at the corporate level (i.e. in respect of the overseas sector as a whole), the maturity mismatching should also be controlled by the bank managements by establishing tolerance limits on the global asset-liability structures and monitor the mismatch in the aggregate. This obviously becomes a corporate financial planning function and the relevant control should be undertaken/exercised on a centralised basis.

The following broad norms are indicated in this behalf for the guidance of bank managements to be addressed to their foreign operations.

- 1) Banks should not normally assume voluntary risk exposures extending beyond a period of ten years.

- 2) They should endeavour to broaden their base of long term resources and funding capabilities consistent with their long term assets and commitments.
- 3) The management limits on maturity mismatching shall be established within the prudential parameters or tolerance levels as indicated below.
 - (a) long term resources should not fall below 70% of long term assets, and
 - (b) long and medium term resources together should not fall below 80% of the long and medium term assets.
- 4) The monitoring system should be centralised in the International Division (ID) of the bank for controlling the mismatching of asset-liability structure of the overseas sector on a consolidated basis, currency-wise. The ID of each bank may review the structural maturity mismatch position at quarterly intervals and submit the review/s to the Top Management of the bank.

c) Recommended Control System

- 1) The format of Maturity Mismatch Monitor designated MMM format is given in Appendix I.

2) MMM Framework

The elements of structural maturity mismatch monitoring (MMM) framework are as under :

- (i) All liabilities and assets may be classified under three categories as under :

Short-term	:	those maturing within 6 months
Medium term	:	those maturing in 6 months and longer but within 3 years
Long-term	:	those in respect of which “falling due” maturity dates are beyond three years.

Maturity analysis is on “residual maturity” (period to run) basis.

- (ii) In respect of certain assets and liabilities, the maturity dates are not definitive in the sense that they are renewable at the option of the counter parties and/or are renewed. In respect of these, certain assumptions need to be made for forecasting and reviewing maturity profiles. For measurement and forecasting purposes, it will be expedient to make the following assumptions :

Customer Deposits : Regardless of their contractual term customer deposits may be allocated to different maturity slots as under :

Short term	:	25% of the total deposits on date of review.
Medium term	:	25% -do-
Long term	:	50% -do-

Committed lines of credit (as distinct from availability credit lines)

These may be taken as resources “maturing” at the end of the committed periods for the purpose of the above classification.

- (iii) Maturity mismatch controls should be undertaken currency wise, and in respect of all such currencies which individually constitute 10 percent or more of a bank's consolidated overseas balance sheet.
- (iv) Netting of Inter-currency positions and maturity gaps is not allowed.

ANNEXURE - II C

[Paragraph No. 17.2(ii)(c)]

Control of interest rate exposure

a) Rationale of the Control

Substantial part of earnings and costs of major overseas branches which rely on liability management are related in some way to market interest rates and bank margins and profits are, thus, exposed to interest rate volatility. Vulnerability of net interest income to fluctuations in interest rates is referred to as interest rates sensitivity. Insulating net interest income or profits against interest rate changes is, therefore, a major strategic objective of bank management. Rate sensitivity arises when interest rates on assets change in different time period from those of interest rates on liabilities. Where assets and liabilities are contracted on floating rate basis, a bank's exposure to interest rate risk arises from fluctuations in interest rates on repricing maturity dates, i.e. "rollover dates".

A risk-average management would endeavour to have a "matched book" i.e., Synchronise or closely position the rollover dates of the floating rates assets with those of the funds sources. It may not always be possible to undertake "matched lending" especially when assets are financed by long term funds raised in the markets (such as CDs, RUFs, FRNs), although on floating rate basis. The maturity misalignment is further accentuated in case of non-performing credits, externalisation delays in cross-border receivables and loan reschedulements. Bank managements have, therefore, to constantly review the repricing structure of the liabilities of the major foreign offices as well as the characteristics of new debt raised or new assets financed with a view to protecting interest rate margins.

b) Prudential guidelines

The banks should establish systems for control of interest rate exposure in respect of their major foreign operations, bearing in mind the following prudential norms.

- (i) Deliberate mis-match positions should not be built up by taking a view of the market rates but they should endeavour to match the "interest maturities" (i.e. as distinct from "falling due" maturities) of their international assets and liabilities to the extent possible. Managements of Public Sector Banks are cautioned against the strategy of mismatching consciously with a view to widening the spreads on assets and to be more profitable in view of the high risks in the volatile markets.
- (ii) Since full "match" in the repricing structure of assets and liabilities is not feasible or even expedient, the bank management should set up appropriate tolerance limits on interest rate sensitivity gaps. The tolerance limits shall be relatively lower in the shorter ends or proximate time-bands.
- (iii) Notwithstanding the de-emphasis on controlled mismatching as a strategy for interest rate exposure management, the banks should nevertheless

develop adequate expertise and infrastructure for scanning and forecasting interest rate trends in global financial markets. Forecasting capabilities are commended to help evaluate the effect on net interest earnings for each possible outcome of interest rates.

c) Recommended system

Banks should take steps for establishing a system for monitoring and reviewing their exposure to interest rate risk in the international balance sheet on an on-going basis. The frame-work for interest rate exposure management which may be adopted is furnished in Appendix II.

A tool for measuring interest rate sensitivity in asset-liability structure called IRS Monitor-has been recommended (Appendix III). This analytical tool should form the basis for the review exercises which may be undertaken at monthly intervals by the International Divisions.

ANNEXURE - II D

[Paragraph 17.2(ii)(d)]

Control of exchange risk exposure

a) Rationale of Control

The major risks in foreign exchange market operations are (a) position risk (b) risk of mismatched maturities (c) risk of overtrading and (d) credit risks. Having regard to the wide range of risks to which the overseas branches are exposed on account of extensive lending and deposit dealing in foreign currencies in addition to currency trading it is necessary to put in place adequate systems for controlling currency exposures. The most important tools for managing exchange and related risks are by way of establishing control limits and monitoring/information systems.

b) Prudential guidelines

- (i) Guidelines for internal control of foreign exchange business recommended in 1981 (revised in 1996) by the Reserve Bank for the Indian branches of banks (Authorised Dealers) need to be enforced, mutatis-mutandis, to cover foreign exchange operations of the banks' overseas offices as well. Such instructions were issued in a DBOD circular dated 12th November 1982. The scope of these internal controls should be widened to cover money market deposit dealings by the branches at financial centres. Trading in foreign exchange and inter bank deposits is managed together under a common treasury function in international banks. Such integrated treasury management is recommended at major branches in money market centres abroad.
- (ii) The internal control relating to treasury function should provide, inter alia, for—
 - (a) a defined management structure within the dealing room with approved delegated limits for individual dealers and for each trading position, and
 - (b) establishment of foreign exchange and lending limits for banks and corporate clients.
- (iii) Foreign branches have been asked to refrain from business of providing forward cover to non-bank clients without “real demand”, vide Reserve Bank of India's circular letter D.O. DBOD. No. IBS. 438/C. 212 (Mon)-85 dated 22nd February 1985.
- (iv) Overseas branches should be alive to the risks involved in extending local currency overdrafts against foreign currency deposits or foreign currency overdrafts against local currency or third currency deposits. In this context, RBI has issued several instructions against abuses of lending against Rupee deposits under FCNR Scheme.

- (v) Where “Swaps” are resorted to for covering exchange risk on currency mismatches, appropriate accounting procedures should be put in place so that costs and earnings pertaining to loan assets are not mixed up with other business costs or income of the bank. Swaps should not be taken recourse to as a matter of course but after evaluating costs and on the basis of cost-benefit analysis.

c) **Recommended System**

Tools employed for controlling currency exposures include establishing limits for various types of risks and setting up related supporting information systems for monitoring their adherence. Certain formats for reporting/information systems have been suggested to serve as models for the banks. These are furnished as Appendices IV, V, VI.

APPENDIX - I

[To Annexure II-B]

Maturity mismatch monitor

Maturity time-band	Assets (See Schedule B)	Liabilities (See Schedule A)	Net exposed position (Actual mismatch)	Tolerance level of mismatch
A. Short-term (i.e. repayable within next 6 months)				
B. Medium-term				
(a) Repayable after 6 months but within one year				
(b) after 1 year but within 2 years				
(c) after 2 years but within 3 years				
C. Long-term				
(d) Repayable after 3 years and within 5 years				
(e) Repayable after 5 years				

Schedule - A

Sources of funds	Repayable within 6 months	Beyond 6 months but within 1 year	Beyond 1 year and within 3 years	Beyond 3 years and within 5 years	Beyond five years
Capital					
Primary deposits					
Inter-office deposits					
Certificates of deposit					
Other funds					

Schedule - B

Deployments of funds	Repayable within 6 months	Beyond 6 months but within 1 year	Beyond 1 year and within 3 years	Beyond 3 years and within 5 years	Beyond five years

Investments

Funds loaned
in money
market &
inter-bank
placements

Inter-Office
deposit
placements

Customer credit
(including
Syndicated loans
& trade finance)

Other Asset :

APPENDIX - II

[To Annexure II-C]

FRAMEWORK FOR INTEREST RATE EXPOSURE MANAGEMENT

- i) The parameters of interest rate risk are measured in terms of interest rate sensitivity gap (IRG). The difference between the volume of assets and liabilities in respect of which interest rates are to be revised (i.e. re-priced) within a given time-period represents the interest rate sensitivity gap. In other words, IRG represents the imbalance in the repricing maturities of assets and liabilities in different time-bands. Interest rate gaps are monitored by the analytical tool of “layering” or “maturity ladder”. The basic idea underlying this approach is to match the (repricing) maturities of assets with those of the liabilities funding the assets. Since matching maturities of individual assets and individual liabilities is seldom pragmatic (exceptions existing in isolated cases of very large loans) the concept of categorising the assets and liabilities on the basis of different time bands is often adopted in order to identify or measure IRG.
- ii) The layering technique is illustrated below with reference to a hypothetical balance sheet of a foreign branch with the following asset liability structure.

(000 US \$)

Liabilities		Assets	
H.O. funds (assigned Capital)	2,400	Investments	8,500
Certificates of deposits	9,000	Loans	30,000*
Customer deposits			
Demand	4,800	Fixed Assets	1,500
Fixed	4,800		
Inter-bank deposits	19,000		
	40,000		40,000

* All floating rate loans only

Note : It is assumed - no doubt as an extreme over simplification that —

- (i) the balance sheet of the bank is limited to a one-year time horizon.
- (ii) all customer deposits including demand deposits are non-interest sensitive.
- (iii) besides fixed assets and HO funds, no fixed rate loans or bill credit are in the credit portfolio.

The first step is to separate the assets and liabilities in accordance with their interest rate sensitivity. Assuming a monitoring system with a one year time horizon and review at quarterly time-bands, the assets and liabilities may be broken down in terms of their maturity or repricing intervals, as under :

(000 US \$)			
Maturity or repricing intervals	Assets	Liabilities	Net exposed position (balance)
0 -90 days	4,000	13,000	- 9,000
91 - 180 days	6,000	6,000	
181 - 270 days	18,000	2,000	+ 16,000
271 - 365 days	10,500	7,000	+ 3,500
Non-interest sensitive	1,500	12,000	- 10,500
	<u>40,000</u>	<u>40,000</u>	

The bank/branch is in a hedged position only in second quarter. The first quarter period represents the most interest-sensitive assets and liabilities since the returns on assets and cost of liabilities may be brought in line with market rates. The net exposed position - the negative gap-in the first quarter can create a problem or erosion in spread and consequent loss in revenue (i.e.) interest income or provide an opportunity for profit. If interest rates rise the bank would have to refinance \$ 13 million of its liabilities within the quarter at the higher rate of interest while assets of only \$ 4 million are maturing or subject to repricing on which returns may be hiked - the net result is that the bank's net interest earnings will be reduced. If, on the contrary, interest rates fall, the bank would stand to gain.

- iii) The range of the maturity bands and the frequency of review depends on the volume of variable rate assets and liabilities of the branch/bank and the degree of interest rate exposure incidental thereto. In major International banks, daily positions are monitored for the first month and thereafter for monthly time bands. For our large-volume branches in Euro-market centres, the interest rate revision time-bands for monitoring interest rate exposure may be one, three, six and twelve months and thereafter term exposures upto and beyond three years.

APPENDIX - III

[To Annexure II-C]

Interest Rate Sensitivity Monitor

Date of review : _____

(Amount '000')

Repricing time band	Total assets repricing (vide Schedule A)	Total liabilities (funds sources) repricing (vide Schedule B)	Repricing maturity or Interest Rate Sensitivity (IRS) gap	Cumulative IRS Gap
(a) within next 30 days				
(b) within 31-90 days				
(c) After three months but within 6 months				
(d) After six months but within one year				
(e) After one year but within three years				
(f) After three years				
(g) Non-interest bearing funds				
(h) Total				

Schedule - A

Repricing profile of assets

Date of review : _____

(Amount '000')

Repricing time band	Investment securities	Loans	Other earning assets	Total
(a) within next 30 days				
(b) within 31-90 days				
(c) After three months but within 6 months				
(d) After six months but within one year				
(e) After one year but within three years				
(f) After three years				
(g) Non-interest bearing funds				
(h) Total				

Schedule - B

Repricing profile of Liabilities (funds sources)

Date of review : _____

(Amount '000')

Repricing time band	Interest bearing deposits	Short term borro- wings	Long term debt	Demand deposits	Other liabi- lities	Capital funds	Total
(a) within next 30 days							
(b) within 31-90 days							
(c) After three months but within 6 months							
(d) After six months but within one year							
(e) After one year but within three years							
(f) After three years							
(g) Non- interest bearing funds							
(h) Total							

APPENDIX - IV **[To Annexure II-D]**

Model Foreign Currency Position Report

Currency	Closing Spot Rate	Foreign Currency Position as at			Local Currency Equivalent
		Over bought +	Over sold -		
US Dollar					
Pound Sterling					
Swiss Franc					
Deutsche Mark					
Yen					
French Franc					
Others					

Total Net Foreign Exchange Position +/-

APPENDIX - V

[To Annexure II - D]

Model Cash Flow / Liquidity Report as at _____ for (currency)

Period	Deposits taken	Deposits placed	Net position	Foreign exchange sold against deposits taken	Foreign exchange bought against deposits placed	Net deposit position	Foreign exchange sold	Foreign exchange purchased	Net Foreign exchange position	Net Foreign exchange and deposits
	A	B	C	D	E	F	G	H	I	J

Today

Tomorrow

Next day

Day after

Next 15 days to

- do -

- do -

Next 3 months to

- do -

- do -

Next 6 months to

- do -

- do -

APPENDIX - VI
[To Annexure II - D]

Model Money Market Report

as at _____

Period	Currency A	Currency B	Currency C	Total*

Today

Tomorrow

Next day

Day after

Next 15 days to

* Usually expressed in either dollars or local currency.

CHAPTER - 18

CUSTOMER SERVICE

CHAPTER - 18

CUSTOMER SERVICE

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CUSTOMER SERVICE

18.1 Working Group on Customer Service in Banks - Talwar Committee

- (i) The working Group on Customer Service in Banks headed by the then Chairman (Shri Talwar), SBI appointed by the Government of India in March 1975, made various recommendations on customer service.
- (ii) The recommendations which are required to be implemented by the banks are summarised and given below. Additional instructions issued on certain subjects/recommendations are also included at the appropriate places for implementation by the banks :

Recommendation No. _____	Recommendation _____

(A) Deposit Accounts

1. Introduction of a prospective account holder may be accepted from a staff member confirmed in service. Account opening form should provide for particulars as regards the length and nature of acquaintance of the introducer and other relevant information in brief.
2. The branch manager could be given discretion to accept introduction for opening a new account from any respectable member of the local community known to himself or any member of the staff, although the introducer himself may not be an account holder.
3. Passport and postal identification card, identity cards of Armed Forces, Police and Govt. Departments could be deemed to be adequate identification for the purpose of introduction.
5. Account opening form and specimen signature sheet should be in duplicate and arrangements made for their proper custody under authorised officials according to the operational convenience.
6. The customers should be persuaded to open Joint account with the provision for payment to the survivor. Steps should also be taken to contact and persuade the existing and single-account holders to convert their accounts into joint accounts.
8. Delegation of powers to branches may be given to dispose of claims of deceased account holders without production of legal representation but on the basis of due local enquiry and adequate indemnity.

Additional instructions issued on the subject are given below :

(a) Payment of balance in accounts and release of other assets of the deceased customers to survivors/claimants

- (i) The bank should not insist upon succession certificate where the amount to the credit of a deceased depositor does not exceed Rs.25,000/-. The usual safeguards in settling such claims, including obtaining of indemnity bonds, where required should be observed.
 - (ii) The banks should ensure that their branches follow-up accounts which remained inoperative for a year or so by sending suitable advices to the customers and if the said letters are returned undelivered, they may immediately be put on enquiry to find out the whereabouts of customers or their legal heirs in case they are deceased. Such prompt follow-up might enable the banks and legal heirs, where applicable, to take such steps as are necessary to change the status of the accounts and will also reduce the quantum of unclaimed deposits with the banks, both in regard to amount and number. The banks may extend the spirit of the above instructions to release other assets of the deceased clients left with the bank to the extent of the value not exceeding Rs. 25,000/-. Thus, gold ornaments or other securities held against advances could also be released on adjustment of the relative advances. The banks can have a higher limit fixed for the purpose if they consider it appropriate.
- 9. Instructions of a customer for transfer of his account to another office should be carried out immediately on receipt of, and in accordance with, his instructions. It should be ensured that along with the balance of the account, the relative account opening form, specimen signatures, standing instructions, etc. or the master sheets wherever obtained, are also simultaneously transferred, under advice to the customer.
- 10. the account transfer form with the enclosures may be handed over to the customer in a sealed cover if he so desires for delivery at the transferee office, branch.
- 11. When an office receives an enquiry from a customer regarding the receipt of his account on transfer from another office it should take up the matter with the transferor office by telex/telegram, on office account, in case it has not received the balance of the account and/or other related papers even after a reasonable transit time.
- 12. Telephone number of account holder, wherever available, should be noted in the ledger and other reference books to facilitate urgent contact.
- 13. Clean overdrafts for small amounts may be permitted at the discretion of branch manager to customers whose dealings have been satisfactory (for savings bank account with cheque facility).

14. Obtaining periodical confirmation of credit balance in current account from customer could be dispensed with.
16. For depositing cash, customer or his representative, should be given one-stop service and he should not be required to move from counter to counter say for filling up / scrolling of voucher, paying in cash, obtaining receipt, etc.
17. Customer should invariably be advised well in time about maturity of his term deposit in case instructions for disposal on maturity are not on record.
18. Term deposits should be freely transferable from one office of bank to another.
20. Customer should be persuaded to keep their term deposit receipts in safe custody with banks.
21. Branch manager should be vested with discretion to repay, whenever requested, term deposit before maturity subject to compliance with the RBI directives in this regard.
26. Teller system, wherever introduced, should be made available for current as well as savings bank accounts, for payment of self as well as third party cheques upto a particular limit. Similarly, cash deposit upto a particular limit for those accounts should be accepted by Tellers and receipts issued on the relative counterfoils of the pay-in-slips.
28. Statements of accounts, pass-books particularly, should be written up accurately, legibly and neatly. Brief, intelligible particulars of the transactions must invariably be recorded therein. Monthly statements of accounts must be despatched before the 5th day of the succeeding month, except where the customer's instructions are specifically different.

The statements of accounts for current account holders may be sent to the depositors in a staggered manner instead of sending by a target date every month. If this is done, some customers will receive statements of accounts by 10th written upto 5th of the month, some will receive by 15th written upto 10th of the month and so on. This has to be followed regularly. The customers may be informed about staggering of the preparation of these statements so that they will know when to expect their statements of accounts. Further, banks should advise their Inspecting Officers to carry out sample check at the time of internal inspection of branches to verify whether the statements are being despatched in time.

29. Statements of accounts should be copied from ledger by statement writer after checking of ledger is over. It should be authenticated by Ledger keeper and released for despatch without the intervention of an official.
30. Savings bank pass-books should contain a prominent legend that pass-book should, as far as possible, be collected by tenderer from bank, duly filled up and completed, immediately after the transaction on the same day. In addition to the instructions in the pass-book, whenever a pass-book is tendered for posting after a long interval of time or after many transactions, where ledger

posting machines are not used, a printed slip requesting the depositor to tender it periodically should be given. Further, whenever a pass-book is given for posting a paper token indicating the date of its receipt and also the date when it is to be collected may be given to the tenderer. Every attempt must, however, be made to return the pass-book to the tenderer immediately after the transaction, resort to keeping pass-book overnight being made only by exception, say, where pass-book is presented for making a large number of entries. Strict supervision to enforce this must be the responsibility of concerned official.

31. Standing instructions should be freely accepted on all current and savings bank accounts. The scope of standing instructions service should be enlarged to include payments on account of taxes, rents, bills, schools, college fees, licences, etc.
32. Intimation of compliance of standing instructions should be sent to the customer immediately. Also, whenever a standing instruction is not carried out for any reason, account holder should be informed at once.
33. Credit and debit to customers accounts including those on account of outstation instruments realised, but excluding those pertaining to periodical interest on overdrafts in current accounts and levy of half-yearly / yearly charges for unremunerative current accounts, must be intimated to them with full particulars as soon as the entries are made.
34. Ledger posting machines should be introduced at all offices wherever the volume of work warrants; this should be applicable to many metropolitan and other large offices.
35. Loose-leaf ledgers should be introduced for all types of bank accounts even at offices not having Ledger posting machines, beginning with larger offices.
36. Where an official has to refer to a ledger for payment of a cheque for large amount, recording stop payment notice, etc. he should go to the ledger; the ledger should not be brought to his table to speed up customer service by saving on transit and waiting time.
37. To meet urgent requirements of customers, facility of encashing personal cheques for reasonable amount by drawer himself should be made available even after normal business hours.
38. Extension Counters for cash receipts and payments should be opened on the premises of large establishments where various types of deposit services and payments thereunder may be made available .
46. Machines for over-printing of name and account number on cheque forms should be provided to as many offices as possible.

(b) Penalties in the case of dishonour of cheques for insufficiency of funds in the accounts.

47. Legislation has been promulgated to make bouncing of cheques a penal offence. In terms of the amendment made to the Negotiable Instruments Act, 1881 (Section 4 of the Banking, Public Financial Institutions and Negotiable Instruments (Laws) Amendment Act, 1988 has inserted a new Chapter XVII in the Negotiable Instruments Act, 1881 penalties can be imposed in the case of dishonour of cheques for insufficiency of funds in the drawers' account. An extract of the relevant provisions of the Act already forwarded to banks is furnished in the Annexure I. The enactment provides that where any cheque drawn by a person on an account maintained by him with a banker for payment of any amount of money to another person for discharge in whole or in part of any debt or liability is returned by the bank unpaid on account of insufficiency of money in the account or because it exceeded the arrangements with the bank, such person shall be deemed to have committed an offence and shall be punished with imprisonment for a term which may extend to one year or with fine which may extend to twice the amount of the cheque or with both. The Act provides certain safeguards as under to save harassment to unwary drawers :
- (i) The cheque in question should have been issued in discharge of a liability (a cheque given in gift will not fall in this framework).
 - (ii) The cheque in question should be presented timely, i.e., within six months or its specific validity period, whichever is earlier.
 - (iii) The payee or holder in due course should give notice demanding payment within 15 days of his receiving information of dishonour, which should be for no other reason than insufficiency of funds.
 - (iv) The drawer can make payment within 15 days of the receipt of the notice and only if he fails to do so, prosecution can take place.
 - (v) The complaint can be made only by the payee/holder in due course.
 - (vi) The complaint is to be made within one month of the date on which the cause of action arises.
 - (vii) No court inferior to that of a Metropolitan Magistrate or First Class Judicial Magistrate will try the offence.
50. All cheque forms should be printed in Hindi and English. The customer may, however, write cheques in Hindi, English or any other language of their choice.

(c) Issue of Cheque Books

Banks may issue cheque books with larger number of (20/25) leaves if a customer demands the same and also ensure that adequate stocks of such cheque books 20/25 leaves maintained with all the branches to meet the requirements of the customers.

(d) Opening of Public Provident Fund accounts

The PPF Scheme is of national importance. The banks should, therefore, ensure that all their authorised branches respond positively to request and render all possible assistance to customers for opening PPF accounts.

(e) Traveller's Cheques

(i) Popularisation of Travellers' Cheques

The banks may take note of the spirit of the recommendations 40 to 45 of the Working Group on Customer Service and enlarge the existing reciprocal arrangements in the matter of free encashability of Travellers Cheques, to the extent feasible, so that Rupee Traveller Cheques are made popular.

(ii) Arrangements for payment of Travellers' Cheques

- (a) Banks should pay the traveller's cheque of other banks, Rs.1,000/- at rural branches, Rs. 2,000/- at semi-urban and urban branches and Rs. 5,000/- at metropolitan branches without any delay and hesitation. Banks are free to pay any higher amount of travellers' cheques at their discretion.
- (b) Reimbursement of travellers' cheques could be made through clearing.
- (c) The bank issuing travellers' cheques should reimburse other banks in respect of travellers' cheques paid by them to the above extent.

(B) Remittances and Collections

51. (a) Measures seeking to bring down the incidence of frauds perpetrated through bank drafts should be built into the draft form itself. Necessary changes in system and procedures to speed up issue and payment of drafts should be taken.
- (b) Following important measures suggested could be taken :
- (i) bringing into use different varieties of draft form for different ranges of amount together with colour coding.
 - (ii) structuring of space in which amount in figures is written, by providing appropriate number of printed cages, and
 - (iii) providing for indicating the first numeral on the left of the amount in figures by appropriate punching in margin, so that perpetration of fraud by alteration is rendered physically difficult.
- (c) In view of the measures mentioned at (b) above no protective crossing need to be written or typed on draft.

52. Draft advices should be interleaved in the draft book and should be prepared as carbon impressions of the drafts issued. Pin point typewriters should be provided at all large offices for preparing draft and relative advices. At other offices ball pens may be used for this purpose.
54. The banks should ensure that drafts drawn on their branches are paid immediately. Payment of draft should not be refused for the only reason that relative advice has not been received.

(a) Identification for encashment of drafts

Passport and postal identification card could be deemed to be adequate identification for encashment of drafts. Banks should ensure that their branches make payments against drafts promptly, without causing inconvenience to the public by accepting passports or postal identification cards as adequate for the purpose. There is no objection to banks putting a ceiling of Rs. 25,000/- for payment of drafts against production of passport/postal identification purpose.

55. The number of signatories on draft should be confined to one authorised signatory.
56. All superscription about validity of the demand draft should be provided at the top of the draft form. A draft should be uniformly valid for a period of six months and procedure for revalidation after six months should be simplified.
57. Duplicate draft, in lieu of lost draft, upto and including Rs. 2500 may be issued to the purchaser on the basis of adequate indemnity and without insistence on seeking non-payment advice from drawee office irrespective of the legal position obtaining in this regard. The drawee office may merely be cautioned in this regard. If duplicate is required for a draft of higher amount non-payment certificate should be called for from drawee office by telex / telegram at applicant's cost and other formalities completed as per extant procedures.

The public sector banks should ensure that a duplicate draft is issued within a maximum period of five days after the completion of all formalities.

The senior officials while visiting the branches, may ensure to check implementation of the aforesaid instructions.

59. Banker's cheques should be introduced for facilitating local payments of and by customers, like examination fees, electricity bills, municipal bills, etc. Payment of commercial bills by customers of other banks could similarly be made by means of banker's cheques.
60. Use of telex machines for remittance of funds should be progressively made wherever telex machines are installed.
61. The banks at their discretion should introduce facility of value date telex/telegraphic transfers in terms of which credits will be afforded on a predetermined date.

62. Telex/telegraphic transfer should be paid latest on the third working day from the receipt of customer's instructions at the remitting office, attempt being made to ensure payment on the same day or next day assuming normal postal service.
63. Prompt intimation of receipt of telex/telegraphic transfer should be sent by receiving office to the beneficiary in all cases.
65. Telex/telegraphic transfer could be credited under reserve to the account of beneficiary of standing even if the message or check-signal is mutilated in transit, if necessary, a general indemnity should be obtained.
66. Check-signals wherever required, should be applied at the beginning of telex/telegram and should be repeated at the end.
67. A clerk drafted for receiving instruments for credit of accounts should be authorised to give receipt on counterfoil of pay-in-slip for instrument (s) for transfer credit and to hand over the relative counterfoil direct to lodger.
68. Each outstation cheque upto Rs. 2500/- (raised to Rs. 5000/- by Goiporia Committee) may normally be negotiated and immediate credit afforded to lodger unless lodgers account is known to be unsatisfactory or where lodger insists on receiving credit only after realisation. (Please also see paragraph No. 18.2(D) (iv) regarding credit of outstation cheques).
69. Procedures and practices pertaining to collection business should be standardised. These should also cover inter-bank collections. All banks including co-op. banks should be brought within such discipline. On the basis of the report of IBA, banks should open regional collection centres as considered necessary on an on-going basis subject to observations made in paragraph No. 3.32 of Goiporia Committee.
70. Forwarding schedules covering instruments for collection should be manifold - in triplicate, if for cheques, and, in quadruplicate, if for bills; each item for collection should be sent under cover of separate set of manifold. In regard to cheques, each cheque will be accompanied by the original and the duplicate copy of the covering schedule, the triplicate should be filed in a bound register serving as a record at the remitting office. The original schedule will serve as voucher at the realising office and the duplicate will be returned to the remitting office as payment/non-payment advice. In regard to bills while similar procedure will be followed, the additional copy of the manifold will serve as presentation advice to the drawee. Manifolds should be typed for ensuring legibility in all copies.
71. Boxes for depositing cheques for collection and clearing should be provided at larger offices. The boxes should be cleared at regular intervals and receipted counter-foils placed at a convenient place for customer to collect. This should be in addition to the regular collection counter.
72. At metropolitan centres, subject to local feasibility, local cheques lodged late for main clearing should be presented on the same day through evening clearing so that credit thereagainst can be given on the following working day

and drawings permitted even in regard to cheques presented by/drawn on suburban branches. Mechanised clearing has been introduced in metropolitan centres which will speed up the clearing of cheques.

74. Fate of outstation cheque/bill over Rs. 5000 sent for collection could be obtained by telex/telegram at the cost of the lodger unless mail advice is expected to reach the next day.
77. Bills for collection including bills discounted required to be collected through another bank at the realising centre should be forwarded direct by the forwarding office to the realising office.
78. Loss of interest should be reimbursed to customer if collection of bills, cheques delayed due to bank's fault. (Please also see paragraph No. 18-2(E)).
82. Clearing operations at metropolitan and larger centres should be mechanised as early as possible.

(C) Loans and Advances

84. Each bank should periodically undertake a sample study of the information and data sought for examination of small loan proposals from clients in the priority sectors to ascertain the necessity thereof.
85. Banks should undertake simplification and consolidation of loan documents and bringing them out in regional languages.
86. All information/data for examination of loan application should be called for in one or two instalments.
87. An official of the banks considering loan applications for small amounts in priority sectors could be encouraged to adopt flexible approach and should have comprehensive knowledge of the situation.
88. Stipulations regarding security, etc. in small loans should be secondary to the basic viability of the proposal.
89. There should be adequate delegation of powers so that most of the priority sector business gets disposed of at the branch level.
90. Repayment of instalments should be fixed in relation to the applicant's repaying capacity.
91. Loan document should be obtained in duplicate and the duplicate sets should be made over to the borrowers for their record wherever customers so desire.
92. Controlling offices of banks should advise their branches detailed reasons for rejecting the loan proposals.
93. Loan applicants should be advised wherever possible the reasons for rejection of their applications.

94. Separate record should be maintained of all loan applications received, their disposal and reasons for any delay in sanctions and for rejections.
95. All loans upto Rs. 500/- should be backed only by demand promissory note or a simple loan agreement.
97. The bank's finance to small borrower should be timely and adequate not only for meeting his business requirements but also for meeting his minimum consumption needs.
98. Banks should conduct special training courses for selected small scale industrialists in export business. (customer education).
99. Banks should adopt a more liberal approach in sanctioning advances against gold and silver ornaments especially to persons of small and medium means.
101. Banks should bring out brochures on successful running of business as part of customer education.

(D) Foreign Exchange business

103. Booklet consisting of basic exchange control rules affecting incoming tourists should be brought out. ECD, RBI has brought out a brief pamphlet containing basic exchange regulations to be observed by incoming tourists.
104. For Indians going abroad for employment, advisory service should be made available, jointly by all major banks at each important departure centre. Advice on banking practices and services available abroad should also be provided at such centres.
105. Export advisory cell should be established at major centres by banks to provide the package of service to small exporters.
106. Banks could quote finer rates of exchange to small and medium exporters with the twin objective of assisting them in reducing their cost and encouraging them to undertake larger exports.
107. Advices to customers on account of foreign bills payments should contain full particulars as regards bank charges, rate, interest, etc.

(E) Government Business

110. Teller system should be extended to cover receipt and payment of Govt. accounts wherever possible depending upon the volume of the transactions.
111. Cash register machines should be used by Tellers handling Govt. receipts at large offices depending upon the volume of the transactions and availability of machines.
113. All public sector banks should ensure that the pension payments are promptly credited to the pensioners' accounts and pensioners are advised of this immediately.

(F) Discipline and Attitude

- 114. Punctuality and full day's work from the employees should be ensured.
- 115. Lunch recess should be fixed and allocation of work so arranged that the work at any counter does not suffer. Every employee's lunch recess should be specifically decided and adhered to. Staggering of lunch recess should be done so as to ensure that the work at any counter does not suffer.
- 116. Personal telephone calls on office lines should be discouraged and at bigger offices monitored. Similarly, personal visitors for employees should be discouraged.
- 117. Rules relating to sanction of leave of all types must be observed meticulously.
- 119. Staggering of working hours should be introduced wherever it would result better customer service and expeditious flow of work.

The recommendation should be implemented in all essential aspects so that there is no room for banks to incur overtime expenditure to clear arrears of work on any day.

- 120. Unhealthy work practices or mis-behavioural patterns should be identified and eradicated.
- 121. Record of arrears and lapses in work by employees of all categories should be maintained and given due weightage while promoting of employee.
- 122. Performance of employees in the field of customer service could be given due weightage in the promotion policies.
- 124. Job rotation among staff members belonging to all categories should be monitored and also arranged for proper work distribution to ensure full day's work.
- 125. Junior officers could be involved in discussions with customers, inspection and business visits with the objective of developing communication and familiarisation between them and the customers.
- 126. Audit philosophy and systems of banks should be reoriented in view of the developmental role the banks are expected to play.
- 127. Frequent transfers of managers and field staff should not be effected.
- 128. Employees should be encouraged to integrate themselves with the local community.
- 129. Every effort should be made to improve the branch manager's ability and effectiveness. Use of discretionary authority by branch managers and other should be taken into account in performance appraisal. People could be encouraged and compelled to use discretionary powers.

130. Leadership, skill of branch managers should be developed in suitable training courses.
132. In order to avoid low morale in the cash department the banks should adopt the policy of (i.) transfer of cashiers to clerical department, (ii.) recruitment of cashiers-cum-clerks, (iii.) cash department entry point for rotation of duties.
133. All employees should be supplied with name plates for use by them either on their apparel or at their counter/desk/table.
134. Banks should encourage learning of local languages by employees.
135. National time tables for various jobs could be brought out by IBA.
137. Training programmes of banks should be customer service oriented and informal counselling of employees should be arranged on an on-going basis to improve their abilities and attitudes.
138. Training programmes for officials should also be included for training in office administration, housekeeping, etc.
139. Posting officials in rural places could form an integral part of the placement policy.
140. Banks should arrange to supply handbooks of general information to their employees.
141. Banks should arrange periodical meetings with the staff members to discuss matters relating to customer service and ways and means of improving it.

(G) General

142. Customer service should be projected as a priority objective of banks along with profit, growth and fulfilment of social obligations.
143. Banks should have enquiry counters at their branches. At bigger offices, this should be entirely separate counter and should be in addition to a regular reception counter.
144. Indicator boards should be displayed at all the counters in English as well as in the regional language.
145. Business posters at semi-urban and rural branches of banks should be in the regional language.
146. Layout of offices of banks should be designed to facilitate smooth and speedy flow of work.
147. All outward mail should be despatched from the office of the bank on the day it is originated excepting the items received late in the day in which case this could be despatched latest by the next day.
148. Courier service should be introduced by banks on a large scale.

149. Business hours of each office should be displayed by banks outside the office premises.
150. Banks should make provision for receiving instruments through late counter or special box.
151. Banks should keep rural branches opened on weekly market day.
152. Banks should permit use of ball-pens freely while transacting business with them.
153. Banks should post roving officials to ensure employees' response to customers and for helping out customers in putting into their transactions.
155. Banks' system should be oriented towards providing better customer service and O&M Department should periodically study the system and their impact on customer service.
157. Banks should provide to customers with booklets consisting all details of service and facilities available at the bank.
158. There should be greater use of Hindi and regional languages in transacting business by banks with customers, including communications to customers.

(a) **Acceptance of cheques bearing a date in Hindi as per National Calendar (Saka Samvat) for payment.**

Government of India have accepted Saka Samvat as National calendar with effect from 22 March 1957 and all Government statutory orders, notifications, Acts of Parliament, etc. bear both the dates i.e., Hindi as well as British Calendar. An instrument written in Hindi having Hindi date is a valid instrument. Cheques bearing date in Hindi as per the National Calendar (Saka Samvat) should, therefore, be accepted by banks for payment, if otherwise in order. The banks can ascertain the British calendar date corresponding to the National Saka calendar in order to avoid payment of stale cheques.

161. Banks should study complaints from the customers and initiate corrective action.
163. Banks should follow the instructions on an on-going basis as advised by the Dept. of Currency Management, RBI regarding acceptance and change of soiled and mutilated currency notes.
168. Complaints/suggestions box should be provided at each office of the bank.
169. Complaints/suggestions registers should be maintained at each office of the bank for recording complaints/suggestions received from customers and disposal thereof.
170. At every office of the bank a notice requesting the customers to meet the branch manager may be displayed regarding grievances, if the grievances remain unredressed.

171. Visiting higher officials of the banks should assess the quality of service rendered by branches and pursue the complaints, etc.
172. Banks should establish customer service committees at branch level.
173. Each branch established should undertake a customer relation programme by meeting customers in group at least once in a quarter.
174. An annual sample survey on customer response should be carried out in a properly structured manner by every bank on an on-going basis.
175. A customer service department should be set up by every bank at Head office /Central office to monitor progress in improving service rendered by branches. Bank should also conduct annual survey with regard to complaints received from customers.

18.2 Committee on Customer Service in Banks-Goiporia Committee

- (i) The Committee on Customer Service in Banks headed by Shri M.N.Goiporia, the then Chairman of SBI, set up by Reserve Bank of India as per the Government's directive in September 1990, made various recommendations to improve the customer service in banks.
- (ii) The recommendations which are required to be implemented by the banks, are summarised and given below. Additional instructions issued on certain subjects/recommendations are also included at the appropriate places for implementation by the banks:

Recommendation
No. _____

Recommendation

(A) Service at the counters

(i) Business and working hours

- 3.1 Commencement of employees' working hours 15 minutes before commencement of business hours could be made operative by banks at branches in metropolitan and urban centres. The banks should implement the recommendation taking into account the provisions of the local Shops and Establishments Act.

The branch managers and other supervising officials should, however, ensure that the members of the staff are available at their respective counters right from the commencement of banking hours and throughout the prescribed business hours so that there may not be any grounds for customers to make complaints.

- 3.2 All the customers entering the banking hall before the close of business hours should be attended to.

3.3 Banks may extend business hours for banking transactions except cash, up till one hour before close of the working hours.

(i) The following non-cash transactions should be undertaken by banks during the extended hours, i.e., upto one hour before the close of working hours:

(a) Non-voucher generating transactions

(i) Issue of pass books/statement of accounts.

(ii) Issue of cheque books.

(iii) Delivery of term deposit receipts/drafts.

(iv) Acceptance of share application forms.

(v) Acceptance of clearing cheques.

(vi) Acceptance of bills for collection.

(b) Voucher generating transactions

(i) Issue of term deposit receipts.

(ii) Acceptance of cheques for locker rent due.

(iii) Issue of travellers cheques.

(iv) Issue of gift cheques.

(v) Acceptance of individual cheques for transfer credit.

(ii) Such non-cash transactions to be done during the extended business hours should be notified adequately for information of the customers.

(ii) Uninterrupted service

3.4 Banks should ensure that no counter remains unattended during the business hours and uninterrupted service is rendered to the customers. Further, the banks should allocate the work in such a way that no Teller counter is closed during the banking hours at their branches.

(iii) Guidance to customers

3.5 All branches, except very small branches should have “Enquiry” or “May I Help You” counters either exclusively or combined with other duties, located near the entry point of the banking hall.

(iv) Teller system

3.6 Banks may provide one or more teller counters at area 1 centres including state capitals at one or more branches catering to the cash

transactions upto Rs.5,000/- including encashment of drafts, bank travellers cheques upto that amount as well as non-cash transactions upto Rs.10,000/-.

The following additional instructions issued in this regard should be implemented by the banks:

- (a) All banks should identify the branches wherever the introduction of Teller System is necessary and further extend such facilities at more branches so that customers are not required to wait for a long period.
- (b) Banks should also introduce Teller System for issue/payment of bank drafts.

(B) Cash-related Issues

(i) Small denomination notes

- 3.7 Difficulties, in the way of acceptance of small denomination notes from customers as well as non-customers for issuance of drafts should engage the attention of the branch officials, controlling offices of the banks. Customers may be taken into confidence about such difficulties.

Banks should ensure that drafts are issued by their branches against cash to all customers irrespective of the fact whether they are having accounts with the banks or not. Banks, counter staff should not refuse to accept small denomination notes from the customer or non customers for issuance of the drafts.

(ii) Exchange of mutilated and soiled notes

- 3.10 Exchange of mutilated and soiled notes facilities should be made freely available to the customers including non account holders at the banks counters.

As per extant instructions of RBI, the banks are required to freely exchange soiled notes. All the branches of the public sector banks have been delegated powers for exchange of certain types of notes. The chest branches of the banks are delegated powers for exchange of all types of mutilated notes. The officials of the branches authorised to adjudicate the mutilated notes are being given training by the Regional offices of the RBI's Issue Department on an on-going basis, with a view to making them fully conversant with the RBI Note Refund Rules.

(iii) Stitching of note packets

- 3.12 For safeguarding currency notes from early soiling, these may be packed with paper seal/band.

(C) Deposit and other accounts

(i) Nomination facility

- 3.13 In addition to obtaining nomination forms, banks should ensure that account opening forms contain space for nomination also so that the customers could be educated about availability of such facilities.

To popularise the nomination facility, publicity may be launched, including printing compatible message on cheque books, pass-book and any other literature reaching the customers as well as launching periodical drives.

- 3.14 Unless the customers prefer not to nominate (this may be recorded without giving scope for conjecture of non-compliance), nomination should be a rule, to cover all other existing and new accounts.

- 3.15 Availability of nomination facility also for safe custody articles and safe deposit lockers may be actively publicised.

[Please also see Paragraph No.18.6 on Banking Companies (Nomination) Rules,1985- Clarifications].

(ii) Savings Bank pass-book and statements of accounts

- 3.17 Banks constant attention should be attracted to issuance of statements of accounts and updating all pass-books, with correct and legible particulars.

Banks should consider introducing (a) photo-copier machines or (b) ledger posting machines or (c) carbon ledger sheets for submitting statements of accounts to customers regularly without any delay.

- 3.18 Customers may be made conscious of the need on their part to bring pass-books regularly for updating and employees may be exhorted to attach importance to this area. Wherever pass-books are held back for updating, because of large number of entries, paper tokens should be issued.

(iii) Statements of accounts

- 3.19 Stationery with pre-demarcated folds/flaps may be used for statements of accounts.

(iv) Term Deposits

- 3.20 Terms deposits may be marketed innovatively, by dissemination of information to customers, specially regarding availability of monthly discounted interest disbursement, and safe custody facility for deposit receipts.

- 3.21 Advance instructions from depositors for disposal of deposits on maturity may be obtained in the application form itself. Wherever such

instructions are not obtained intimation for deposit becoming due should be sent as a rule.

3.22 Banks may accept term deposits in units of Rs. 5,000/- or in its multiple and issue pass books (doing away of deposit receipts system).

3.24 Change in interest rate on deposits should be made known to customers as well as bank branches by press notifications based on which branches should be enabled to accept deposits at new rates provisionally to be confirmed later, on receipt of a final communication.

(a) Communication to various offices regarding changes in rates of interest

Besides Press Notes/ Notification, RBI also arranges to publish the full text of the interest rates directives or of amendments thereof in national newspapers. The banks should take necessary steps to ensure that the information regarding changes in the rate/s of interest should percolate down the line quickly so that customers are apprised of the new rates of interest with the least delay.

(b) Display of rates of interest on deposits

The banks should arrange to display the latest rates of interest on varying terms of deposits from time to time. Further, they should also ensure that their branches take prompt action for making necessary corrections in the notice displayed as and when the changes in the rates of interest take place.

(v) Advisory service on deposit segments

3.25 Banks could provide assistance/guidance to customers in the area of investment of funds in various deposit schemes, etc.

(vi) Brochure, pamphlets for guidance of customers

3.26 Banks may make available to the customers brochures and pamphlets in regional languages, Hindi, English giving details of various schemes available and terms and conditions thereof.

(vii) Safe Deposits Lockers

3.28 Banks should provide more and more locker facilities especially in residential areas having regard to commercial viability.

Please also see paragraph no. 18.4

(D) Remittance and Collection of instruments

(i) Drafts

3.29 Single Window concept may be introduced for issue of drafts authorising employee at the counter to sign drafts upto Rs.5,000/- which are pre-countersigned by another authorised signatory.

In terms of 6th Bipartite Settlement signed with Workmen Unions, banks may introduce Single window service for issue of pre-signed pay drafts, individual cheques, travellers cheques, pay orders, etc. both against cash and transfer upto and inclusive of Rs.10,000/- to start with in urban and metropolitan centres and gradually extend this service to other areas.

(ii) Banker's cheques, pay orders

3.30 System of one employee disposing of the application for draft as indicated in Recommendation No. 3.29 above could be introduced for banker's cheques and pay orders also.

(iii) Bank Orders

3.31 'Bank Orders,' like the postal orders, may be introduced in denomination of Rs.5, Rs.20, Rs.100, Rs.500, Rs.1000, etc. providing for payee's name to be filled in by the purchaser.

Additional instructions issued on the subject are given below :

(a) Introduction of Bank Orders in various denominations

Banks should introduce pre-denominated Bank Orders in the denominations of Rs.5, Rs.20, Rs.100, Rs.500, Rs.1000 or such other denominations not exceeding, Rs.1000 as they may consider appropriate similar to travellers cheques. For this purpose, Bank Orders may incorporate the following features:

- (i) The Bank Orders may be in MICR format with the same security features as for normal bank draft.
- (ii) The format of the instrument may be similar to that of a banker's cheque.
- (iii) It should be ensured that the beneficiary's name is invariably inserted at the time of issuance of the Bank Order so as to avoid violation of section 31 of the RBI Act, 1934.
- (iv) It should be payable at all branches of the bank.
- (v) Its validity period should be of 6 months, as in the case of cheques/drafts.

- (vi) It should be pre-signed by an authorised official of the bank and countersigned by the issuing official. Alternatively, it may be signed singly by the person issuing the same if authorised for signing it.
- (vii) It should be of a distinctive uniform colour .
- (viii) The service charges for issue of Bank Orders may be the same as applicable to drafts.
- (ix) A simple application form should be devised for purchase of Bank Orders .
- (x) The accounting procedures, record books, etc. should be decided by individual banks.
- (xi) Ideally, issue of Bank Orders should be by the teller accepting the cash. Alternatively, it may be issued at the Demand Drafts counter against production of counterfoil for having paid cash .

(iv) Collection

3.32 Facility of instant credit of outstation cheques may be raised to Rs.5000 (from Rs.2500). A separate type of pay-in-slip may be evolved for availing of this facility .

(b) Immediate credit for outstation / local cheques upto Rs. 5,000/-

- (i) The banks may afford immediate credit in respect of outstation cheques, tendered for collection by their customers, subject to the following conditions /clarifications:
 - (a) (i) The Immediate credit facility may be extended for outstation as well as local cheques upto Rs.5000/- irrespective of the category or status of the drawer subject to the recovery of normal collection charges, the bank being satisfied about the proper conduct of the account, the customer desired the facility and subject to the recovering a charge of Rs.5/- for local cheques.
 - (ii) The bank may extend the facility to all individual depositors without making a distinction about their status, i.e. Savings Bank, Current or Cash Credit Account.
 - (iii) There will be no objection if the banks stipulate that the facility will be provided to customers whose accounts are properly conducted and there are no

occasions of cheques/ withdrawals being returned /refused for being in excess of the balance .

- (iv) The banks should not lay any stipulations for minimum balance for extending the facility.
- (b) The facility is also to be allowed to the customers at the bank's Extension Counters subject to the usual precautions taken by banks in this regard.
- (c) While immediate credit of cheques will amount to grant of advance, non-charging of interest on such cheques of the face value upto Rs.5000/- will not be viewed as violation of RBI's directive on interest rates on advances.
- (d) In case where the instrument of face value exceeding Rs.5000/- is received for clearing and the proceeds of the instrument are credited to the account, in whatever manner, in advance of the date of actual realisation of the amount, interest at the stipulated rate (in addition to the usual service charges prescribed by the bank), shall also be charged for the period for which outlay of funds is involved.
- (e) In the event of the cheque being returned unpaid , the bank can recover interest in conformity with the interest rate directive of the Reserve Bank of India for the period the bank is out of funds.
 - (i) No interest is to be charged to the customer for the period between the date of credit of the outstation cheque lodged and its return.
 - (ii) Banks may charge interest from the date of return of the cheque till the reimbursement of money to the bank.
 - (iii) Where the cheque is credited to a savings bank account, no interest will be payable on the amount so credited if the cheque is returned unpaid .
- (ii) The banks may consider introducing different pay-in-slips superimposing a notice to the effect that in the event of dishonour of the cheque, the customer will have to pay interest for the period the bank is out of funds at the normal rate.
- (iii) Banks should ensure that the facility of immediate credit for outstation/local cheques is extended at gross-root levels in all eligible cases. For this purpose, a notice regarding

the availability of facility should be prominently displayed at each branch.

(c) Infrastructural arrangements/ time frame for collection of outstation instruments upto Rs.10,000/-and local cheques above Rs. 5,000/-

(i) The banks may put in place , proper systems and procedures, infrastructural arrangements , etc. to ensure quick collection of outstation instruments by giving attention towards various relevant factors which will include, inter alia, the following :

- (a) bringing awareness among the staff ;
- (b) automation/computerisation of work in the concerned branches/service branches;
- (c) transmission of data/realisation advice on inter-city communication network; and
- (d) use of courier/speed post arrangements for despatch of inter-city mail, etc.

(ii) The following time-frame for affording credit to customers in case of outstation cheques upto Rs.10,000/- should be observed:

(a) outstation cheques upto Rs.10,000/-.

(i) In the metropolitan centres having MICR cheque clearing system, proceeds of a cheque drawn on a bank located at any of the other metropolitan centers and presented for collection on any day in a week should be credited latest on the same day in the following week (e.g. Monday to next Monday). such a facility should be extended to the customers even if the collection advices are not received from the drawee centres.

(ii) In respect of state capital centers and at other centres with more than 100 bank offices , credit to the customer's account should be given within 10 days, with full freedom to the customer to withdraw the amount . As in (i) above, this facility should also be extended to the customers , even if the collection advices are not received from the drawee centers.

(iii) There should be no additional charge for such time-bound collection/payment schedules . In

case the cheques are returned unpaid, the banks can charge interest at normal rate of interest on the overdrawn amounts from the date of allowing the withdrawal till the amounts reimbursed.

(b) Local cheques above Rs. 5,000/-

The customers' accounts should be credited and they should be allowed use of funds latest on the third working day from the date of acceptance of the cheques at the counters.

(c) In order to limit the risks involved, the facility of giving credit to the accounts for outstation-cheques (as detailed in sub paragraphs ii (a) above), may be extended to satisfactorily operated accounts upto a maximum amount of Rs.10,000/-. Where more than one cheque and/or cheques of the value of more than Rs. 10,000/- are deposited for collection in a day or on subsequent days, withdrawal as per above instructions may be allowed upto a maximum of Rs. 10,000/- so that ,at any point of time , the collecting bank will have an exposure for an amount not exceeding Rs.10,000/- against any individual customer.

(d) In respect of instruments of the value of more than Rs.10,000/- it should, however, be ensured that these are collected with least delay and branches take prompt action for their despatch and realisation .

(e) Apart from the above , in order to ensure that the above time schedule is scrupulously followed by the branches, there is a need to establish clear-cut staff accountability for the delays. For this purpose, a special register may be introduced to record the delayed collections for necessary action. Further, it should also be ensured that where delays occurred, the account holders are paid penal interest without their making requests therefor.

(iii) Banks may also initiate the following additional measures to reduce the time taken for realisation of cheques :

(a) (i) Cheques drawn on MICR centres should invariably be presented through National Clearing Cell.

(ii) Banks should review the position of presentation of cheques in the same day's MICR clearing obtaining in their branches at metropolitan centres on an on-going

basis and take suitable remedial action in order to ensure presentation of all MICR instruments received from the customers till close of the business hours are presented in the same day's clearing (as envisaged while introducing MICR clearing at metropolitan centres.)

- (b) Extensive use should be made of modern telecommunication technology for networking service branches in important centres and between service branches and other branches within a particular centre.
 - (c) The concept of quick/fast collection service for collection of outstation instruments should be streamlined .
 - (d) Separate registers should be maintained for local cheques and outstation cheques to enable the branch managers to exercise better supervision and remedial measures should be initiated to speed up the collection of outstation instruments.
- (iv) During the course of internal inspection/audit of branches, compliance with the above instructions should be verified and the position brought out in the report.

(E) Delay in Collection

(i) Cheques/Drafts

3.33 Delay in collection of outstation cheques may be compensated by paying interest at 2% p.a. above savings bank rate, if such interest payable is Rs.5/- or more.

(a) Payment of interest for delays in collection of outstation cheques and other instruments

- (i) The collecting bank should pay interest on the amount of cheques/instruments drawn on its own outstation branches or on those of other banks and sent for collection , if the proceeds are not realised/credited to the customers' accounts or the unpaid instruments are not returned to the customers within a period of 14 days from the date of their lodgements. Such interest should be paid for the period beyond 14 days till the proceeds are realised/credited to the customers' accounts or the instruments are returned. Interest will not be payable on cheques/instruments lost in transit. In the case of instruments drawn on State Headquarters , banks will be required to pay interest beyond 10 days if they are not collected within 10 days except that in respect of the state capitals in North Eastern

region and Sikkim, the norm of 14 days will remain unchanged.

(ii) The rate at which interest is to be paid for such delays will be as under :

(a) Where the proceeds of an instrument are to be credited to the cash credit/overdraft/loan account of a party -

At the PLR fixed from time to time .

(b) In other cases -

At 2 % p.a. above the rate of interest applicable to balances in Savings Bank accounts.

(iii) The banks should round off all the transactions to the nearest rupee. (Thus, interest on delayed collection of outstation cheques, etc. should be paid by banks when interest at the stipulated rate works out to 50 paise and more by rounding off the same to the nearest rupee and ignoring interest below 50 paise). Further, such interest may be paid only when the amount is Rs. 5/-or more . The interest is required to be paid/credited to the customer's account without the customer having to claim it and these instructions are applicable to all types of accounts, i.e., not only to individual accounts.

(iv) Under no circumstances it should be construed that banks could take 10/14 days for collection/return of outstation instruments merely because a period of 10/14 days has been allowed for the purpose of calculating interest as indicated above. Further, the proceeds realised should be credited to the customer's account immediately to ensure expeditious customer service.

(v) The banks should prepare and despatch the advices relating to clearance of outstation cheques to sender branches within 24 hours after the agreed waiting period for return instruments from the clearing house is over. The banks should have suitable monitoring mechanism to keep a watch on the performance of counter/despatch staff in processing and clearing of outstation cheques. The banks may fix the responsibility of supervising the work of counter/despatch staff on one of the supervisory officials, followed by weekly surprise checks by the Manager/In-charge of the branch.

(ii) Delays in collection of bills

3.34 The lodger's bank should pay interest to the lodger for the delayed period in respect of collection of bills at the rate of 2% p.a. above the rate of interest payable on balances of Savings Bank accounts. The delayed period should be reckoned after making allowance for normal transit period based upon a time frame of 2 days each for -

- (i) Despatch of bills.
- (ii) Presentation of bills of drawees.
- (iii) Remittance of proceeds to the lodger's bank.
- (iv) Crediting the proceeds to drawer's account.

To the extent the delay is attributing to the drawee's bank, the lodger's bank may recover interest for such delay from that bank. The banks may suitably revise the format of their payment advices to incorporate the above information.

(iii) Export proceeds

3.35 In the case of delay in collection of export proceeds, banks may at customer's request and his cost, take up the matter with the importer's bank overseas.

(iv) Dishonoured instruments

3.36 Banks may ensure that dishonoured instruments are returned, despatched to the customer promptly without delay in any case within 24 hours.

(v) Overdue interest

3.37 When purchased/discounted instruments are sent to their own branches for collections, banks may exclude delay attributable to themselves while recovering overdue interest.

(vi) Reimbursement of interest by paying bank

3.38 If remittance of proceeds is delayed beyond two days by paying bank, it should reimburse to the collecting bank interest for such delay.

(vii) Value dating of Telegraphic Transfers (TTs)

3.39 Telegraphic Transfers (TTs) issued and payable at Area I Centres including State capitals may be value dated on third day, other remittances may be credited on receipt of telegram or confirmation copy thereof whichever is received earlier. In case of any delay banks should pay interest @ 2% per annum over savings bank rate.

(viii) Value dating of Mail Transfers

- 3.40 (i) A system of value dating should be introduced in respect of M.Ts, as indicated below :
- (a) Banks should afford credit of M.Ts to clients' accounts, within a maximum period of seven days from the date of deposit of funds for M.T. In case the M.T. advice reached the destination branch after seven days for any reason, the credit should be made effective for interest calculation purposes from the 8th day.
 - (b) In the case of M.Ts to/from branches in North Eastern Region and Sikkim, the effective date should be the 11th day or the date of receipt of M.T. advice, whichever is earlier.
- (ii) The value-dating of M.Ts as indicated above, will not be construed as violation of the provisions of the directives relating to interest rates on advances/deposits issued by RBI from time to time.
- (iii) Delay beyond eight days in crediting Mail Transfers (MTs) may be compensated by paying interest @ 2% per annum above savings bank rate and paying such interest if it is Rs. 5/- or more.

(F) Loans and Advances

(i) Simultaneous appraisal of loan proposals

- 3.42 Loan proposals may be simultaneously submitted by bank branches to the controlling offices enabling sanctioning offices to release its decision quickly.
- 3.43 Processing official from controlling office may visit branches for expediting processing where loan applications are in bulk.

(ii) Simultaneous appraisal

- 3.44 Working capital applications may be processed by banks simultaneously with financial institutions dealing with term loan applications.

(iii) Delegation of Powers

- 3.45 Hesitation or fear psychosis about use of delegated powers by officers could be removed by proper message percolating down from top management.
- 3.46 Summarised and updated norms relating to various loan segments may be made available to branch officials interacting with prospective loanees.

(iv) Consortium Finance

3.47 After agreeing at consortium meetings, processing and sanctioning its own share of credit facilities by any member bank should not be delayed beyond 45 days. Disbursement of such credit shares should not be delayed for constraints of funds which the bank should arrange on its own initiative.

3.48 Single Window approach in regard to documentation of consortium finance may be promoted actively.

(G) Work Culture, Discipline & Attitude

(i) Identification badges

3.52 Each employee may wear on his person an identification badge displaying photo and name thereon.

(ii) Job Enrichment

3.53 Periodic change of desk and entrustment of elementary supervisory jobs may be considered for clerical employees.

(iii) Training

3.54 Training programmes should be in line with customer service orientation.

3.55 Induction training should be a must for all newly recruited clerical and officer employees.

3.56 Specialised training/post training placement for select employees should be revitalised.

3.57 Training programmes of the NIBM may be integrated and aligned with banks' needs. Banks faculty may develop short courses in practical banking under the aegis of the NIBM

(iv) Quality Circles

3.59 Quality Circles may be encouraged.

Voluntary Groups of employees may be formed in all the banks on the lines of Quality Circles in Japanese Management. The banks may form these groups at Head Office /Zonal /Regional Office levels, to start with. The members of the circles should be encouraged to think over the problems faced by banks in rendering quick and satisfactory services and suggest improvements. The details of the origin, constitution, function and objectives of Quality Circles are furnished in the Annexure II.

(v) Reward and recognition

3.60 Reward and recognition system should be used effectively.

(H) Work technology

(i) Communication network

3.64 Customers transactions, especially transfer of funds may be attended to by putting to effective use of BANKNET, SWIFT, Remote Area Business Message Network (RABMN), etc.

(ii) Systems and procedures

3.65 New procedures may be introduced and old ones may be done away with, on an on-going basis.

(iii) customers service audit

3.66 Banks should subject themselves to customer service audit covering grass-root levels as well as macro level.

(a) Customer service audit, customer charter and customer surveys

(i) Customer service audit, customer charter.

The banks should, with a view to constantly upgrading the quality of customer satisfaction and also identifying more avenues for customer service, undertake periodic evaluation of the position in regard to the extent of actual implementation, at the grass root levels, of the various recommendations of the customer service committee. Besides, the banks should evolve an appropriate monitoring system in this behalf. A format evolved for the sake of uniformity, by the RBI in consultation with the IBA, containing 25 core customer service areas, on which customer service evaluation and monitoring could be based, is given in the Annexure III. Banks could include more items for such audit. They should instruct their branches to submit a report on a quarterly basis to their controlling offices indicating the prevailing position of various aspects of customer service. The controlling offices, in turn, should consolidate these reports and forward to their head office, on half-yearly basis, as at the end of September and March, for consideration of the Chairman /Board. The bank should send a brief review, on half-yearly basis, to the Central Office of DBOD of RBI with a copy to the concerned Regional Office of DBOD.

(ii) customer surveys

- (a) The banks should introduce a suitable procedure, if not already introduced, to evaluate the quality of customer service prevailing at their branches. For the purpose, the bank may conduct customer surveys on half-yearly basis by adopting a questionnaire together with the branch rating system for customer services furnished in Annexures IV and V
- (b) The results of the customer surveys may be put up to the board and a copy of the board note may be furnished to the Reserve Bank (DBOD, CO) with a copy to the concerned Regional Office of DBOD for information.

(iv) Complaint Book

3.67 Complaint book with perforated copies in each set may be introduced, so designed as to instantly provide an acknowledgement to the customers and an intimation to the controlling office.

(b) Introducing of a complaint book

IBA has, for the sake of uniformity, prepared a format of the complaint book with adequate number of perforated copies, which are so designed that the complainant could be given an acknowledged copy instantly. A copy of the complaint is required to be forwarded to the concerned controlling office of the bank along with the remark of the Branch Manager within a time frame. Bank should introduce the complaint book as per the format given in Annexure VI for uniformity.

(c) Follow-up action on complaints/suggestions from bank users

Bank should take follow-up action on complaints/suggestions made by customers and action taken thereon should be reported to the Board/Committee of the Boards.

3.68 Branch level customer service committees should be rejuvenated.

(d) Constitution of customer service committees

Banks should set up Customer Service Committees in all major branches and hold meetings with the customers on quarterly basis to know their reactions and improve customer service. Effective monitoring should be done of the various measures taken and their effective implementation by their branches. A periodical report, at least annually, should be submitted to the board, indicating the progress actually made in implementing the recommendations and the programme of action for the ensuing year and a copy thereof should be sent to the Reserve Bank.

(e) Observance of Customers' Day

As per the decision of Standing Committee on Customer Service the senior officers, from Regional Manager to Chairman and Managing Director level, should visit once a month, some of the rural branches and send a copy of their visit notes to the concerned branches for necessary follow-up action. The concerned branch should take necessary action based on the report and send an action taken report to the officers who visit the branch with a copy to the Head Office. During such visit, the visiting officers may, inter alia, look into the punctuality aspect at the branches.

(v) Periodical meetings with bodies representing customers

3.69 periodical meetings should be held with customers and their representative bodies.

(vi) Customer relation programmes

3.70 Quarterly Customer Relation Programmes to interact with different cross sections of customers should be utilised for identifying action points to upgrade the customer service.

(vii) Inspection/audit reports

3.71 Inspectors, auditors should give due importance in their report to customer service aspects such as efficacy of complaints, complaint handling and grievances redressal machinery.

(viii) Complaint-prone areas

3.74 Special attention may be bestowed on complaint -prone areas and special Task Force may be constituted to bring up branches in such areas.

(ix) Complaint-prone branches

3.75 Public relation orientation officers may be posted to complaint-prone branches with a view to converting these into good customer service units.

(x) Complaint-prone employees

3.76 While more employees may be brought into the customer service circles by training, by being recognised by the rewards and by being shown out as example in customer service culture, deliberate recalcitrance and disregard to customer service spirit should be taken note of in concerned employee's service records besides taking other action.

Apart from training the staff, banks should take serious note of the complaints made against any particular employee or branch by

customers and efforts should be made to see that complaints are minimised.

(xi) Periodical visits by senior officers

3.77 Senior officials from Controlling Office may give priority to customer service aspects, cross checking actual atmosphere with a copy of the customer service report.

(a) Personal visit by senior officials from controlling offices and Head Office of the bank to branches at periodical intervals should be arranged for on the spot study of the quality of service rendered by the branches. Such visits should be exclusively for the purpose of studying certain related aspects of customer service and should not be by way of routine inspection. The visits should cover, inter alia, the following aspects :

- (i) Submission of statement of accounts to customers.
 - (ii) Updating of Savings Bank account pass books.
 - (iii) Teller system efficiency (i.e., the average time taken for payment of cheques, drafts, etc. and accounting for such payments).
 - (iv) Cleanliness and upkeep of premises.
 - (v) Immediate credit for outstation cheques and bills.
 - (vi) Time taken for collection of outstation cheques and bills and payment of interest on late collections.
 - (vii) Advance intimation to customers for renewal of Term Deposit Receipts on maturity.
 - (viii) Advices for debits/credits to accounts.
 - (ix) Punctuality of staff.
 - (x) Handling of complaints, specially the average time taken for responding to customer complaints.
- (b) In the matter of such visits, endeavour should be made to cover as many branches as possible, particularly complaint prone branches, within a specific period of time.

I) General

(i) Infrastructure provision

3.80 Infrastructure facilities by branches should be upgraded by bestowing particular attention to providing adequate space, proper furniture, drinking water facilities, etc.

(ii) Specialised branches

- 3.81 Specialised branches may be opened for catering exclusive customer segments. Personalised service may be promoted by levying of higher charges, if necessary.

(iii) Optimum size of branches

- 3.82 Optimum branch size may be determined identifying present levels of staff strength not exceeding 100 and business level not beyond Rs. 100 crore.

(iv) Spinning off large branches

- 3.83 Unwieldy large branches may be trimmed, by carving out certain functional areas to be spun off to new specialised branches.
- 3.84 The manpower should be redistributed/redeployed to need based availability of staff at branches.

In terms of the provisions of the Bipartite Settlement dated 29 October 1993, the banks can deploy the staff in the same city or town, subject to any bank level understanding about rotation/transfer/deployment of staff. The banks should initiate action and advise the progress made to the RBI (DBOD, CO).

- 3.85 Instead of joint publicity by public sector banks, individual banks may at its own undertake publicity campaign; wherever public in general is the target group, the IBA may undertake publicity on behalf of the banks.

(v) Customer education

- 3.86 Customer education programmes wherein banks employees should also be involved may consist of advertisements, informative literature, interfaces, seminars, etc. with a view to making the customer empathetical to banks' limitations and predicaments and appreciative of banks' efforts to improve customer service.

(vi) Sunday banking

- 3.87 In predominantly residential areas banks may keep their branches open for business on Sundays by adjusting the weekly offs suitably.

(vii) Security arrangements

- 3.88 Banks should review and improve upon the existing security system in branches so as to instil confidence amongst the employees and the public.

(viii) Telephone enquiry

- 3.91 Password system may be evolved to facilitate customers to get answers to routine queries over the phone thus reducing customers' visits.

(ix) Annual awards

- 3.93 Best branches from customer service point of view should be rewarded by annual awards/running shield.

(x) Non-banking services

- 3.95 Tax collection and such other works on behalf of Government and public undertakings may be undertaken only after careful assessment of infrastructure, etc. and its impact on the quality of regular customer service. As far as possible specialised branches may provide such facilities.

(xi) Display of time norms

- 3.96 Time norms for specialised business transactions should be displayed predominantly in the banking hall.

18.3 Electronic Clearing Service

a) Electronic Clearing Service (Credit Clearing)

- (i) The Electronic Clearing Service (ECS) (Credit Clearing) has been made operational with effect from 1 April 1995, initially at Mumbai and Chennai. The scheme has since been extended to Ahmedabad, Bangalore, Calcutta, Hyderabad, New Delhi and Pune and will be further extended to Bhubaneswar, Chandigarh, Guwahati, Jaipur, Kanpur, Nagpur, Patna and Thiruvananthapuram with effect from July 1, 1998. The individual amount to be credited to the beneficiaries' accounts under the scheme initially fixed at Rs. 25,000/- has been increased to Rs. 50,000/- and will be further increased to Rs. 1,00,000/- with effect from July 1, 1998.
- (ii) ECS also envisages substitution of the paper instruments by electronic instructions for bulk and repetitive payment transactions, such as, dividend/interest/commission.
- (iii) The operational staff should be properly trained in the procedures by holding workshops/seminars/training sessions. The corporate customer who are required to make regularly payments to a large number of beneficiaries (e.g. interest on company deposits, dividends, commission payments to agents, pension, salaries, etc.) should be encouraged to switch over to the electronic payment system for all round advantages to the large body of customers.
- (iv) In terms of paragraph 49 of procedural guidelines of ECS (Credit Clearing), the banks maintaining the accounts of beneficiaries should

not recover any service charges from the customers. As these banks are being paid Re. 1/- per transaction as service charges for passing on credit to beneficiary's account under ECS (Credit Clearing) by the corporate body through their sponsor banks, these banks should not recover any additional charges from the customers.

- (v) Banks should note that in terms of paragraph 29 of the Electronic Clearing Service (Credit Clearing) Procedural Guidelines (March 1995) which stipulates that "Destination Banks will be liable to pay penal interest at the rate of prevailing Bank Rate plus two per cent from the due date of credit till the date of actual credit for any delayed credit to the beneficiaries' accounts. Further, penal interest is to be credited to the Destination Account Holders' accounts for such delay even if no claim is lodged by the Destination Account Holders". The banks should afford credit to the beneficiaries accounts on the appointed day, without fail.

b) Electronic Clearing Service (Debit Clearing)

Electronic Clearing Service (Debit Clearing) has been introduced to provide an alternative method of effecting payment transactions in respect of the utility bill payments such as telephone bills, electricity bills, insurance premia, and loan repayments which would obviate the need for issuing and handling paper instruments and thereby facilitate improved customer service by the banks/companies/corporations/government departments collecting/receiving the payments. Electronic Clearing Service (Debit Clearing) is presently in operation in Mumbai, Calcutta, Hyderabad and Bangalore for collection of telephone bills.

c) Electronic Clearing Service-Utility Payment (RAPID) Scheme

- (i) Electronic Clearing Service [Receipts and Payments Instruments /Documents (RAPID)] has been introduced to provide to the consumers/customers convenient alternative method of payment of the periodical bills to the utility companies like electricity companies, telephone company, insurance companies, etc. The term "consumers/customers" would refer to those who would opt to make payment of their utility bills to the utility companies under the scheme by debit to their bank accounts or in cash.
- (ii) The scheme has been introduced in Mumbai for making payments of electricity bills to M/s BSES Ltd. in three western suburbs in Mumbai and necessary training of Electronic Clearing Service (Rapid) Scheme to all the bank branches in Santacruz, Khar and Bandra area has been given. The procedural guidelines on Electronic Clearing Service (RAPID) Scheme has been furnished to the service branches and other branches of the banks in pilot run area. The banks branches collecting the bills and passing on credit to BSES Ltd. through the Sponsor Banks as stipulated under the scheme, will be suitably compensated for their services under ECS-RAPID by payment of approved charges per transaction by M/s BSES Ltd. The banks should ensure that all their

branches in Mumbai participate actively in ECS(RAPID) Scheme to make it a success.

18.4 Safe Deposit Locker facility

a) General guidelines for extending the facility by public sector banks

- (i) The Public Sector Banks should observe the following guidelines for ensuring equitable distribution of lockers:
 - (a) Branches should maintain a waiting list for the purpose of allotment of lockers. All such applications received for allotment of a locker should be acknowledged and given a waiting list number.
 - (b) At least 80 per cent of lockers should be allotted by the branches on first-come-first served basis. The remaining lockers could be allotted by the branch managers at their discretion to valued customers on business considerations.
 - (c) The banks should not insist on fixed deposits as a pre-requisite for allotment of lockers. There will however, be no objection to banks seeking a deposit (but not as a condition for allotment) from the applicant who has been allotted a locker, the annual interest from which will not be more than the annual rent of the lockers. In the alternative, advance payment of locker rent for a period of three years may be collected from the locker holders. Further, those who opt for annual payment of rent and default in payment, should not be allowed to operate the locker till the arrears of rent are cleared.
- (ii) The Public Sector Banks should plan for the facility of providing adequate number of lockers while opening new branches, taking into account the demand for such lockers, whenever such locker facilities could be provided.

b) Operations of Safe Deposit Vaults/Lockers

The banks should review the systems in operation for operations of safe deposit vaults/lockers at their branches on an on-going basis and take necessary steps to strengthen them by plugging the loopholes by taking, among others, following steps to avoid loss of articles from the safe-deposit lockers:

- (i) ensuring branches follow the instructions issued by their Head Offices and Indian Banks' Association meticulously;
- (ii) the grill doors provided for the safe deposit vaults are kept locked by the custodian in between the operations preventing free access to unauthorised persons to enter into the strong room;

- (iii) the hirers are permitted to sign the 'Access Register' of lockers only after proper verification of their identity, viz., by obtaining an 'admission slip' containing name, locker-key numbers, password, signature, etc.;
- (iv) the system of inter-change of locks whenever a locker is surrendered by the hirer should be observed;
- (v) the custodian of safe-deposit lockers should visit the strong room and inspect the lockers operated during the day;
- (vi) the system of keeping the keys of vacant lockers in a sealed envelope should be observed;
- (vii) duplicate master keys may be kept/deposited with another bank/branch;
- (viii) maintaining proper records relating to joint custody of master keys;
- (ix) surprise verifications of surrendered/vacant lockers and their keys may be carried out by the a person unconnected with their custody;
- (x) fool-proof procedure should be kept in place for immediate destruction of admission slips which contain sensitive information, such as password, signature, etc.

c) Safe Deposit Lockers-Safety of Customers

- (i) The banks may take following measures/course of action when customers visit for operating the safe deposit lockers to ensure that no customer is confined in a locker room:
 - (a) The procedure of recording check-in and check-out time by the customer should be introduced if a system is not in existence.
 - (b) The custodian of the locker room should carry out a physical check of the locker room at the end of the day to ensure that no customer is inadvertently trapped in the locker room after banking hours. This should be made compulsory and part of the operating instructions.
- (ii) Banks may also consider the possibility of linking up the locker room with a nearby Police station through a telephone connection which does not need power supply.

18.5 Standardisation of provisions relating to collection business

- i) The various recommendations made in the report of the Indian Banks' Association (IBA) Sub-Committee on Standardisation of Procedures Pertaining to Collection Business (forwarded to banks vide its letter No. SO/35-36/I/1914 dated 3 March 1986) should be implemented by banks, subject to the observations in the following paragraphs and also with such

modifications as they may deem necessary (in respect of certain recommendations) to suit each bank's requirements.

- ii) The Committee's recommendation for opening of a separate account by the Regional Collection Centre (RCC) with RBI has not been accepted by RBI as transactions of RCC could be routed through existing accounts with RBI maintained by the banks.
- iii) With the introduction of MICR technology and National Clearing Cell, some of the procedures suggested by IBA may be changed as indicated below:
 - (a) The recommendations in paragraph 3.6 about the use of the Rubber Stamp "payable at par at any branch of the bank at any centre" is not accepted by RBI as it could affect the mechanised processing.
 - (b) As inter-branch cheques also pass through the Clearing House, the procedure for 'home clearing' envisaged in paragraph 3.7 of the Report, should be changed as inter-branch cheques will also pass through the Clearing House.
 - (c) As regards the recommendations in paragraph 3.8 the Courier service could be used only for cheques drawn on non-MICR centres.
 - (d) The proposed procedures in paragraphs 3.4.1 and 3.5.1 have also to undergo certain changes.
- iv) The banks may take the required steps to establish RCCs, as recommended. The banks, however, should note that the requirements of section 23 of the B.R. Act, 1949 for obtaining licences are to be complied with and that the above provisions should not be construed as automatic authority for banks to open RCCs without specific approval of RBI.

18.6 Banking Companies (Nomination) Rules, 1985-Clarifications

- i) The Banking Companies(Nomination) Rules, 1985 are furnished in the Annexure VII. In this regard the following clarifications may be kept in view:
 - (a) Banks may allow variation/cancellation of a subsisting nomination by all the surviving depositor(s) acting together. This is also applicable to deposits having operating instructions " either or survivor". It may be noted that in the case of a joint deposit account the nominee's right arises only after the death of all the depositors.
 - (b) There cannot be more than one nominee in respect of a joint deposit account.
 - (c) Nomination facilities are available only in the case of individual depositors, a sole proprietary concern and not in respect of persons jointly depositing articles for safe custody.

- (d) Banks are not required to open sealed/closed packets left with them for safe custody or found in locker while releasing them to the nominee or nominees and surviving hirers.
- (e) As regards lockers hired jointly, on the death of any of the joint hirers, the contents of the locker are only allowed to be removed jointly by the nominees and the survivor(s) after an inventory is taken in the prescribed manner. In such a case, after such removal preceded by an inventory, the nominee and surviving hirer(s) may still keep the entire contents with the same bank, if they so desire, by entering into a fresh contract of hiring a locker.
- (f) Section 45 ZE of the B.R Act, 1949 does not preclude a minor from being a nominee for obtaining delivery of the contents of a locker. The responsibility of the banks in such cases is to ensure that when the contents of a locker are sought to be removed on behalf of the minor nominee, the articles are handed over to a person who, in law, is competent to receive the articles on behalf of the minor.
- (g) Nomination facility is intended only for individuals including a sole proprietary concern.
- (h) Nomination facility is available for Savings Bank Account opened for credit of pension. Banking Companies (Nomination) Rules, 1985 are distinct from the Arrears of Pension (Nomination) Rules, 1983 and nomination exercised by the pensioner under the latter rules for receipt of arrears of pension will not be valid for the purpose of deposit accounts held by the pensioners with banks for which a separate nomination is necessary in terms of the Banking Companies (Nomination) Rules, 1985 in case a pensioner desires to avail of nomination facility.
- ii) The nomination facility is intended to facilitate expeditious settlement of claims in the accounts of deceased depositors and to minimise the hardship caused to the family members on the death of the depositors. The banks should endeavour to drive home to their constituents the benefit of nomination facilities and ensure that the message reaches all the constituents by taking all necessary measures for popularising the nomination facility among their constituents.

18.7 Strengthening of the existing system of monitoring of implementations of the instructions issued by the Government/ Reserve Bank of India

The banks should take the following steps to strengthen the customer service :

- i) A check list should be maintained with the branch managers about instructions issued by the Govt./RBI that are required to be implemented in the area of customer service as per format already sent to them by the Government of India.

- ii) Branch managers should be advised to send a report once in a quarter to the concerned Controlling Offices about the implementation of the measures indicated in the check list.
- (iii) Extent/progress of implementation of the items contained in the check list should also be discussed in the meeting of the Customer Service Committee at the branch level.

18.8 Review of customer service committees and grievances redressal machinery

- i) Banks may critically examine on an on-going basis as to how the Customer Service Committees and Grievances Redressal Machinery are working and whether the same has been found to be effective in achieving improvement in customer service in different areas.
- ii) Banks may identify areas in which the number of complaints is large or on the increase and consider constituting special squads to look into complaints on the spot in branches against which there are frequent complaints.
- iii) Banks may consider shifting the managers/officers of branches having large number of complaints to other branches/regional offices/departments at Head Offices where contacts with public may be relatively infrequent.
- iv) At larger branches and at such of the branches where there are a large number of complaints, the banks may consider appointing Public Relations Officers /Liaison Officers for looking into/mitigating the complaints/grievances of customers expeditiously.
- v) The banks may arrange to include one or two sessions on customer service, public relations, etc. in training programmes conducted in their training establishments.
- vi) The following recommendations made by the study team from the Dept. of Administrative Reforms and Public Grievances of Government of India on the working of the grievances redressal machinery in public sector banks in Mumbai may be implemented by the banks :
 - (a) In cases where the contention of the complainant has not been accepted, a complete reply should be given to him to the extent possible.
 - (b) Grievances/complaints relating to congestions in the banking premises should be examined by the banks' internal inspectors/auditors on a continuing basis and action taken for augmentation of space, whenever necessary, keeping in view the availability of larger accommodation in the same locality at a reasonable rent on other commercial considerations.
 - (c) All bank's branches should maintain a separate complaints register in the format given in the Annexure-VIII for entering all the complaints/grievances received by them directly or through their Head

Office/Govt. These registers should be maintained irrespective of the fact whether a complaint is received or not in the past.

- (d) The complaints registers maintained by branches should be scrutinised by the concerned Regional Manager during his periodical visit to the branches and his observations/comments recorded in the relative visit reports.

18.9 Banking hours/working days of bank branches

- i) Banks should normally function for public transactions for 4 hours on week days and 2 hours on Saturdays in the larger interest of public and trading community. In the case of extension counters, satellite offices, one man offices or other special class of branches which may remain open for such shorter hours as may be considered necessary.
- ii) No particular banking hours have been prescribed by law and a bank may fix, after due notice to its customers, whatever business hours are convenient to it i.e. to work in double shifts, to observe weekly holiday on a day other than Sunday or to function on Sundays in addition to the normal working days, subject to observing normal working hours for public transactions referred to in paragraph (i) above. In order to safeguard banks' own interest, a bank closing any of its offices on a day other than a public holiday, will have to give due and sufficient notice to all the parties concerned who are or are likely to be affected by such closure. Thus, in all the above cases, it is necessary for a bank to give sufficient notice to the public/its customers of its intention. What is sufficient or due notice is a question of fact, depending on the circumstances of each case. It is also necessary to avoid any infringement of any other relevant local laws such as Shops and Establishment Act, etc. Further, the provisions, if any, in regard to the banks' obligations, to the staff under the Industrial Awards / Settlements, should be complied with. Clearing House authority of the place should also be consulted in this regard.
- iii) The banks' branches in rural areas or branches of Rural Banks can fix the business hours (i.e. number of hours, as well as timings) and the weekly holidays to suit local requirements. This may, however, be done subject to the guidelines given above.

Extension of banking hours of branches of banks

- iv) (a) Banks can have evening counters at the premises of existing branches in urban/metropolitan centres for providing facilities to the public beyond the normal hours of business so as to bring about improvement in customer service. It is necessary that in such cases the transactions conducted during such extended hours of business are merged with the main accounts of the branch where it is decided to provide the aforesaid facilities.

- (b) The concerned banks should give to their constituents due notice about the functions to be undertaken during the extended banking hours through local newspapers, as also by displaying a notice on the notice board at the branch(es) concerned. It should also observe the guidelines covered in paragraph (ii) above.
- (c) Further, as and when the hours of business of any of the branches are extended, the concerned clearing house should be informed.

ANNEXURE - I
[Paragraph 18.1 (ii) (A) (b) 47]

Penalties in case of dishonour of certain cheques for insufficiency of funds in the accounts

138. Where any cheque drawn by a person on an account maintained by him with a banker for payment of any amount of money to another person from out of that account for the discharge, in whole or in part, of any debt or other liability, is returned by the bank unpaid, either because of the amount of money standing to the credit of that account is insufficient to honour the cheque or that it exceeds the amount arranged to be paid from that account by an agreement made with that bank, such person shall be deemed to have committed an offence and shall, without prejudice to any other provision of this Act, be punished with imprisonment for a term which may extend to one year, or with fine which may extend to twice the amount of the cheque, or with both;

Provided that nothing contained in this section shall apply unless-

- (a) The cheque has been presented to the bank within a period of six months from the date on which it is drawn or within a period of its validity, whichever is earlier;
- (b) The payee or the holder in due course of the cheque, as the case may be, makes a demand for the payment of the said amount of money by giving a notice in writing, to the drawer of the cheque, within fifteen days of the receipt of information by him from the bank regarding the return of the cheque as unpaid; and
- (c) The drawer of such cheque, fails to make the payment of the said amount of money to the payee or, as the case may be, to the holder in due course of the cheque, within fifteen days of the receipt of the said notice.

Explanation – For the purposes of this section, ‘debit or other liability’ means a legally enforceable debt or other liability.

139. It shall be presumed, unless the contrary is proved, that the holder of a cheque received the cheque of the nature referred to in Section 138 for the discharge, in whole or in part, of any debt or other liability.
140. It shall not be a defence in a prosecution for an offence under Section 138 that the drawer had no reason to believe when he issued the cheque that the cheque may be dishonoured on presentment for the reasons stated in that Section.
141. 1) If the person committing an offence under Section 138 is a company, every person who, at the time the offence was committed, was in charge of, and responsible to, the company for the conduct of the business of the company, as well as the company, shall be deemed to be guilty of the offence and shall be liable to be proceeded against and punished accordingly;

Provided that nothing contained in this sub-section shall render any person liable to punishment if he proves that the offence was committed without his knowledge, or that he had exercised all due diligence to prevent the commission of such offence.

- 2) Notwithstanding anything contained in sub-section (1), where any offence under this Act has been committed by a company and it is proved that the offence has been committed with the consent or connivance of, or is attributable to, any neglect on the part of any director, manager, secretary or other officer of the company, such director, manager, secretary or other officer shall also be deemed to be guilty of that offence and shall be liable to be proceeded against and punished accordingly.

Explanation – For the purposes of the Section –

- (a) ‘company’ means any body corporate and includes a firm or other association of individuals; and
- (b) ‘directors’, in relation to a firm means a partner in the firm.

142. (1) Notwithstanding anything contained in the Code of Criminal Procedure, 1973, –
- (a) No court shall take cognizance of any offence punishable under Section 138 except upon a complaint, in writing, made by the payee or, as the case may be, the holder in due course of the cheque;
- (b) Such complaint is made within one month of the date on which the cause of action arises under clause (c) of the proviso to Section 138;
- (c) No court inferior to that of a Metropolitan Magistrate or a Judicial Magistrate of the first class shall try any offence punishable under Section 138.

ANNEXURE-II

[Paragraph 18.2 (ii) (G) (iv) 3.59]

1. Quality Circles

- 1.1 Organisational researches over the past few decades have been pointing out that management of human resources is a critical factor in organisational performance effectiveness. Although this theory is accepted world over, very few organisations could translate this into practice, may be due to the persisting traditional outlook and resistance to implementing new ideas.
- 1.2 In the absence of effective human relations programmes, estrangement or alienation of the individual occurs which is a fertile breeding ground for frustrations. The individual tends to leave the organisation mentally. He needs motivation but that is easier said than done. It requires a concerted and sincere effort from the management to create a suitable environment for the individual to be receptive to the motivated factors. One such way is through Quality Circles which provide support, feed-back and counselling to individuals.
- 1.3 Although the basic Quality Circles techniques were developed in USA in the 50's, Japanese experts developed and implemented the concept of Quality Circles successfully on a wide scale. Taking lessons from successful Japanese enterprise the Quality Circles programmes were introduced in USA and Europe and have also been tried out in India in manufacturing and service industries. Recently, Quality Circles have also become active in some Indian Banks.
- 1.4 Quality Circles are groups of fewer than 10 members (attending to similar type of work) set up to explore ways and means of improving quality, productivity, safety in work and ways to reduce costs. The members join the group voluntarily and carry out the activities at their own initiative. They usually meet once a week for an hour or so during office hours for the purpose. The management role is mainly supportive. The groups identify problems in their work area, subject them to process of analysis and a solution is worked out. A complete presentation is made to the management and the proposal implemented with the co-operation of management.

2. Organisation and Working Process

- 2.1 The immediate superior of the members presides over the meeting, keeps the communication line open between the circle and the management, and follows up on the circle projects. Leaders of the Quality Circles report to a facilitator. The success of company Quality Circles depends greatly on the role and competence of the facilitator, who initiates Quality Circles, trains and advises leaders.
- 2.2 The facilitator usually reports to the Manager. Knowledge of the principles of organisational behaviour and of the organisation's technical and administrative operations is required. Companies implementing three or four Quality Circles, soon realise the need of a full time facilitator.

- 2.3 The Steering Committee establishes the developmental strategy and the operating policies of Quality Circles, the training strategy for leaders/circle members as well as the approved structure for projects depending on the nature of the latter. Some projects must be approved by the Committee, others by upper management and still others may not require any prior approval. The steering committee generally includes 5 to 15 members, most of whom are in middle management cadre. Also included in the committee are facilitator(s), one or more members of the company's upper management and sometimes a member of the union.

3. Role of Facilitator

- Form the link between the circles and the rest of the organisation.
- Work closely with steering committee.
- Train the circle leaders and prepare training material.
- Help the leader during training of the members.
- Maintain Circle records.
- Organise meeting of the Circle.
- Prepare for presentation, invitations, papers, visuals etc.,
- Publish the programme.
- Arrange meetings with outsiders, if necessary.

4. Duties of Quality Circle leader

- Acquire skills in Quality Circle techniques
- Motivate potential members to join circle activities.
- Schedule circle meetings.
- Ensure effective participation of members.
- Prepare agenda for effective utilisation of meetings.

ANNEXURE-III

[Paragraph 18.2 (ii) (H) (iii) (a) (i) 3.66]

Customer Charter / Customer Service Audit Instructions to Branches

1. A single format containing core recommendations of the Goiporia Committee on Customer Service has been designed to serve the dual purpose of customer charter and customer service audit.
2. The Customer Charter envisages educating the staff and creating awareness amongst the staff regarding the steps to be taken by them to ensure better customer service. The format of customer charter consists of 25 core recommendations of the Goiporia Committee on Customer Service.
3. To indicate the level of compliance of the recommendations for the purpose of audit for customer service, the format provides for a three level grading system viz. A,B,C.
 A – Good
 B – Satisfactory
 C – Unsatisfactory
4. The level of compliance of the recommendations shall be indicated by the Branch Manager adopting the grading system A, B, C.
5. The format should be submitted by the branches on a quarterly basis to their controlling offices showing the prevailing position of the various customer services recommendations.
6. The Regional Managers during their visit to branches shall use the same format to record their observations on the level of customer service at the branch by using the grading system A,B,C.

Customer Charter/Customer Service Audit

Sr.No.	Recom. No.	Recommendation	Extent of compliance		
			A	B	C
1	3.1	Commencement of employees' working hours. 15 minutes before commencement of business hours can be made operative by banks at branches in metropolitan and urban centres			
2	3.2	All the customers who enter the banking hall before the close of business hours should be attended to			
3	3.3	Staff at the counters should undertake the following transactions during the extended business hours (branches to indicate the timings)			

a. Non-Voucher generating transactions

1. Issue of passbook, statement of accounts
2. Issue of cheque books
3. Delivery of term deposit receipts/draft
4. Acceptance of share application form
5. Acceptance of clearing cheques/bills for collection

b. Voucher generating transactions

1. Issue of term deposit receipts (TDR)
2. Acceptance of cheques for locker rent due
3. Issue of travellers cheques
4. Issue of gift cheques
5. Acceptance of individual cheques for transfer credit

4	3.4	To ensure that no counter remains unattended during the business hours and uninterrupted service is rendered to the customers
5	3.5	All branches, except very small branches should have 'Enquiry' or 'May I help you ?' counter, either exclusively or combined with other duties, located near the entry point of the banking hall.
6	3.7	Difficulties, in the way of acceptance of small denomination notes from customers as well as from non-customers for issuance of drafts, should engage the attention of branch officials, controlling offices and the RBI; Customers may be taken into confidence about such difficulties
7	3.10	Service relating to exchange of mutilated and soiled notes may be made more customer-friendly by proper training of employees on one hand and liberalisation of Note Refund Rules on the other
8	3.13	In addition to obtaining nomination form, banks may provide for mentioning name and address of the nominee in the account opening form. Publicity about nomination facility is needed, including printing compatible message on cheque book, pass book and any other literature reaching the customer

as well as launching periodical drives to popularise the facility.

9	3.14	Unless the customer prefers not to nominate, (this may be recorded, without giving scope for conjecture of non-compliance), nomination should be a rule to cover all other existing and new accounts.
10	3.17	Issuance of statements of accounts and updating of pass books with correct and legible particulars should attract bank's constant attention.
11	3.19	Stationery with pre-demarcated folds flaps may be used for statements of accounts.
12	3.26	Trilingual brochures and pamphlets should be actively promoted containing myriad customer-useful information.
13	3.29	Single-window concept may be introduced for issuance of drafts. Authorising employee at the counter to sign drafts upto Rs. 5,000/- which are pre-countersigned by another authorised signatory.
14	3.31	'Bank Orders', like the postal orders, may be introduced in denominations of Rs. 5, Rs. 20, Rs 100, Rs. 500, Rs. 1000, etc. providing for payees' name to be filled in by the purchaser.
15	3.32	Facility of instant credit of outstation cheques may be raised to Rs. 5,000 (from Rs 2,500) A separate type of pay-in-slip may be evolved for availing of this facility
16	3.33	Delay in collection of outstation cheques may be compensated by paying interest at 2% p.a. above savings bank rate, if such interest payable is Rs 5/- or more. However, if the proceeds are to be credited to the borrowal accounts, like cash credit/over-draft/loan etc., banks have to pay at the minimum lending rate that will be stipulated by RBI from time to time.
17	3.34	Where delay in crediting bill proceeds can be attributed to the bank, it should pay interest to the lodger for the delayed period at the rate of 2% above savings bank interest rate.
18	3.36	Dishonoured instruments may be returned/ despatched to the customer within 24 hours.

19	3.39	Telegraphic Transfers (TTs) issued and payable at Area I centres including State capitals may be value-dated on third day, other remittances may be credited on receipt of telegram or confirmation thereof whichever is received earlier
20	3.40	Delay beyond eighth day in crediting mail transfers (MTs) may be compensated by paying interest at 2% p.a. above savings bank rate and paying such interest if it is Rs. 5/- or more.
21	3.67	Complaint book with perforated copies in each set may be introduced so designed as to instantly provide an acknowledgement to the customer and an intimation to the controlling office
22	3.68	Branch level Customer Service Committees should be rejuvenated
23	3.69	Periodical meetings should be held with customers and their representative bodies.
24	3.80	Infrastructure facilities at branches should be upgraded by bestowing particular attention to providing adequate space, proper furniture, drinking water facilities, etc.
25	3.96	Time norms for specialised business transactions should be displayed predominantly in the banking hall.

NOTE A – Good
 B – Satisfactory
 C – Unsatisfactory.

ANNEXURE - IV

[Paragraph 18.2 (ii) (H) (iii) (a) (ii) (a) 3.66]

Customer Service Ratings

1. Instructions to Branch Managers :

A. Methodology of implementation

1. Customer Service Rating will be done on the basis of questionnaire.
2. The evaluation will be done every half year, in the month of April and October.
3. Before 10th day of Apr/Oct. branch manager will handover questionnaire to cross section of customers on random basis. Efforts should be made to have a fair mix of customers from all walks of life so that feed back received will be comprehensive and useful. The names of the customers to whom questionnaire is given should be noted separately.

The minimum number of questionnaire to be distributed is as under :

Rural & semi urban branches – 10 or more

Urban branches – 15 or more

Class A Cities & Metro branches – 20 or more

4. The specimen copy of the questionnaire in English is enclosed (Annexure V). The banks may arrange to translate it in Hindi and local languages - Sufficient number of xerox copies may be taken at branch level as per the language preference of the customer.
5. The questionnaire should be collected from the customer before 20th day of month. Customer may be allowed to send it by post, if necessary. In this case, self addressed and duly stamped envelope should be given to the customer by the branch.
6. It is advised that Customer Service Committee Meeting may be arranged in the last week of the month. All questionnaire should be checked and marks should be allotted as per the Rating System explained below.

In the meeting apart from the usual proceedings, the results of the ratings and the weak areas pointed out by customers and suggestions made by them in questionnaire should be discussed.

7. The signing of the questionnaire by customer is optional. The rating given by the customer should be kept confidential and should never be argued or discussed with him/her. It should be used only as a feedback for improvement in customer service.

B. THE RATING SYSTEM :

1. The questionnaire is in two parts. Customer is expected to answer all the questions of part I because they relate to *common services* for all the customers. However in part II questions relating to actual utilisation of *particular service* need to be answered.

2. The questionnaire contains 20 questions in all.

– Part I has 10 questions relating to general up-keep of premises and counter service. It will be seen from the nature of questions that every customer while dealing with branch has experience of these two areas of branch functioning and therefore is expected to answer all 10 questions of part I.

– Part II has 10 questions which relates to services/facilities such as remittances and collection services ; loan and borrowing; Computer based services; Foreign Exchange Business Services; etc. Since majority of customers shall not be utilising all these services simultaneously, they are expected to answer questions relating to those services which they are availing and therefore, have personal experience about the quality of service. However it is possible that few customers may be utilising all the services (viz .a borrower of the branch doing import/export business and branch happens to be computerised and if he is sending his cheques or bills for collection) and therefore may be in a position to answer all questions of part II.

To summarise, in part II, customer shall be answering only those questions depending on his experience in utilising particular facility/service.

3. While answering a question, the customer is only required to rate particular service/facility. The ratings are divided into 5 categories as follows :

- [1] Excellent
- [2] Very Good
- [3] Good
- [4] Average
- [5] Poor

The customer is required to put a tick mark [✓] under one of the ratings amongst above 5 which he/she deems fit.

4. Branch shall have to assess each of the questionnaire as per the instructions given below (a specimen of the worksheet to assess the questionnaire is also enclosed for the guidance)

Step 1 : Count the number of questions answered out of total 20 questions

Step 2 : The summary of ratings should be noted down in the table as shown below:

TABLE - I

Rating marked as	number of rating
Excellent	
Very good	
Average	
Poor	

It is needless to say that total of above table will be the same number of questions answered. (Step 1)

Step 3 ∴ The ratings are given marks as follows :

Excellent Ratings = 5

Very Good Ratings = 4

Good Ratings = 3

Average Ratings = 2

Poor Ratings = 0

The rating can be converted into marks by using following table :

TABLE - II

Type of Ratings	No. of Rating (as per Table I)	Multiplied by	Marks secured
Excellent		x 5	
Very Good		x 4	
Good		x 3	
Average		x 2	
Poor		x 0	

Step 4 : The marks secured will have no meaning unless it is compared with maximum marks. Since maximum marks for a question are 5 (if it is rated as excellent,) the maximum marks of a questionnaire will be -

TABLE - III

No. of questions answered (Step 1)	Multiplied by	Maximum Marks
	x 5	

Step 5 : Thus the assessment of the questionnaire would be :
Actual Marks secured

(Total of table II)

----- = -----

Maximum marks

(Total of Table III)

Step 6 : The marks of each questionnaire then will be converted into % marks (i.e. out of 100) as follows :

$$\frac{\text{Actual Marks secured}}{\text{Maximum marks}} \times \frac{100}{1} = \frac{\text{Total of table II}}{\text{Total of table III}} \times \frac{100}{1} = \%$$

(Please note that converting marks into % marks would be necessary because suppose the first questionnaire secures marks 45 out of 60, the second may score 30 out of 50, the third one 60 out of 80 and so on. Thus, there will be no uniformity for the purpose of comparison. If these marks are converted into a uniform yardstick of percentage marks i.e. out of 100 then the comparison would be easy. Besides, this would also help to work out the overall customer service ratings of a branch which is explained in the next step).

ILLUSTRATION :

Suppose in a questionnaire the customer has answered 15 questions and the summary of his ratings is as follows : (Step 2)

TABLE - I

Ratings marked as	No. of Ratings
Excellent	3
Very Good	4
Good	4
Average	2
Poor	2
TOTAL	15

The marks secured will be (Step 3).

TABLE - II

Type of Ratings	No. of Ratings	Multiplied by	Marks Secured
Excellent	3	x 5	15
Very Good	4	x 4	16
Good	4	x 3	12
Average	2	x 2	4
Poor	2	x 0	0
TOTAL	15		47

Maximum marks will be worked out as per step 4:

No. of questions answered (Step 1)	Multiplied by	Maximum Marks
15	x 5	75

The marks obtained : 47 out of 75 i.e. 47/75

These marks can be converted into % marks as per step 6 as follows :

$$\frac{47}{75} \times \frac{100}{1} = 62.7 \%$$

Step 7 : The overall rating of a branch :

The rating of all questionnaire converted into percentage marks will together be helpful to work out overall customer service ratings of the branch. The overall rating would be nothing but the average of assessment of all questionnaire and can be worked out as follows :

Average will be worked out as follows :-

$$\text{Average} = \frac{\text{Total of No. of marks of all questionnaire (\% basis)}}{\text{No. of questionnaire}}$$

Now depending upon the average , the branch service shall be rated as follows :

If Average is,

Above 81	=	A++
71 to 80	=	A+
61 to 70	=	A
51 to 60	=	B
50 % & below	=	C

ILLUSTRATION :

The overall ratings of the customer service of the branch will be decided by working out average of all questionnaire.

Suppose, branch has received 15 questionnaire from the customers duly answered and marks obtained are as follows :

Q. No.	% Marks Secured	Q. No.	% Marks Secured
1	68%	9	71%
2	70%	10	79%
3	79%	11	78%
4	73%	12	69%
5	71%	13	73%
6	66%	14	71%
7	59%	15	79%
8	71%		
TOTAL 557		520	
GRAND TOTAL = 557 + 520 = 1077			

$$\text{Average} = \frac{\text{Total marks of all questionnaire}}{\text{No. of questionnaire}} = \frac{1077}{15}$$

= 71.80% say 72% (The average should always be suitably rounded off)

(* Since marks are already converted into % marks the average worked out will be also in % marks)

Now this average falls between slab of 71% to 80% and thus it will be rated as 'A+'

Therefore, the overall rating of the branch will be very Good.

C. REPORTING

Branch should communicate the results of exercise to Regional Authority in Appendix-A. It should reach Regional office before 5th of succeeding month of the half year. The suggestions which need the Regional Authority's attention should also be stated.

II. INSTRUCTIONS FOR REGIONAL AUTHORITIES

1. Regional Authorities would collect Appendix-A from all branches and shall communicate branch wise results in the Appendix-B to the Customer Service Cell. in Head Office, of the bank to reach before 15th of succeeding month of the half year. The copy of the same should be sent to immediate controlling office.
2. At Regional level, the suggestions made by the customers, should also be discussed in Customer Service Committee Meetings.

Appendix - A

(Submit to Regional Authority before 5th of May/November)

RESULTS OF CUSTOMER SERVICE RATINGS

Branch_____ Region_____

Return for the half year_____

Questionnaire No.	% Marks	
1.		SPACE FOR WORKING RATINGS Total of marks Average = ----- = ...% No. of Questionnaire Therefore Overall Ratings of the branch = If average is above 81 = A++ 71 - 80 = A+ 61 - 70 = A 51 - 60 = B 50 & below = C
2.		
3.		
4.		
5.		
6.		
7.		
8.		
9.		
10.		
11.		
12.		
13.		
14.		
15.		
16.		
17.		
18.		
19.		
20.		
;		
;		
;		
;		
		TOTAL

Highlights of suggestions of the customers :-

- 1.
- 2.
- 3.

Date : **BRANCH MANAGER**

Appendix - B

(Submit to the Customer Service Cell in Head Office,
with a copy to immediate higher controlling office, before
15th of the succeeding month i.e. 15th May/Nov)

RESULTS OF BRANCHWISE CUSTOMER SERVICE RATINGS

Region_____

Return for the half year_____

Sr. No.	BRANCH	AVE. % MARKS	RATINGS	
1.				
2.				
3.				
4.				
5.				
.				
.				
.				

Highlights of suggestions from Customers/Branches :

Date :

REGIONAL AUTHORITY

ANNEXURE - V

[Paragraph 18.2 (ii) (H)(iii)(a)(ii)(a)]

QUESTIONNAIRE ON CUSTOMER SERVICE RATING

NAME OF THE BRANCH : _____

PART - I

Please tick (✓) following services / facilities depending on your personal experience in dealing with branch.

Service Facility	Sr. No.	QUESTIONS	Ratings				
			Exce-llent	Very Good	Good	Ave- rage	Poor
I. UPKEEP OF PREMISES & INFRAST- RUCTURAL FACILITIES	1	Appearance of frontage of Branch premises & visibility of Sign Board					
	2	General Layout and arrangement of counters					
	3	Cleanliness and tidiness					
	4	Adequacy of waiting space, sitting arrangement, writing materials, loose slips, etc.					
II. COUNTER SERVICE	5	Behaviour of the staff with customers (i.e. politeness, courtesy, co-operation, personal attention, etc.)					
	6	Punctuality & Presence of the staff on the counter during the working hours.					
	7	Effort of the staff to minimise waiting period of the customers at the counter (e.g. payment of cash, cheque, purchase of draft, handling of cash at counter, etc.)					
	8	Readiness of the staff to listen to your problems/ difficulties patiently & willingly.					
	9	Efforts made by the staff to solve your problems/ difficulties					
	10	Correctness, legibility & promptness in delivery of Pass Books/Statement of Accounts.					

PART - II

Please tick (✓) only those services / facilities which you are availing

Service Facility		QUESTIONS	Ratings				
			Excellent	Very Good	Good	Average	Poor
III. REMITTANCE & COLLECTION	11	Speed of collection of upcountry cheques/bills.					
	12	Quickness in intimating fate of cheques.					
IV. TERM DEPOSITS	13	Guidance to customers on various deposit schemes of the bank, their advantages and tax benefit, etc.					
	14	Services related to Term Deposit (e.g. prompt issue of receipt, sanctioning of loan against FDR if required, giving intimation on maturity of deposit, etc.)					
V. LOANS & BORROWINGS	15	Timely sanction of loan.					
	16	Timely disbursal of loan.					
VI. COMPUTERISED BRANCHES	17	Availability of any service at any counter on computer.					
	18	Delivery of printed Pass Book/statements on computers.					
VII. FOREIGN EXCHANGE BUSINESS	19	Efficiency of remittance service					
	20	Expertise in handling of Import/Export Business.					

SUGGESTIONS FOR IMPROVING CUSTOMER SERVICE (IF ANY)

DATE :

NAME :

SIGN :

(OPTIONAL)

FOR OFFICE USE IN BANKING ONLY

ASSESSMENT OF THE QUESTIONNAIRE (SPECIMEN)

- A) NO. OF QUESTIONS ANSWERED OUT OF TOTAL 20 QUESTIONS
- B) SUMMARY RATINGS

TABLE - I

TYPE OF RATINGS	NO. OF RATINGS
EXCELLENT	
VERY GOOD	
GOOD	
AVERAGE	
POOR	
TOTAL	

- C) MARKS SECURED

TABLE - II

TYPE OF RATINGS	NO. OF RATING (AS PER TABLE I)	MULTIPLY BY	MARKS SECURED
EXCELLENT		x 5	"
VERY GOOD		x 4	"
GOOD		x 3	"
AVERAGE		x 2	"
POOR		x 0	"
		TOTAL	

- D) MAXIMUM MARKS

TABLE - III

NO. OF QUESTIONS ANSWERED	MULTIPLY BY	MAXIMUM MARKS
	x 5	"

E) ASSESSMENT OF QUESTIONNAIRE

MARKS SECURED		TOTAL OF TABLE II	
-----	=	-----	= -----
MAXIUM MARKS		TOTAL OF TABLE III	

F) CONVERSION INTO % MARKS BY FORMULA

MARKS SECURED	100
-----	X -----
TOTAL MARKS	1

100
----- X ----- = ---- %
1

ANNEXURE - VI
[Paragraph 18.2 (ii) (H) (iv) (b)]

Complaint Book

Instructions to Branches

(to be printed on the inside cover of the complaint book)

1. This complaint book will be used only when the customer calls personally at the branch to lodge a complaint.
2. Each set of complaint forms is in triplicate. The original will be the record at the branch (branch copy), the duplicate (perforated copy) will serve as an acknowledgement (complainant's copy) the triplicate (perforated copy) will be sent to the zonal/controlling office (controlling office copy).
3. The copy of complaint will be given to the complainant immediately after the lodgement of the complaint as an acknowledgement.
4. The triplicate copy will be sent to the controlling office within four days with remarks of the branch indicating the position of disposal of complaint.
5. If it is envisaged that the complaint redressal would require some time, the expected date of redressal of complaint and the justification for the time required will be recorded in the triplicate (controlling office) copy.

ORIGINAL
(BRANCH COPY)

MODEL BANK OF INDIA

_____ Branch
Complaint Book

Serial No. 001
Date _____

Shri/Smt./Kum. _____

Address _____

Nature of Account, if applicable/maintained _____

Complaint in brief _____

Signature of Complainant

Sent to Controlling Office on

Remarks _____

Date of final Disposal

Signature of
Branch Manager

DUPLICATE
(Complainant's Copy)

MODEL BANK OF INDIA

_____Branch

Complaint Book

Serial No. 001

Date _____

Shri/Smt./Kum. _____

Address _____

Nature of Account, if applicable/maintained _____

Complaint in brief _____

Signature of Complainant

TRIPLICATE
(Controlling Office Copy)

MODEL BANK OF INDIA
_____Branch

Complaint Book

Serial No. 001

Date_____

Shri/Smt./Kum. _____

Address _____

Nature of Account, if applicable/maintained _____

Complaint in brief _____

Signature of Complainant

Sent to Controlling office on _____

Remarks _____

Signature of Branch Manager

ANNEXURE - VII

[Paragraph 18 .6 (i)]

THE BANKING COMPANIES (NOMINATION) RULES, 1985

In exercise of the powers conferred by Section 52, read with Sections 45ZA, 45ZC and 45ZE of the Banking Regulation Act, 1949 (10 of 1949), and after consultation with the Reserve Bank of India, the Central Government hereby makes the following rules, namely.

1. Short title and commencement

- (1) The rules may be called the Banking Companies (Nomination) Rules, 1985.
- (2) They shall come into force on the date of their publication in the Official Gazette.

2. Nomination in respect of deposits

- (1) The nomination to be made by the depositor or, as the case may be, all the depositors together in respect of a deposit held by a banking company to the credit of one or more individuals shall be in Form DA 1.
- (2) The said nomination to be made only in respect of a deposit which is held in the individual capacity of the depositor and not in any representative capacity as the holder of an office or otherwise.
- (3) Where the nominee is a minor, the depositor or, as the case may be, all the depositors together, may, while making the nomination, appoint another individual not being a minor, to receive the amount of the deposit on behalf of the nominee in the event of the death of the depositor or, as the case may be, all the depositors during the minority of the nominee.
- (4) In the case of a deposit made in the name of a minor, the nomination shall be made by a person lawfully entitled to act on behalf of the minor.
- (5) The cancellation of the said nomination to be made by the depositor or as the case may be, all the depositors together shall be in Form DA 2.
- (6) A variation of the said nomination to be made by the depositor or, as the case may be, all the depositors together, shall be in Form DA 3.
- (7) The said nomination shall be made in favour of only one individual.
- (8)
 - (a) A nomination/cancellation of nomination or variation of nomination may be made as aforesaid at any time during which the deposit is held by a banking company to the credit of the depositor or depositors, as the case may be.
 - (b) In the case of a deposit held to the credit of more than one depositor, the cancellation or variation of a nomination shall not be valid unless it is

made by all the depositors surviving at the time of the cancellation or variation of the nomination.

- (9) The Banking Company shall acknowledge in writing, to the concerned depositor or depositors the filing of the relevant duly completed Form of nomination or cancellation of nomination or variation of the nomination, as the case may be, in respect of a deposit.
- (10) The relevant duly completed Form of nomination or cancellation of nomination or variation of nomination filed with the banking company shall be registered in the books of the banking company.
- (11) A nomination or cancellation of nomination or variation of nomination shall not cease to be in force merely by reason of the renewal of the deposit.

3. Nomination in respect of article in safe custody

- (1) The nomination to be made by an individual (hereinafter) referred to as the depositor in respect of articles left in safe custody with a banking company shall be in Form SC 1.
- (2) Where the nominee is a minor, the depositor may, while making the nomination, appoint another individual not being a minor, to receive the said articles on behalf of the nominee in the event of the death of the depositor during the minority of the nominee.
- (3) Where the articles are left in safe custody with a banking company in the name of a minor, the nomination shall be made by a person lawfully entitled to act on behalf of the minor.
- (4) The cancellation of the said nomination to be made by the depositor shall be in Form SC 2.
- (5) A variation of the said nomination to be made by the depositor shall be in Form SC 3.
- (6) The said nomination shall be made in favour of only one individual.
- (7) A nomination, cancellation of nomination or variation of nomination may be made by the depositor at any time during which the articles so deposited are held in safe custody by the banking company.
- (8) The banking company shall acknowledge in writing, to the depositor, the filing of relevant duly completed Form of nomination or cancellation of nomination or variation of nomination, as the case may be, in respect of the articles so deposited.
- (9) The relevant duly completed Form of nomination or cancellation of nomination or variation of nomination filed with the banking company, shall be registered in the books of the banking company.

4) Nomination in respect of safety lockers.

- 1) The nomination to be made by the individual who is a sole hirer of a locker from a banking company, shall be in Form SL 1.
- 2) Where the locker is hired from a banking company, by two or more individuals jointly, the nomination to be made by such hirers shall be in Form SL 1A.
- 3) In case of a sole hirer of a locker, nomination shall be made in favour of only one individual.
- 4) Where the locker is hired in the name of a minor, the nomination shall be made by a person lawfully entitled to act on behalf of the minor.
- 5) The cancellation of the said nomination, to be made by the sole hirer or as the case may be, joint hirers of the locker, shall be in Form SL 2
- 6) A variation of the said nomination to be made by the sole hirer of a locker, shall be in Form SL 3.
- 7) A variation of the said nomination to be made by the joint hirer of a locker, shall be in Form SL 3A
- 8) A nomination, cancellation of nomination, or variation of nomination may be made as aforesaid, at any time, during which the locker is under hirer
- 9) A banking company shall acknowledge in writing, to the sole hirer or joint hirers, the filing of the relevant duly completed Form of nomination or cancellation of nomination or variation of nomination, as the case may be, in respect of the locker so hired.
- 10) The relevant duly completed Form of nomination or cancellation of nomination or variation of nomination, filed with the banking company shall be registered in the books of the banking company.

ANNEXURE - VIII
[Paragraph 18.8 (vi)(c)]

FORMAT OF COMPLAINT REGISTER

Sr. No.	Ref. No. and date of complainant's letter	Date of receipt of complaint	Name and address of the complainant	Nature of complaint (in brief)	Manner & date of disposal of the complaint	Remark
(1)	(2)	(3)	(4)	(5)	(6)	(7)

CHAPTER - 19

INTERNAL CONTROL

CHAPTER - 19

INTERNAL CONTROL

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Note : Instructions issued on Concurrent Audit and Balancing of Books have been given in Chapter ...8... (Para....8. 8) and Chapter 20 [Para 20. IX (1) & (9)] respectively.

Internal Control

19.1 Jilani Committee Report on internal control and inspection/audit system in banks-Implementation of the recommendations

- i) In February 1995, the Reserve Bank of India had constituted a Working Group to review the internal control and inspection and audit system in banks under the Chairmanship of Shri Rashid Jilani, Chairman and Managing Director, Punjab National Bank . The Group submitted its report in September 1995 which was forwarded to banks in June 1996.
- ii) The recommendations of the Group were considered by the Board for Financial Supervision (BFS) and Advisory Council for BFS in their meeting held on 30 September 1996.
- iii) The recommendations of the Group listed in Chapter XII of the Report should be implemented by the Indian scheduled commercial banks as follows:
 - (a) Of the total 79 recommendations made by the Working Group, 50 recommendations listed in the Annexure I should, as far as possible, be implemented by banks taking into account their existing policies and procedures.
 - (b) The banks should implement 25 recommendations listed in the Annexure II [no discretion is available to them in this regard] and report progress to the RBI at quarterly intervals as indicated in paragraph 4 below. The recommendations Nos. 23,25,39 and 41 have been suitably modified keeping in view the views of some large PSBs and amended version is included in Annexure II.
 - (c) As regards other remaining 4 recommendations viz., (i) coverage of branches under concurrent audit (Sl. No. 36), (ii) the remuneration payable to external auditors (Sl. No. 40), (iii) reconstitution of the Audit Committee of the Board of Directors (Sl. No. 47) and (iv) the parent subsidiary relations (Sl.No.51) guidelines have already been issued regarding the first three and these have been covered separately. The recommendation at item (iv) is under RBI's consideration.
- iv) The banks should initiate immediate action to implement the recommendations listed in Annexures I and II . In respect of 25 recommendations given in Annexure II, the banks should submit quarterly progress reports on implementation of the recommendations to the Chief General Manager, DBS, Central Office, Mumbai before 15th of the

succeeding month. A copy of the progress report may also be forwarded to the in-charge of the Regional Office under whose jurisdiction the bank functions.

- v) Foreign banks operating in India, keeping in view their system of internal audits/inspections and internal controls and taking into account the existing system and procedure, should implement at their discretion, such of those recommendations listed in Chapter XII of the Jilani Committee Report which would be beneficial to their set up.

19.2 Vigilance arrangements in banks

The public sector banks should take following measures to ensure that their Vigilance Departments function effectively :

- (a) Examine on an on-going basis the vigilance and internal inspection/audit set up from the point of view of their capability to effectively discharge their responsibilities and take steps to strengthen the machinery to the extent necessary. Effective linkages between the machinery for vigilance, internal inspection/audit and disciplinary action should be established for working in close coordination. The officials of sufficient experience and exposure should be posted to these Departments which should be headed by officials of sufficient seniority and proven integrity.
- (b) Sensitive functional spots should be identified and there should be regular and surprise inspections of such spots. The internal inspection/audit officials may be impressed upon with the need for making indepth study of corruption/fraud prone areas during the course of inspections so that there is no scope for such malpractices/irregularities remaining undetected. A proper scrutiny of personnel should be conducted while posting them in such sensitive posts which involve dealings with members of the public on a considerable scale. Rotation of officer and non-officer staff in operational areas should be done strictly at prescribed intervals.
- (c) Head Office Departments and Zonal/Regional Office should be inspected/audited regularly at specified periodical intervals, as in the case of branches, by very senior officials.
- (d) There should be a regular system of revenue audit. The reasons for leakage of income unearthed during such audits should be analysed indepth with a view to finding out whether the mistake is genuine or deliberate. Stern action should be taken against the officials responsible for the lapses.
- (e) There should be a regular system of conducting exclusive scrutiny of credit portfolio with focus on larger advances and group exposures at various branches. The summary of the important findings may be submitted to the Committee of the Board.

- (f) The internal inspection team during the course of inspection of the branches, Controlling Offices and Head Office, should carefully scrutinise the deals connected with purchase of stationery, hiring/de-hiring and purchase of premises, costly furnishing of office/residential premises.
- (g) The internal auditors should critically examine the investment transactions in order to ensure that they are undertaken in accordance with the laid down policies. It should, in particular, be ensured that these transactions are all above board, i.e. undertaken on business consideration alone and are in the best interest of the bank and are not intended to pass on undue benefits to the brokers.
- (h) The system of sanction, obtention and timely revalidation of documents, disbursement and post-disbursement supervision should have clear cut demarcations for enabling fixing of responsibility for lapses quickly. For the purpose, the guidelines framed for delegation of powers for sanction of advances, post-sanction monitoring, etc. should clearly indicate as to what constituted abuse of authority/negligence in non-compliance with the terms of sanction, post-sanction monitoring, etc. Non-observance of the prescribed procedures and safeguards, laxity in sanction, disbursement and post-sanction follow-up of credit facilities and non-compliance with the terms of sanction should be viewed seriously and appropriate action taken against the officials concerned. The bank officials function as trustees of public funds and negligence on their part resulting in loss should also be viewed seriously and deterrent punishment awarded.
- (i) Staff accountability should be examined as soon as there is a shift in the asset classification of an advance, e.g. from standard to sub-standard and so on, instead of waiting till filing of suits or write offs.
- (j) Sufficient care should be taken to record confidential reports/performance appraisals from the vigilance angle. More extensive use of the available powers should be made while reviewing the cases relating to persons who are past useful service or were vigilance suspects. The banks should ensure that evidence/records are properly built up in such cases to stand up in any judicial scrutiny.
- (k) Preparation of "Agreed" lists as per the laid down procedures should be done meticulously. Efforts also should be made to maintain proper surveillance on officers of doubtful integrity and officers who are on the "Agreed" list. A system for weeding out of undesirable elements should be introduced. Persons of doubtful integrity and those appearing in the "Agreed" list should not, as a rule, be posted to sensitive posts.
- (l) The disciplinary cases should invariably be disposed of as per the time ceiling prescribed by the Govt. of India, vide their letter No.37/6/88 dated 7 November 1988. Simultaneous departmental proceedings

wherever necessary, should also be instituted to have a speedy decision on the vigilance cases.

- (m) The disciplinary cases where the advice and recommendations of the Chief Vigilance Officer have not been accepted by the disciplinary authorities and minor punishments are awarded, should be brought to the notice of the CMD, explaining the reasons for deviation and quarterly report of such cases submitted to the Board.
- (n) All cases involving, prima facie, irregularities/lapses on the part of senior officers (Scale IV and above) and /or where the amount involved in the transaction is larger, say exceeding Rs.5 lakhs, should be put up to the Board/Management Committee. Similarly, status reports on action taken on complaints of irregularities on the part of senior officials and /or transactions involving large amounts should also be placed before the Board from time to time.
- (o) Quarterly review relating to vigilance/disciplinary cases should be carried out, as indicated in Govt. of India's letter No.10/12/90 Vig/CVOs dated 24.10.1990.
- (p) All cases of advances showing sticky tendencies above a cut off point should invariably be scrutinised by CVO and his advice on the course of action should be put up to CMD which also should be placed before the Audit Committee. They should examine the need for introducing a separate division of Internal Inspection machinery to scrutinise credit portfolio only.
- (q) CVO should directly refer to CVC cases having vigilance angle involving the Chairman and Managing Director.
- (r) Banks should introduce a return for staff members to ensure strict submission of the information of assets and liabilities and proper scrutiny thereof.
- (s) Vigilance Cells at Head Office/Zonal Offices should have exclusive officials entrusted with field jobs, i.e., investigating the complaints, meeting the complainants, having liaison with other outside agencies viz., Police/CBI, etc.
- (t) In view of undue delay in the disposal of pending cases with Police/CBI and mounting arrears, there is an urgent need for proper co-ordination between the bank officials and investigating agencies. The officers posted in the Vigilance Department preferably at Head office should hold meetings with the investigating authorities at periodical intervals which should be minuted and action be taken within a time frame agreed to at the meetings.

19.3 (a) Reconciliation of inter-branch accounts-General

- i) In May 1985, the Reserve Bank had constituted a Committee on Mechanisation of Banking Industry. This Committee had, in turn, constituted a Sub-Committee to examine the problem of Inter-Branch Reconciliation (IBR) in Banking Industry and to make suitable recommendations in regard to its computerisation. The Sub-Committee in its report, dealt with the problem of IBR only in the context of mechanisation. The recommendations of the Sub-Committee (Section III of the report) are given in the Annexure III. The Sub-Committee suggested two separate courses of action-one to clear up speedily the arrears and another to ensure that current transactions do not fall into arrears.
- ii) Banks should review the systems and procedures followed by them on an on-going basis in the light of the recommendations of the Sub-Committee and take such action as is deemed necessary for achieving speedy reconciliation of inter-branch accounts through effective use of computers.
- iii) RBI had set up, in March 1992, a Working Group to look into the matter of the large arrears in the reconciliation of inter-branch accounts and analyse the causes and problems and suggest appropriate measures to quicken the process of adjustment of outstanding entries. The Group's recommendations were accepted by the RBI for implementation by the banks. The Working Group's report was forwarded to banks for implementation inviting attention of the banks particularly to the following recommendations of the Working Group as accepted/modified by the Reserve Bank :
 - (a) Appropriate measures should be taken by banks to identify recalcitrant branches, who habitually delay the submission of the statement of daily transactions and remove the difficulties experienced by them and/or for toning up their working. Should the concerned staff consistently violate or ignore the laid down procedures, punitive action should be taken. The performance rating of employees should take this aspect into account.
 - (b) Banks should segregate the high value entries and give special attention for early reconciliation of such entries. All high value items should be got adjusted within a maximum period of two months.
 - (c) Computerisation at the Central Office and the Local main offices will help to speed up the process of reconciliation, and to keep the position upto date. Rigidities, if any, coming in the way of computerisation, should be effectively tackled. While choosing an outside computer agency, its efficiency and track record should receive due weightage.
 - (d) The banks may establish a separate satellite system called - Local Branches Reconciliation (LBR) - to cover a cluster of branches.
 - (e) The banks should undertake inter-branch reconciliation at least at monthly intervals.

- (f) The banks should give inter-branch reconciliation as much importance as business development at all branches, Controlling Offices and Head Office of bank.
 - (g) Progress made in inter-branch reconciliation and elimination of entries should be reviewed by the Board of Directors of individual banks at half-yearly or even shorter intervals if warranted and they should give such directions as may be appropriate in the matter.
 - (h) It would be the responsibility of the Chief Executive Officers of banks to ensure that the backlog of pending reconciliation entries is cleared within a time frame. Besides, they should ensure that the reconciliation of the inter-branch accounts is made upto date in all the branches within a period of six months after each yearly closing of accounts. No bank should keep entries unadjusted for more than six months.
- iv) The banks should submit a quarterly report on progress made in inter-branch reconciliation to the concerned Regional Office of DBS under whose jurisdiction its principal office falls with a copy to Central DBS in the format given in volume II of the Manual (item No. 36). The Executive in-charge of inter-branch reconciliation of each bank should discuss the actual performance of his bank with the in-charge of Regional Office of DBS at periodical intervals.
 - v) As per the Working Group's (referred to in paragraph (iii) above) recommendation, in terms of paragraph 3.17 of the report, the banks should tackle the problem of old outstanding entries in inter-branch accounts in a realistic and pragmatic way with due regard to the risk involved in keeping those entries outstanding and resort to certain emergency procedures for their elimination which may even call for a few short-cuts. The banks should take reasonable safeguards with regard to relaxed field matching of entries whereby an entry and a seemingly responding entry are treated as matched even though all the parameters/fields do not tally. However, any forced matching practice adopted by banks should have approval of their Audit Committee of the Boards and the Board of Directors should be apprised of the full details of such practice. Further, the Statutory Auditors of the bank should also be apprised of such practices and they should look into the justifiability from the angle of fair accounting practice.
 - vi) The banks should keep a strict watch on outstanding originating debit entries and reversal entries for avoiding/quickly detecting irregular payments, loss of instruments and frauds through Branch Adjustment Accounts. The banks on the basis of their own experience, have to evolve procedures whereby originating debit entries in inter-branch accounts are permitted only in specific circumstances, such as, transfer of loss incurred by a branch to Head Office, interest receivable from Head Office under transfer price mechanism, demand drafts cancelled, payment of travellers cheque, etc. The banks should review their policy, procedures and instructions regarding originating debits so as to restrict the same and ensure their quick adjustments. A copy of the instructions issued by the banks to their branches in this regard should be

sent to the Central Office of DBS, RBI as well as to its concerned Regional Office.

19.3 (C) Inter-branch accounts - Old outstanding credit entries

- i) The banks are required to show net balance in Inter-branch account under 'Other Liabilities and Provisions' (Schedule 5) when in credit and under 'Other Assets' (Schedule 11) when in debit. Some of the banks have large arrears in the reconciliation of inter-branch accounts which is a cause for serious concern. The banks should, therefore, first segregate the credit entries outstanding for more than 5 years in inter-branch account and transfer them to a separate 'Blocked Account' and show it under 'Other Liabilities and Provisions - Others' (Schedule 5) in the Balance-Sheet. While arriving at the Net amount of inter-branch transactions for inclusion under Schedule 5 or 11 as the case may be, the aggregate amount of Blocked Account should be excluded and only the amount representing the remaining credit entries should be netted against debit entries. The balance in the Blocked Account will be reckoned for the purpose of maintenance of CRR/SLR.
- ii) Any adjustment from the Blocked Account should be permitted by banks only with the authorisation of 2 officials, one of whom should be from outside the branch concerned, preferably from the Controlling/Head Office if the amount exceeds Rs.1 lakh.

19.4 Reconciliation of inter-branch accounts - Public sector banks

- i) As and when review on the position of reconciliation is put up by public sector banks to the Board, a copy of the same should be made available to the Central Office of DBS. Further, copies of the inter-branch reconciliation of accounts statements, as well as reviews, should also be sent to the concerned Regional Office of DBS.
- ii) The Chief Executives of the banks should personally monitor the progress in bringing the inter-branch accounts upto date and that those who have failed to take effective action to comply with the stipulated time frame should be held accountable.
- iii) Banks should take urgent steps on an on-going basis for accelerating the process of adjustment of long outstanding entries in the inter-branch adjustment account and inform the RBI, DBS strategy adopted by it for the purpose.
- iv) The banks could consider some of the undernoted aspects in devising the bank's strategy :
 - (a) Segregation of large value entries and bestowing special attention for their immediate elimination.
 - (b) Computerisation of large and all service branches to ensure correct and speedy reporting.

- (c) Back office computerisation of large branches.
 - (d) Creation of a Special Monitoring Cell at the Central Office for clearing the backlog and devising procedures for timely reconciliation in future.
 - (e) Setting up of task forces for speeding up reconciliation of inter-branch adjustment account in each Zone/Region.
 - (f) Monitoring timely submission of daily transaction statements by branches and taking punitive action for delays.
- v) The entries outstanding for long periods in Clearing Differences, Suspense, Drafts Payable, etc. A/cs. should be tackled on the same footing.
 - vi) The banks should apprise RBI of the strategy and specific steps taken in this regard. RBI had laid down permissible time for reconciling of entries generated upto September 1995 to be reconciled upto June 1996. Entries generated after September 1995 should be reconciled by the banks within 6 months on an on-going basis. The banks which do not achieve the targets within the stipulated time frame would be taken to task and their Chairman and Managing Director /Executive Director and General Manager in-charge of the concerned department would be subjected to penalties, which may include personal fine and/or premature retirement.
 - vii) Some of the reasons which could be attributed to the backlog in reconciliation of inter-branch accounts are (a) discrepancies in reporting the transactions, (b) use of incorrect schedules by the branches (c) clubbed reporting of the entries by the branches, (d) non-attendance of enquiry memos by the branches, (e) lack of effective monitoring of adjustment/matching of outstanding entries in certain components of inter-branch accounting system, viz., bills realised at branches, payment on behalf of branches, etc., (f) proof-sheets not receiving due attention in several branches, (g) bottlenecks in computerisation, (h) rural and semi-urban branches having insufficient communication facilities, etc.
 - viii) Certain banks also resort to the transfer of entries from the inter-branch account to some other account and such entries are not being shown as pending reconciliation in the outstanding inter-branch adjustment account. This distorts the picture of actual number of entries reconciled. The data in regard to pending entries relating to inter-branch transactions being reported to the Reserve Bank quarterly should, therefore, include not only those outstanding entries which are accounted for under head of inter-branch adjustment account, but also those relating to these transactions which are accounted under account heads with other names.

19.5 Reconciliation of Clearing Differences - MICR Clearing time frame for adjustment of outstanding entries, etc.

- i) The major factors responsible for MICR clearing differences relate mainly to the wrong listing of instruments, such as, inaccuracies in the inputs (i.e., payments instruments), wrong encoding of batch tickets in sort field/amount

field, inclusion of non-MICR cheques in MICR presentation, wrong listing of cheques in batch, etc. by their branches. Some of the factors responsible for MICR clearing differences are enumerated below :

- (a) Instruments (i) listed but not received in Receivable, and (ii) instruments received but not listed in Payable.
- (b) Listing of (i) excess amount in Receivable, and (ii) short listing of amount in Payable.
- (c) Instruments received but neither listed nor drawn on the receiving branch.
- (d) Amount encoded by presenting bank being different from the value of the instruments it presented.
- (e) Outward instruments received back by the presenting bank with the inward cheques.
- (f) Listing to wrong bankers in both Receivable and Payable.
- (g) Loss of instruments in process at various levels.
- (h) Large number of entries pertaining to 'payable at par' instruments presented by the branches remain unreconciled for want of name of issuing company / drawee branch.
- (i) Old records are not available.
- (j) Rejection in High Speed Sorter at the Reserve Bank due to poor quality of paper, ink, non-removal of metallic pin, failure to conform to the standard size of instruments (during manual sorting such instruments result in wrong listing), etc.
- (k) Non delivery to correct address or loss in transit.

ii) The banks should take following steps to prevent MICR clearing differences :

- (a) Reconciliation of clearing differences is mainly dependent on timely submission of Form RA (entries listed but not received) and Form PA (items received but not listed). Banks should ensure that their branches adhere to the discipline and send their Form RA and PA statements to the Regional Clearing Centre (RCC) positively on the same day.
- (b) Arrangements should be made for proper training of MICR technology to the concerned staff at Zonal Training Centres for better performance.
- (c) Periodical meetings/seminars/inter-action of representatives of Local Clearing Centre (LCC)/RCC should be organised for exchange of views/suggestions in improving the working and disposal of pending differences and personal accountability for deviations to be fixed.

- (d) Clearing imprest should be reconciled at branches on weekly basis and differences, if any, should be taken up immediately with LCC.
 - (e) Inbuilt arrangements should be made available in computerised system at LCC/RCC for maintaining branchwise clearing differences so that differences could be perused by submitting list thereof to the Regional Offices/Zonal Offices.
 - (f) Branches should promptly inform LCC about any instrument received by them directly from other sources.
 - (g) Immediate follow-up over telephone as soon as some difference arises.
 - (h) Ensuring prompt encoding.
 - (i) Conduct of periodical meetings with different officials.
 - (j) Effective use of Task Force in locating and tallying the difference.
- iii) The banks should sort out the above problems very effectively and ensure that their inputs (i.e., payments instruments) sent for clearing to the data processing centres by their branches are accurate, particularly in respect of sort field and encoding of the amount field.
 - iv) The banks should conduct a special scrutiny of the operations of their service branches/clearing branches which had outstanding clearing differences on an on-going basis to identify the factors responsible for the same and put into place proper system to eliminate such factors. The scrutiny should take into account the system of reporting and reconciling the clearing differences by member banks, prescribed by the National Clearing Cell (NCC).
 - v)
 - (a) With a view to monitoring the progressive reduction of clearing differences, the banks should advise their Controlling Offices to report the outstanding clearing differences (payable/receivable) as at the end of each month in respect of each of the branches under their control to the Regional Offices of DBS under whose jurisdiction the Controlling Offices are situated. The statements for the bank as a whole could be prepared by the banks as a tool for management information. Details of outstanding entries in the clearing adjustment account for the bank as a whole as at the end of March every year may be reported to the RBI, DBS, Central Office as also to the concerned Regional Office in the proforma given in Vol. II of the Manual (item No. 38).
 - (b) Further, banks should transfer all old clearing differences both payable and receivable, prior to April 1, 1994 to a blocked account to be tackled separately. Simultaneously the banks should concentrate on reconciling the differences pertaining to subsequent years to avoid pile up of such differences. The banks should reconcile clearing differences prioritising them from the year 1998-99 and moving to

earlier years upto 1994-95 for adjusting them finally as per the following time frame:

Clearing difference of the year	To be reconciled and adjusted by
1997-98	30th September 1998
1996-97	31st December 1998
1995-96	31st March 1999
1994-95	30th June 1999

- (c) The banks should also evolve an action plan to tackle the clearing differences prior to 1 April 1994.

19.6 Security arrangements in banks

- i) The banks should be very vigilant and take following measures to tighten security arrangements at their branches to prevent robberies/dacoities. For this purpose they should also maintain close liaison with local police authorities:

(a) Alarm system

The banks may install alarm systems at their branches. The switches of the alarm may be installed at convenient places in the cabins of Manager, Cashier and banking areas so that they could be operated easily even by foot so that miscreants may not see them while operating. The banks may also consider having a battery-run alarm system as a stand-by in the event of power failure. The systems should be tested frequently and a record thereof maintained at the branch. Alarm system should be audible from outside.

(b) Entry of public in work areas

The banks may locate cash counters at safe places as far away from the main entrances, as possible, as suggested in Chapter 3 of the Guidelines on security arrangements in banks recommended by the Sub-Committee of the Indian Banks' Association in June 1983.

(c) Provision of armed guards and substitute arrangements

Armed security guards may be posted at the branches of the bank, the security guards may not be entrusted with other duties or burdened with other items of work. Standing arrangements should be made to provide substitutes in case of absence of security guards particularly at vulnerable branches and currency chest branches. The guard on duty after his duty hours should also continue until he is relieved by a regular security guard/substitute guard.

(d) Automatic lock and door closure in cashier's cabin

The banks may arrange to provide separate enclosures to cashiers with automatic door closures and automatic locks segregate by wire-mesh/thick plate glass.

(e) Grill gates to strong room

The banks should ensure that the strong rooms are at safe places fitted with grill gates.

(f) Layout of branch premises

The banks may consult the Police Department for layout of new branch premises in bigger cities whenever a new branch is opened so that they can have the benefit of their suggestion regarding adequacy of the security measures vis-a-vis the suitability of branch premises.

(g) Training of members of staff on security measures

The bank may create security consciousness, impart training to its employees in methods for preventing dacoities/robberies and tactics to be adopted in case of a hold up. Banks may utilise the services of Police Department for training their security staff for handling fire arms.

(h) Hotline for currency chest branches

In the case of currency chest branches the banks should make arrangements for hotline connections with nearest police stations

- ii) The Reserve Bank has set up State Level Security Committees for all the States to consider the various problems relating to security arrangements in commercial bank on an on-going basis. The meetings of the committees will be convened by the chief general managers of Reserve Bank's offices and the in-charge of the concerned Regional Office of the DBOD will also attend the meetings. As these Committees require necessary data in regard to dacoities/robberies in the respective States, the banks apart from reporting the dacoity/robbery cases to the concerned authorities should also endorse a copy of the dacoity/robbery report to the concerned Regional Offices of DBOD.

19.7 Making available copies of Reserve Bank's inspection Report to Directors and Auditors of banks

- i) The banks should place only a copy of the RBI inspection reports for the perusal of the Directors at the time of the Board meeting. A copy of the same should not be given to each individual director.
- ii) The members of the Audit Committee of the Board are to be given a copy of the Inspection Report in case the Inspection Report and compliance thereto

are a part of the Agenda, for the ACB meeting. Copies of the Report are, however, to be retrieved on conclusion of the meeting.

- iii) The statutory auditors of the banks while on audit may also be provided with a copy of the Inspection Report with an advice to keep it in their custody during the audit. Banks have to ensure that the Report is not taken outside the bank premises and it is returned after the work is over.

19.8 Cash holdings of private sector banks -Assistance to be extended by public sector banks

The public sector banks with currency chests should extend all help to the private sector banks in according priority to acceptance of cash tenders from private sector banks and to intimate refusals of any such tenders to the concerned Issue Office of RBI, along with the reasons therefor.

19.9 Cash accumulation in private sector banks

- i) The private sector banks should periodically review the position of cash balance of their branches so as to ensure that the cash deposit ratio is kept to the minimum.
- ii) The private sector banks should observe the following guidelines/discipline while tendering the surplus cash either to Reserve Bank's Issue Department or to the currency chests at State Bank of India/its Associate Banks or other public sector banks :
 - (a) The banks should ensure that their tenders are duly sorted and packetted into reissuables and soiled notes and appropriately labelled.
 - (b) The bank should also retain with them the reissuable note packets for their own use to the extent necessary and tender only their surplus cash and non-issuable note packets.
 - (c) Only the principal office/branch of the private sector bank at any centre should tender the notes to the chest branch/RBI office. In other words, the individual branches of the bank at the centre would not be entertained.
 - (d)
 - (i) In case the tenders were accepted under guarantee, the bank should furnish the necessary continuing guarantee bond and depute its representative for watching the examination of remittance whenever called upon to do so by the chest branch/RBI office.
 - (ii) If cash is being drawn from the chest branch/RBI office, the bank should take payment from out of the notes deposited under guarantee and in the denomination of notes available therein. In other words, the facility should not be used as conduit for the purpose of depositing the small denomination and reissuable notes and obtaining higher denomination and fresh notes.

- iii) The banks should advise the Chief General Manager, Department of Currency Management, RBI, Central Office Building, Central Office, Mumbai (a) the names of the centres where banks have problems for depositing their surplus cash despite the above arrangements, (b) the nearest issue office of RBI and its distance to the centre and (c) the name of the nearest currency chest branch of a public sector bank and its distance to the centre.

Annexure - I

[Paragraph-19.1(iii) (a)]

Recommendations of the Jilani Working Group which the banks will be implementing at their discretion taking into account their existing policies and procedures

Sl. No.	Recommendation No. in the Work- ing Group's Report	Nature of recommendation
(1)	(2)	(3)
1	1	The group proposes no change in the existing structure of inspection/audit department of banks. Each bank may continue with the set-up that is suitable for its scale of operations and from the angle of administrative convenience. [Para 2.1.10]
2	2	The group emphasises that independence of Inspection and Audit functionaries must be preserved for their effective performance. [Para 2.2.]
3	3	The group suggests that the Zonal/Regional Audit Offices/Inspectorates should also be made responsible to oversee the follow-up and rectification work done by the operational heads at Zonal/Regional Offices and to bring close co-ordination between operation and inspection functionaries. [Para 2.3.2]
4	5	Effective measures should be initiated by banks to remove areas of ambiguity and overlapping as also reduce multiplicity of different types of Inspection/Audit. However, concurrent audit and regular inspection/audit should not be construed as over-lapping as the perspective and focus of concurrent audit are qualitatively different from that of regular inspection/audit. [Para 2.4]
5	7	Considering the greater reliance being placed, of late, on efficient internal control and inspection/audit systems in banks and recent spurt in frauds/malpractices in the banking industry, vigilance and inspection departments should be placed under the charge of two different executives so that individual attention could be given to these two important functions. The Group also recommends separation of these two functions. The Group further recommends that, while Vigilance Department could be headed by an officer drawn

from other banks, Inspection Department must be brought under an officer drawn from the bank itself for the reason that, the in-charge of Inspection Department should be well conversant with all details of the existing systems & procedures of the particular bank and should be able to analyse its inherent defects/short comings. [paras 2.6.2&2.6.3]

6	9	The Inspection Department in most of the banks has become a place for posting officers who are not found suitable in other areas. This situation has to be changed and profession should be made to acquire the creditable status it deserves. Right persons with aptitude for investigation and scrutiny should be posted in the Inspection and Audit Department. [para 3.2.1]
7	10	Inspecting officer should have constructive and helpful approach while on inspection duty. To the extent possible he should endeavour to get defects rectified on the spot. [Para 3.2.1]
8	11	Inspecting officer should have a frank discussion with the branch manager and other officials of the branch with regard to his findings. He should take their views into account while suggesting ways and means to reduce the number of irregularities observed and to improve the routine and overall working of the branch. [Para 3.2.1.]
9	12	Stay of all officers in the Inspection and Audit Department for a period beyond 4 years could be counter productive and hence normally no officer may continue in inspection audit work beyond 4 years. [Para 3.4]
10	13	Efforts should be made to make inspection/audit work more attractive giving financial incentives to inspection/audit staff. The Group does not recommend giving any weightage for promotion to inspection/audit staff for their experience since such a practice might create many other administrative problems. [Para 3.5.2]
11	14	Role of an inspector/auditor is perceived to be that of a friend, philosopher and guide to the staff of the branch he is inspecting. To perform this role effectively, he should sharpen his knowledge and skills on a continuing basis. [Para 3.6.1]
12	16	Banks should have a system of deputing officers posted newly to Inspection and Audit Department as under-study with the main inspection team initially for 2/3 branches. Persons having work experience and training in specialised areas like foreign exchange, dealing room operations, computers etc., should be associated with inspection team. [Para 3.6.1]

13	17	Institutions like National Institute of Bank Management, Pune and Bankers Training College, Mumbai can play a more active and leading role in organising special purpose training for inspecting officers of banks. Banks could request NIBM/BTC to organise in-company programmes to the inspection/audit staff. [Para 3.6.2]
14	19	Inspection work need not be segregated from that of audit since, it would result in deployment of additional staff, non-availability of clear picture of functioning of the branch in its totality. possibility of inspection getting diluted, duplication of work and consequential increase in cost on account of overlapping of duties. However, more emphasis and accent should be given to inspection function. [Para 4.5.1. & 4.5.2]
15	22	No specific size of inspection/audit team could be prescribed for banks and it is for the individual bank to decide the size of the inspection team. [Para 4.10]
16	26	There should not be any rating for inspection of Head office Departments/administrative/controlling offices. [Para 4.14.4]
17	27	Since the nature of problems and characteristics of operations of overseas branches are wide and varied, no uniform guidelines could be suggested for internal control, inspection/audit of overseas branches. However, the Group emphasises the need for banks evolving proper Management Information System which could indicate clearly all aspects relating to control over liquidity management, maturity mismatch of assets-liabilities, interest rate exposure and foreign exchange exposure of their overseas branches. [Para 4.16.4]
18	28	Of late, new activities are undertaken by banks in a significant manner. It is essential for the banks to evolve a proper control system right from the day of taking up of such activities. The need for greater computerisation of these activities should be thought of from the very beginning so that proper control/reporting measures could be put in place. It is also imperative that the staff who are required to handle such activities are exposed to specialised training to acquire necessary skills. [Para 4.17]
19	29	Looking at the size and complexities of the operations of banks vis-a-vis limited time available for the Group to present its report, it will not be in a position to accomplish the task of preparing checklists for the use of inspecting officers of banks and formats/guidelines for controlling offices. In view of the wide ranging systems and procedures prevalent in banks as also specificity and uniqueness of each bank's policies, procedures and internal control mechanism, prescription of an

		omnibus checklist/format/guidelines might not be of much use to banks. Such checklists for inspecting officers and formats/guidelines for controlling offices should be prepared by banks themselves taking into account their policies and procedures. [Para .4.18.3]
20	31	System of rating based on the performance in select key parameters is better than rating based on marks since the latter system is a straight forward exercise. Awarding marks could lead to embarrassment to all concerned. [Para.5.4]
21	33	There should be a system of preparing summary of inspection report of unsatisfactorily rated branches for submission to the competent authority. [Para 5.4]
22	34	Some banks follow the practice of preparing a health card for the entire bank/zone /regions. Under this exercise, performance in case of select parameters such as housekeeping, customer service, credit management, business development, profitability etc, may be quantified in terms of a score by converting various parameters into numerical values. This exercise enables the Top Management to have an alternate tool to assess the progress being made by the bank. The Group feels that, it should be left to the individual bank to decide whether it should follow this practice. [Para 5.4]
23	35	Branches put under concurrent audit need not be subjected to revenue/income audit. However, they should also be subjected to internal inspection/audit, at periodicity applied to branches in general . [Para 6.3.3]
24	37	Since concurrent audit is day-to-day checking of transactions in order to alert the bank management, it would be advantageous to undertake concurrent auditing through bank's own staff in the long run instead of depending on outside agency. [Para 6.6]
25	38	Each bank should introduce a structured format for the use by concurrent auditor. This would serve as a checklist for the concurrent auditor. A structured reporting system would also be helpful for the bank management to assess the extent of coverage and effectiveness of the concurrent audit.[Para 6.7.1]
26	42	In the absence of any closure, there would be multiple reports on the same branch that need to be followed-up. To avoid such eventuality, only the latest report should be followed up. Each inspector/auditor should comment upon the efforts made by branch functionaries towards rectification of irregularities. [Para 7.3]

27	43	Special marks may be granted for efforts made by branches in rectification of deficiencies while judging them for awards and also for performance appraisal of branch managers/officials. In the case of poorly rated branches a time limit should be set to restore such branches to normal state of operations. Special reports should be submitted to Audit Committee of the Board on such branches. [Para 7.4.2]
28	48	During the course of regular inspection, the inspecting officers should give special attention to certain vulnerable and fraud prone areas of working of the branch and report any disquieting feature observed. An area which requires careful scrutiny is opening of new accounts in branches. Inspecting officer should ensure that the branch officials have taken all precautions to comply with norms prescribed in this regard including the genuineness of the introducer of the account. [Para 7.6.1]
29	50	With a view to keeping incidence of corruption and malpractices under check, there is a need for fixing staff accountability aspect of irregularities, malpractices etc, at all levels, at the appropriate time. [Para 7.7.2]
30	52	Duties of system programmer/designer should be segregated from person operating the system and there should be separate persons to perform the above two functions. Systems person will only do modification/improvements to programmes and the operating person will only use such programmes without having the right to do any modifications. [Para 9.5.2]
31	55	Major factors which lead to security violations in computers are inadequate or incomplete system design, programming errors, weak or inadequate logical access controls, absence or poorly designed procedural controls, ineffective employee supervision and management controls. These loopholes could be plugged by (i) Strengthening physical, logical and procedural access to systems, (ii) introducing standards for quality assurance and periodically testing and checking them and (iii) screening employees prior to induction into EDP application areas and keeping a watch on their behavioural pattern. [Para 9.9.2]
32	57	Audit of work entrusted to outside agencies should consider the costs associated with such operations. It should also evaluate losses likely to be incurred on account of errors/delays/non-completion of required work entrusted to

		outside agencies. It should also evaluate the risk of destruction or loss of files/records and clearly indicate the responsibility of the outside agency under such eventualities. It should also critically examine the ownership of programs developed/used by the outside agency and ensure that such programs will not fall into the hands of unscrupulous elements. [Para 10.3]
33	58	There is a need for formal declaration of system development methodology, programming and documentation standards to be followed by the bank, in the absence of which quality of system maintenance/improvement would suffer. EDP auditors should verify compliance in this regard. [Para 9.10]
34	60	Efforts should be made to develop a team of competent and motivated EDP personnel. It is beneficial to have a collective development of system consisting of many persons instead of a few in order to take care of situation of exodus of key personnel. EDP auditors' technical knowledge should be augmented on a continuing basis through deputation to seminars/conferences, supply of technical periodicals and books etc. [Para 9.10]
35	62	Contingency plans/procedures in case of failure of system should be introduced/tested at periodic intervals. EDP auditor could put such contingency plan under test during the audit for evaluating the effectiveness of such plans. [Para 9.10]
36	63	The inspectors/auditors should verify whether the systems and procedures existing at branches, controlling offices and central office departments for handling and controlling different types of transactions have been devised/suitably modified taking into account the details of frauds, modus operandi and the preventive steps advised by the Reserve Bank of India. It should be verified whether any employee is allowed to handle the same set of books/operations continuously for long periods. A proper system of checks and counter-checks and periodical rotation of duties go a long way in prevention/early detection of frauds, if not their total elimination. [Para 10.4.1]
37	64	The systems and procedures prescribed by the banks for various transactions are quite adequate and what is needed is adherence to them scrupulously by bank and file so as not to facilitate unscrupulous elements to get an opportunity to perpetrate the frauds. Therefore, in order to effectively combat the growing menace of frauds/malpractices, the inspectors have to be vigilant and alert while performing their duties. [Para 10.5.1]
38	65	Inspectors/auditors have to verify whether the following precautions are taken by branches while handling demand drafts in payment of which frauds could be perpetrated:-

- (i) Drafts which are paid without advice are properly marked and receipts of advices are ensured so as to ascertain their genuineness.
 - (ii) Drafts tendered for payment are subjected to scrutiny in all respects.
 - (iii) Specimen signatures of authorised officials issuing drafts are kept safely and updated regularly.
- [Para 10.5.2]

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Non-observance of prescribed systems and procedures have been mainly responsible for many frauds taking place in the area of advances. The unscrupulous borrowers could commit frauds in this area mainly on account of the lapses on the part of the officials such as misutilisation/overstepping of lending powers, failure to comply with the terms of sanction, inadequate and ineffective post sanction follow-up and supervision.

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Following precautions should be taken by banks to safeguard themselves against perpetration of fraud in the area of advances.

- (i) Confidential enquiries should be made by interacting with local people to know the background and integrity of the prospective borrowers.
- (ii) The assets and liabilities declared by the borrowers should not be accepted as it is and that should be verified with the relevant documents to title as well as by personal visit to know the genuineness.
- (iii) Apart from satisfying the transferability and marketability of the securities offered to the bank, borrower's ability to carry on the business, infrastructure available to the unit, technical feasibility of the unit, marketability of the product etc., should also be thoroughly scrutinised.
- (iv) Branch Manager should exercise powers within his lending limit.
- (v) All prescribed documents should be properly executed and all set-out procedures should be meticulously followed.
- (vi) Cases have been noticed where borrowers have fraudulently tampered with the share scrips and with the aid of chemicals increased the number of shares shown therein. In order to ensure genuineness of share certificates, corroborative documents like allotment

letters, dividend warrant intimations etc., should be verified.

(vii) After disbursing the amount, post-sanction inspection should be conducted immediately within a reasonable time and verify the end-use of funds.

(viii) Renewal of credit facilities should not be a ritual. Unsatisfactory features should be highlighted in the renewal proposals. [Para 10.5.2]

41 68 Banks should ensure while allowing advances against bills(irrespective of whether they are clean or documentary, usance or demand) that they represent genuine trade transactions and not accommodation bills. Banks should be wary against tendering of lorry receipts (LRs) of only a particular lorry company, consignment showing full loads, bills for round sums, drawing bills on the same party or confined to few parties, drawing bills disproportionate to borrower's business standing, bills not accompanied by pucca invoices, weight lists etc., long delay in retirement of bills by drawees, frequent instructions of the drawees to deliver documents free of payment and frequent return of bills. [Para10.5.2]

42 69 The only way to prevent frauds in the area of inter-branch reconciliation is to ensure that arrears do not build in reconciliation of inter-branch transactions. Debit entries outstanding should be given utmost attention. [Para 10.5.2]

43 70 Banks must take appropriate action when there is failure on the part of any of their officials to comply with the prescribed systems/procedures not only as a punitive measure but also from preventive angle. While an official committing an irregularity is answerable, the official charged with the responsibility of checking the relative entry or transaction is equally responsible for default, if he fails to detect the irregularity. [Para 10.6.1]

44 72 Details of frauds detected during inspection and other matters involving malafides, corrupt practices/gross indiscipline on the part of the staff etc., could be reported in the inspection/audit report itself or separately in the form of special report depending upon the gravity of the matter. Banks should devise a standard format of the special report in order to streamline the procedure of submission of special reports. The special report should be treated as closed only after the related issues are fully dealt with. [Para 10.7]

45 73 Banks should scrupulously follow the norms prescribed by the Reserve Bank of India to calculate capital risk assets ratio

(CRAR). Over estimation of CRAR by wrong assignment of risk weights to certain assets such as PSU bonds, post office deposits, financial guarantees etc., incorrect evaluation of assets and exclusion of certain items of assets for assigning risk weight should be avoided. Failure to take into account erosion in provisions and reserves due to loan and other losses also leads to over estimation of CRAR. Inspecting officers while conducting inspection of Head Office Departments should ensure that the above aberrations do not creep in, in calculation of capital adequacy ratio. [Para 11.2.2]

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At individual bank's level, appropriate measures/strategies should be initiated to reduce the NPA component comprising of sub-standard, doubtful and loss assets. Banks may take following precautions/steps to prevent the accumulation of NPAs and inspectors should specifically comment on adequacy of steps taken.

- (a) Interest/instalments recovery should be done on war-footing basis for which existing strategies need a fresh look. Involvement of staff members besides the Branch Managers has to be increased. Recovery performance of all concerned officials should be critically evaluated and outstanding performance should be appropriately recognised.
- (b) Recovery through rehabilitation of sick units is always desirable provided these projects are viable. For effective rehabilitation, speedy decisions relating to formulation and implementation of rehabilitation package should be taken. For this purpose, there should be decentralisation of authority.
- (c) Banks should invariably, undertake timely review exercise and assess properly the borrowing/non-borrowing limits so as to prevent the possibility of accounts slipping into NPA category. However, banks should not merely sanction additional limits with the objective of regularising the accounts and upgradation of the asset status of the accounts by this process is not permitted.
- (d) Compromises or negotiated settlements with the borrowers is another strategy to reduce NPAs. Guidelines prescribed by Reserve Bank of India in this regard should be followed by banks meticulously. All write-off decisions should be judicious and in the best interest of the bank. [Para 11.4.2]

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Inspectors/auditors undertaking inspection of Investment Department at Head Office/Corporate Office should comment

whether the bank has framed a suitable investment policy with the approval of the Board to ensure that operations in securities are conducted in accordance with sound and acceptable business practices and in accordance with RBI guidelines. [Para 11.5]

48	77	Bank's Top Management should guide inspectorate to be vigilant against the abuse of the stockinvest scheme by branches since violations committed in the operation of the scheme may be viewed seriously by the regulatory authorities and may attract levy of penalties by them. [Para 11.6]
49	78	Irregularities committed in opening and operation of NRE accounts have enabled the account holders and others to resort to money laundering. Banks should, therefore, issue suitable instructions to their branches/operational staff to comply with the Exchange Control provisions fully in this regard and also to be careful when there are frequent operations on a particular NRE account. Suitable guidelines may also be issued to inspecting officials in this regard. In case, they suspect bona fides of the transaction, the matter should be reported with full details through the appropriate level to the Reserve Bank of India. [Para 11.7.2]
50	79	Presence of unadjusted entries in inter-branch accounts makes quite vulnerable; it could enable unscrupulous people to take advantage of the situation and cause greivous harm to banks. Originating debits require more attention than originating credits. Inspectors should make a special mention of long outstanding debit entries in the inspection report. It is generally perceived that originating debits are comparatively more fraud prone. Besides inter-branch reconciliation, there are many other miscellaneous accounts such as clearing differences, suspense and draft payable account, 'Nostro' accounts etc., where entries are outstanding for long periods and these need to be tackled on the emergency basis. [Para 11.8.1]

ANNEXURE - II

[Paragraph 19.1(iii)(b)]

Recommendations of the Working Group to review the internal control and inspection/audit system in banks to be necessarily implemented by banks and progress reported to the Reserve Bank of India

Sl. No.	Recommendation No. in the Working Group's Report	Gist of recommendation
(1)	(2)	(3)
1	4	Co-ordination between inspection and operational wings should be ensured to bring about synergic effort effecting overall positive changes in the functioning of the bank.
2	6	In view of increasing volume of transactions, emergence of new areas of products/services and associated complexities, expeditious computerisation for data storage, programming and performance monitoring is imperative. Each bank should maintain on computer a profile of each of its branches on performance in various thrust areas like audit ratings, assets quality, level of non performing assets, revenue leakages, profitability etc. to enable it to pin-point the causes for poor performance and initiate appropriate and timely corrective measures. Banks should also computerise the track record of branches in reporting compliance of inspection/audit reports so that it will help the Audit Committees and functionaries at Zonal/Head Office level to have a constant track and suggest corrective action at appropriate time.
3	8	Banks should have a system of fixing accountability of inspectors/auditors for their failure to detect and report serious irregularities provided banks have always updated their operations manuals, book of instructions, circulars, inspection Manuals and formats. For this purpose, broad guidelines to establish accountability for inspectors/auditors should be laid down.
4	15	The responsibility for improving and updating the knowledge of inspecting staff has to be shouldered by Central Audit and Inspection Department as well as Zonal/Regional Audit Offices/ Inspectorates. This may be done through developing a database on training inventory of each inspector/auditor and arranging for training in those areas to which he has not been exposed so far.

5	18	Inspection and Audit Department of the bank should provide periodically (preferably at an interval of one year) to each inspecting/auditing official a booklet/compendium of instructions incorporating changes in procedures/RBI norms, contents of important circulars, etc.
6	20	Revenue/income audit should be conducted at certain select large/medium sized branches or branches where income leakages have been noticed. In branches where concurrent audit has been instituted, this exercise need not be undertaken.
7	21	Every bank should have a manual of instructions for their inspectors/auditors and it should be updated periodically to keep in tune with latest developments in its area of operations and in its policies and procedures.
8	23	Inspection/audit of any branch should not be continued beyond two months. However, in the case of very large and exceptionally large branches, the task may be completed within 3 months.
9	24	All poorly rated branches should be inspected within twelve months and others between 12-18 months from the date of previous inspection.
10	25	Inspection/audit report format should be updated periodically in order to incorporate various changes in products, systems and procedures. Inspectors/auditors should be provided with a checklist of major and serious irregularities in various areas of banking operations. An executive summary should be prepared by the inspecting officer for each and every inspection/audit report and forwarded to in-charges of Zonal/Regional Offices controlling such branches. Inspectors/auditors may submit the report to the branch manager prior to leaving for next assignment. [Indian Banks Association (IBA) has been requested to set up a task force to devise a standardised comprehensive format for internal audit of branches to be used by all (Indian) Banks - both public and private. Further instructions in this regard will be issued in due course].
11	30	Every bank should necessarily have a system of rating of its branches on the basis of inspection reports and it should also be reviewed periodically keeping in mind of changed priorities and objectives set for proper working of the branches.
12	32	Computerised track record of efficiency ratings earned by branches over the past four/five inspections should be

maintained in the Inspectorate and updated from time to time and also made available to the functionaries.

13	39	Major/serious irregularities detected during concurrent audit should be reported to the Head Office and also the branch manager concerned. A time-bound action programme for rectification should be drawn up and closely monitored. All attempts should be made to rectify the irregularities which are of serious nature at the earliest. Procedural irregularities are also to be set right as non-following of proper and prescribed procedures can lead to serious problems. Whenever any fraudulent transactions are detected by the concurrent auditors, such matters may be immediately reported to Inspection and Audit Department at Head Office with a copy to Chief Vigilance Officer of the bank. They may also be reported to the branch manager unless he, himself, is involved in the fraudulent transactions.
14	41	There is no need for giving longer period beyond 4 months to smaller and medium sized branches for fully rectifying the irregularities pointed out during inspection/audit.
15	44	Inspectors/auditors should try to get majority of irregularities rectified during their stay at the concerned branch. They may have to guide the branches properly for this purpose.
16	45	Whenever, excerpts of very serious irregularities/revenue leakages which have surfaced owing to abnormal deviations from laid down procedures/norms or existence of gaps/lacunae/loopholes in the existing procedures/norms are given to department concerned, these departments should in consultation with O&M Department or System and Procedures Department or EDP Department take immediate action to plug these gaps/lacunae/loopholes through issuance of fresh/revised guidelines.
17	46	There is scope for Audit Committee to broaden its domain and effectiveness through its study of additional areas such as frauds, progress in Annual Financial Inspection carried out by RBI, progress in inter-branch and inter-bank reconciliation, clearing adjustment accounts, sundry/suspense items, balance sheet items, etc. Banks should have structured items for discussion by the Audit Committee. Banks can decide the periodicity of the Audit Committee meetings.
18	49	Inspection findings relating to frauds detected during the inspection and matters involving malafides, corrupt practices and gross indiscipline should be submitted as special report to the concerned authorities for initiating action and not to be included in regular inspection/audit report. These reports

should be thoroughly scrutinised by such authorities. Alongside, policy decisions should be taken to remove the shortcomings/ lacunae in the existing system that have contributed to the instances of frauds/malafide action.

19	53	An appropriate control measure should be devised and documented to protect the computer system from attacks of unscrupulous elements. Before introducing an EDP application in place of certain manual procedure, parallel run of both the systems should be done for a reasonable period to ensure that all aspects of security, reliability and accessibility of data are ensured in EDP application.
20	54	In order to ensure that the EDP applications have resulted in a consistent and reliable system for inputting, processing and generation of output of data, various tests to identify erroneous processing, to assess the quality of data, to identify inconsistent data and to compare data with physical forms should be introduced.
21	56	While engaging the outside computer agencies, banks should ensure to incorporate the "clause of visitorial rights" in the contract, so as to have the right to inspect the process of application and also ensure the security of the data/inputs given to such outside agencies.
22.	59	Entire domain of EDP activities (from policy to implementation) should be brought under scrutiny of Inspection and Audit Department. Financial outlay as well as activities to be performed by EDP department should be reviewed by senior management at periodical intervals.
23	61	In order to bring about uniformity of software used by various branches/offices there should be a formal method of incorporating change in standard software and it should be approved by senior management. Inspection and Audit Department should verify such changes from the view point of control and for its implementation in other branches in order to maintain uniformity
24	71	Banks should complete enquiries expeditiously and bring to book the delinquent staff so as to deter others from perpetrating frauds and malpractices. Banks should also strengthen their vigilance machinery and review its working once in six months at the level of the Board.

In order to ascertain the correctness of the information compiled/furnished by branches regarding income recognition, asset classification, provisioning and quantum of NPAs in conformity with the prescribed norms, there should be regular checking by the inspectors/auditors. During the inspection/audit, if any discrepancy has been found out, the same should be informed to the Branch Manager and got rectified on the spot.

ANNEXURE - III

[Paragraph 19.3 (a) (i)]

Extract from the Report of the Sub-Committee on Computerisation of Inter-Branch Reconciliation (IBR) - 1984

Section III

23. The Sub-Committee noted that in most of the banks, the IBR work is already computerised. This work involves, as described earlier, four main stages viz,

- (i) Preparation of Day Schedules in branches and their despatch to the Head Office.
- (ii) Receipt, scrutiny , maintaining control registers in Head Office and handing over documents to computer agency.
- (iii) Punching, editing, updating, matching and generating unmatched listing and
- (iv) Follow-up by the Head Office of unmatched entries.

In the first three of these stages, there are considerable delays, ranging from 6 months to two years, while the last stage has an open end. Stages (i),(ii) and (iv) are manual and these are not properly organised and aligned to match the efficiency of machine processing involved in stage (iii). The Sub-Committee felt that even though different banks adopt different procedures the core procedures followed in different banks in IBR are more or less common and there is no need for all the banks to follow one and the same procedure in accounting of inter-branch transactions. What is needed is stricter discipline in following the instructions which are already laid down and pursue vigorously the unreconciled transactions. The Sub-Committee, therefore, felt that each bank may undertake a systems study to remove bottle-necks in the procedures of IBR and modify its procedures, wherever necessary.

24 Considering the problem of huge arrears of reconciliation, the Sub-Committee felt that two separate sets of actions are required, one to clear up speedily the arrears and another to ensure that current transactions do not fall into arrears. The procedures in the first set of actions envisaged are described below:

- (a) The Sub-Committee recommends that each bank may establish a Cell within the Branches Accounts Department to attend exclusively to the work of clearance of arrears.
- (b) The Sub-Committee recommends that this Department should be attached to a sufficiently high ranking officer of the bank who could deal with the Assistant General Managers in charge of zonal offices of the banks.

- (c) The banks should carry out an ABC analysis of branches and categorise the branches into three classes. A class as branches having heavy transactions, B class as branches having medium volume of inter-branch transactions and C class as branches with low volume of transactions for better monitoring and follow-up. C class branches can be asked to submit Weekly Statements instead of Daily Statements.
- 25 Unreconciled transactions above a specified cut-off point should be listed separately and their age-wise classification be obtained. Similarly, problem branches should be identified and special measures may be undertaken to remedy the situation. Staff may be strengthened where necessary and a time bound programme may be laid down to clear the arrears. Where vouchers are not traceable, banks may examine whether the entries in other registers/supplementaries are adequate to reconcile the transactions.
- 26 Unreconciled entries on the originating branch pertaining to a given period should be advised to the branch in one lot. Outstanding debit entries involving large amounts should be followed up closely.
- 27 In many cases, the originating and responding entries differ by small amounts due to inclusion and exclusion of discounts/commissions/other charges by one branch or other. These entries can be force matched, by ignoring the small differences, with corresponding adjustments in Profit and Loss accounts.
- 28 Where sets of entries could not be matched due to small differences in amounts, individual banks may fix suitable limits for their bulk matching and/or adjusting the differences through Profit and Loss account.
- 29 Branches may be asked to submit monthly progress reports on the clearance of reconciliation work in arrears. The consolidated report should be placed quarterly before the meeting of the Board of Directors of the banks.
- 30 The above procedures would help in clearing the back-log of arrears. The second set of actions relate to current transactions beginning from, say, July 1984. Prior to this, banks should complete their systems studies and issue fresh instructions modifying their accounting and transacting practices, wherever, necessary. Workshops and training classes should be organised and job cards indicating the procedures be issued. Our recommendations in regard to processing of current transactions are given below:
- (a) Banks may consider prohibiting branches from raising original debits, except under exceptional specified circumstances. Reversal of entries should be closely monitored. The system of issue of Authority Cheques for raising original debits may be considered by banks.
- (b) In a branch a particular officer may be made responsible for preparation and submission of Day Schedules. The necessity of filling up these Schedules with due care and on a day to day basis should be impressed upon the branches. The defaulting branches should be advised promptly and a note should be taken in the monthly/quarterly performance report of the branch.

- (c) Inspectors may be asked to examine long outstanding entries of large amounts awaiting reconciliation during the course of their branch inspections and suggest remedial measures.
- (d) The zonal officer may be provided with a list of chronically defaulting branches for closer monitoring.
- (e) In case originating debits are permitted in the normal course of transactions, these could be passed through a subsidiary account instead of inter-branches account. This will enable the bank to monitor closely the originating debits.
- (f) All entries for small amounts on income/expenditure accounts should be clubbed into a single entry and passed, say, once in a fortnight. Alternatively, branches can pass these entries in their own account instead of IBR account.
- (g) To facilitate retrieval of old records needed for reconciliation, banks should establish central godowns in big cities.
- (h) Banks are using abbreviated names of branches or their own code numbers of branches in IBR. They should strictly follow uniform bank codes (part-I) evolved by the Reserve Bank of India. The banks should issue printed booklets (like the postal pin code books) giving the names, addresses and uniform bank codes of branches. Since each branch transacts typically on the same set of branches, they could quickly pick-up the practice of using uniform bank codes. In the initial stages, however, it will be necessary to verify these codes before taking up the matching exercise. A check digit can be suffixed to the branch code, so that accuracy in reporting this code can be checked on the computer.
- (i) Banks may consider adopting manifold system of recording of transactions and their subsequent advising/reporting to avoid preparation of schedule and advices separately. If, as described earlier in para 11, quadruplicate copies are prepared, two copies would be retained in the two transacting branches and two copies would reach the Head Office, one as original and the other as response.
- (j) The Sub-Committee favours transaction reporting and reconciliation, except in the case of Demand Drafts. Matching exercise should be undertaken on computers at least at monthly intervals for A class branches, two monthly interval for B class branches and quarterly for C class branches. The receipt of Day Schedules/Daily Statements should be monitored once a week and defaulting branches should be advised promptly.
- (k) Banks may consider introduction of 'Zonal inter-branch account' for transactions among branches within a zone. The idea is to associate actively the zonal offices in the IBR work. Intra-zonal branches transactions could be separated and reconciled in zonal offices or service branches in metropolitan and other cities.
- (l) Banks should hold periodically workshops to train the staff at all levels in the procedures of IBR work.

- (m) As and when branch-level mechanisation is introduced, the Day Schedules/Daily Statements could be prepared through these machines. Till then the branches may be advised to send type-written daily statements, as hand-written statements lead to punching mistakes due to bad and ambiguous writing.

CHAPTER - 20

MEASURES TO PREVENT FRAUDS

CHAPTER - 20

MEASURES FOR PREVENTION OF FRAUDS AND REPORTING OF FRAUDS, DACOITIES, ETC.

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MEASURES FOR PREVENTION OF FRAUDS AND REPORTING OF FRAUDS, DECOITIES, ETC.

Bank transactions are so numerous and varied that frauds can be perpetrated in any of the areas. Strict observance of laid down systems and procedures can minimise the chances of frauds and malpractices in banks. However, it has to be borne in mind that no Manual or Book of Instructions could prove to be an effective alternative to a vigilant human mind which should always be on the look out for pitfalls in growing and diversified banking arena.

Due observance of certain essential safeguards would go a long way in preventing frauds in deposit accounts or timely detection thereof. The more important safeguards are indicated below.

20.I Deposit Accounts

A) Opening of accounts

- (i) Banks should be aware that introduction of an account is obtained not merely as a formality to get protection under Section 131 of the Negotiable Instruments Act, 1881, but also to enable proper identification of the person opening an account, so that it would be possible to trace the person later in case the account is misused. They should also educate the customers regarding the implications of introducing an account. With a view to casting responsibility on the introducer, banks should incorporate a certificate in the account-opening form in respect of all deposit account holders expressly conforming the occupation and address of the depositor by the introducer and also certifying that the introducer knows the person concerned for so many years.
- (ii) The opening of new accounts should be authorised only by the Branch Manager or, at bigger branches, by the Officer-in Charge of the concerned deposit accounts department.
- (iii) There should be a reasonable gap of, say, at least six months between the time an introducer opens his account and he introduces another prospective account-holder to the bank. The interval will enable the bank to monitor the account closely to satisfy itself that the transactions in the introducer's account are satisfactory.
- (iv) When an account holder does not personally call at the branch to introduce an account, the fact of his having introduced a new account should be got confirmed by him in writing. Even in cases where the account opening forms bear the signatures of managers/officials of other branches of the bank for

introduction., apart from verifying the signatures of such introducers with the specimen signatures available on record, the branch concerned should obtain written confirmation of the introduction from the officials of the other branches who introduced the account. Till such time the confirmation is received, the banks should not collect cheques/drafts through the relative newly opened accounts. A similar procedure should be adopted in cases where the introducers of accounts are not officials of the bank and do not personally call at the bank to introduce an account.

- (v) Banks should obtain and keep on record photographs of all depositors/account holders who are authorised to operate the said accounts at the time of opening of all operative new accounts with effect from 1st January 1994, subject to the following clarifications:
 - (a) The instructions cover all types of deposits including fixed, recurring, cumulative, etc.
 - (b) They apply to all categories of depositors, whether resident or non-resident.
 - (c) The banks may not insist on photographs in the case of accounts of staff members only (Single/Joint).
 - (d) The banks should obtain photographs of all persons authorised to operate the accounts without exception.
 - (e) The banks may obtain two copies of photographs and photocopies of driving licences/passport containing photographs would not suffice.
 - (f) The banks should not ordinarily insist on the presence of account holder for taking cash withdrawals in the case of 'self' or 'bearer' cheques unless the circumstances so warrant. The banks should pay 'self' or 'bearer' cheques taking usual precautions. Photographs cannot be a substitute for specimen signatures.
 - (g) Only one set of photographs need be obtained and separate photographs should not be obtained for each category of deposit. The applications for different types of deposit accounts should be properly referred.
 - (h) In the case of operative accounts, viz. Savings Bank and Current accounts, photographs of persons authorised to operate them should be obtained. In the case of other deposits, viz. Fixed, Recurring, Cumulative, etc. photographs of all depositors in whose names the deposit/receipt stands may be obtained except in the case of deposits in the name of minors where guardians' photographs should be obtained.

- (i) The above instructions would not apply to the accounts of the banks, local authorities and Government Departments (excluding Public Sector Undertakings and quasi-Government bodies). Further, photographs need not be insisted upon in the case of (a) new Savings Bank accounts where cheque facility is not provided and (b) fixed and other term deposits upto an amount and inclusive of Rs. 10,000/-. In this regard it is clarified that if a depositor has term deposit of less than Rs. 10,000/- but he/she is also having a Savings Bank account with cheque facility or a Current account, it will be necessary to obtain the photograph of the depositors. The cost of photographs to be affixed on the account opening form may be borne by the customers.
- (vi) Independent confirmation of the address of the account holder should be obtained in all cases.
- (vii) In some cases foreign nationals encashed forged foreign demand drafts after opening accounts with the help of forged passports and posing as students. It is suggested that in addition to usual safeguards at the time of opening deposit accounts and allowing withdrawals banks may verify, in their own interest, wherever possible the resident permits issued by the Police department in India to all foreign nationals and retain a copy thereof.
- (viii) Banks should inform the employer bank whenever an employee of another bank opens an account with them. Similarly, whenever an employee opens account with a branch other than that of his posting, the fact should be brought by the account opening branch to the notice of the branch of his posting.

B) Monitoring of Deposit Accounts

1. Irrespective of the nature of account and the depositor/s involved, the banks should be particularly vigilant in respect of newly opened accounts. For this purpose, there should be a system of maintaining a close watch over operations in such accounts. While at branches primarily the responsibility for monitoring newly opened accounts would rest with the in-charges of the concerned department/section, the Branch Manager or the managers of Deposit Accounts Department at larger branches should, at least for the first three months from the date of opening of such accounts, keep a close watch so as to guard against fraudulent or doubtful transactions taking place therein. If any transaction of suspicious nature is revealed, banks should enquire about the transaction from the account holder, and if no convincing explanation is forthcoming, they should consider reporting such transactions to the appropriate investigating agencies.

2. Frauds in deposit accounts, whether in existing accounts or newly opened ones, involve cash withdrawals for large amounts, thereby giving rise to suspicion about the nature of the transactions. Hence banks should introduce a system of closely monitoring cash deposits and withdrawals for Rs. 10 lakh and above in all deposit accounts, as also in other operative accounts, such as, cash credit and overdraft. The branches should also maintain a separate register to record details of individual cash deposits and withdrawals for Rs. 10 lakh and above. The details recorded should include, in the case of deposits, the name of the account holder, account number and the amount deposited and in the case of withdrawals, the name of account holder, account number, amount of withdrawal and the name of the beneficiary of the cheque involved. Cash deposits or withdrawals for Rs. 10 lakh and above should be reported by the Branch Manager to his Controlling Office (i.e. Divisional or Regional or Zonal Office) on a fortnightly basis, along with full particulars, such as name of the account holder, account number, date of opening the account, etc. On receipt of these statements from branches, the Controlling Office should immediately scrutinise the details thereof and have the transactions looked into by deputing officials, if the transactions prima facie appear to be dubious or giving rise to suspicion. The Controlling Office should, in turn, apprise the General Manager (Inspection) at the Head Office, if any transactions of a suspicious nature are observed.

C) Joint Accounts

Banks often open joint Current or Savings Bank accounts in the names of individuals (e.g., A AND OTHERS). In certain cases, although accounts are opened initially in the name of a few account holders, subsequently, on the strength of letters of request, more names are added and they also become joint account holders. Further, banks have been collecting third party payment instruments, inter alia, against Indemnity Bonds executed by the joint account holders. The practice of opening joint accounts with a large number of joint account holders has at time facilitated fraudulent encashment of third party instruments, avoidance of payment of Sales Tax and routing of benami transactions. In some cases, the transactions have taken place with the knowledge of the concerned officials in banks.

In this connection, the following safeguards should be noted/observed :

- (a) While there are no restrictions on the number of account holders in a joint account, it is incumbent upon the banks to examine every request for opening of joint accounts very carefully. In particular, the purpose, nature of the business handled by the parties and other relevant aspects relating to the business and the financial position of the account holders, need to be looked into. Special care has to be exercised when the number of account holders is large.

- (b) “Account Payee” cheques payable to third parties should not be collected in such accounts, while cheques which are crossed “generally” and payable to “order” should be collected only on proper endorsement by the payee.
- (c) Care should be exercised in collection of cheques for large amounts.
- (d) The transactions put through in joint accounts should be scrutinised by bank officials periodically and action, as considered appropriate, may be taken in the matter. Care should be exercised to ensure that the joint accounts are not used for benami transactions.

D) Accounts of Bank Employees

- (a) As far as employees of a bank are concerned, normally they should not maintain in their names more than one account each; whenever it is desired to have more than one account, say, in different branches, the fact should be intimated to the bank together with the reasons for maintenance thereof. The bank, on its part, should allow the second/subsequent account to be opened only after satisfying itself about the genuineness of the need for such an account.
- (b) The accounts of the employees should preferably be maintained in separate ledgers.
- (c) All transactions relating to employees, by way of deposits, advances, collection of proceeds, etc. should be subjected to strict scrutiny, taking into account the cadre of the employee as also the volume and size of the transactions.
- (d) As a rule, facilities like purchase of bills should not be extended to staff members.
- (e) While opening an account in the name of an employee of another bank, his employer bank may be informed about the same, so as to put it on guard.

E) Dormant Accounts

The deposit account which have not been operated upon over a period, say two years, should be segregated and maintained in separate ledger/s. The relative ledger/s and the specimen signature cards should be held under the custody of the Branch Manager or, in bigger branches, the in-charge of Deposits Department/Section. The first withdrawal in such segregated accounts and subsequent transfer thereof to operative accounts' ledger should be allowed only with the approval of the Manager of the branch.

F) Issue of cheque books/leaves

1. In addition to usual and necessary safeguards, banks should ensure before issuing cheque book that the cheque books issued earlier have been utilised to a reasonable extent. While it is not the intention to prohibit the issue of fresh cheque book before every cheque leaf from the earlier one has been accounted for, the bank should at the same time verify that operation in the account justify issue of further cheque leaves. Banks should discourage issue of loose cheque leaves to their customers and employees as a matter of course and such loose leaves should be issued by a responsible officer after ascertaining the genuine need for the same and that too only to the Account Holder. Banks should at the same time ensure that while adhering to such safeguards, the customers are not put to any undue inconvenience.
2. Whenever a request for fresh cheque book is received from a Saving Bank Account holder not on the basis of the requisition slip, from the cheque book issued to him earlier, a new cheque book should not be handed over at the counter but should be sent by Registered Post to the customer at the address as recorded in the books of the bank, unless the account holder personally present the request.

G) Operations in accounts

1. The more important areas in the payment of cheques wherein due caution need to be exercised are verification of drawer's Signatures, custody of specimen Signature cards, supervision over issue of cheque books and control over blank cheque books/leaves.
2. Ultra-violet ray lamps should be used to examine cheques, drafts, etc.
3. Due care should be exercised in regard to issue and custody of tokens, movement of cheques tendered across the counter and custody of all instruments after they are paid by the bank.
4. The bank may consider fixing suitable ceilings beyond which no cash withdrawal should ordinarily be allowed, unless the account holder himself is personally present to withdraw the money.
5. Similarly, when there is a request for change of address to be noted by the bank, the communication confirming that this has been noted should be sent both to the old address and the new address by 'Registered Post'.

H) Passbooks

Quite often, negligence in taking adequate custody of Savings Bank Passbooks facilitates fraudulent withdrawals from the relative accounts. A few precautions suggested in this regard are :

- (i) Branches should accept the Passbooks and return them against tokens.
- (ii) Passbooks remaining with the branches should be held in the custody of named responsible officials.
- (iii) While the Passbooks are with the branch, there should be held under lock and key overnight.

I) Balancing of ledgers

The Manager or a Senior Official of each branch should ensure that ledgers are balanced at specified intervals and if there is any difference, the same is located expeditiously. The ledger keepers should be periodically rotated and care should be taken that balancing is not entrusted to the same person/s who had posted the ledgers. All credit vouchers should be authenticated by one of the officers. Passbooks/statements of account should be furnished to customers at short intervals and the balance confirmation certificates should invariably be obtained from current account depositors.

J) Clearing/collection of cheques, etc. and drawals against instruments sent for clearing/collection

(a) cheques, drafts, etc.

Numerous frauds take place in this area, some involving very large amounts. The common types of frauds in this category are :-

- (a) Collection of an instrument in the account of a party other than its payee/endorsee.
- (b) Withdrawal of full/part amount before realisation of proceeds and subsequent failure of the concerned party to make good the amount if the instrument is received back dishonoured
- (c) Failure to send the instrument to the drawee branch.
- (d) Destruction of the instrument while in transit or at the drawee branch.
- (e) Availing of 'withdrawal against clearing' facility against instruments known to have been drawn without funds.
- (f) One party and its associate or two different parties having accounts in two (or more) branches indulging in

transactions mentioned at (e) above (commonly known as 'kite-flying').

(b) Interest Warrants, Dividend Warrants, Refund Orders, etc.

Several complaints have been received by the Reserve Bank from the companies/investors about interception of the interest/dividend warrants, refund orders, etc. issued by various companies/institutions by unscrupulous persons who got them fraudulently encashed at the branches of commercial/co-operative banks by opening new Savings Bank/Current accounts in fictitious names mainly to encash the instruments fraudulently acquired.

(c) Safeguards

- (i) The limits against clearing cheques should be sanctioned only in respect of first class customers and even in such cases the extent of limits and the need therefor should be subjected to a thorough scrutiny and periodical review.
- (ii) Such drawings should be normally confined to bank drafts, Government cheques and to a limited extent, third party cheques.
- (iii) Where drawings against third party cheques are to be allowed, the names and details of such parties whose cheques are to be lodged should be obtained and their market standing ascertained to ensure that the cheques presented would represent genuine trade transactions and would also be paid in the normal course of business. Strict instructions should be given against assisting kite-flying operations of any kind.
- (iv) Banks should exercise utmost caution while purchasing cheques particularly those issued by parties/firms belonging to the same group so as to ensure that the facility is not misused.
- (v) The branch in-charges should be advised that they should exercise their discretionary powers in this regard very sparingly and that too only in respect of respectable customers and should not normally exceed the sanctioned limits/discretionary powers.
- (vi) The banks should review their accounting system in regard to cheques in clearing and drawings against them to ensure that parties do not obtain concealed overdrafts from banks free of interest.

- (vii) The conduct of the accounts where facilities are allowed against uncleared effects should be closely watched to ensure that the constituents do not misuse the facility.
- (viii) A proper reporting system should also be introduced in regard to such accounts to enable the controlling offices to monitor these accounts.
- (ix) The concerned officers in the controlling offices should also be made responsible if irregularities in drawing against uncleared effects come to light later.
- (x) The internal Inspectors should be asked to specially look into advances allowed by branches against uncleared effects and furnish appropriate comments in their inspection reports. Any failure on the part of internal Inspectors to bring out the irregularities, if any, should be viewed seriously and suitable action taken against them.
- (xi) Banks should stop the practice of issuing banker's cheques against instruments in clearing.
- (xii) Some times the cheques lodged for clearing/collection are not promptly sent for clearing/collection under an understanding with the customer while allowing him to draw against such cheques. The practice is fraught with risks and banks should ban such practices and take stringent action against those violating the instructions.
- (xiii)
 - (a) When drawals against cheques under clearing are allowed, particulars thereof should be duly recorded in a separate register. The register should indicate, on a day to day basis, the particulars of drawals (which are in the nature of 'overdrafts') allowed against uncleared effects.
 - (b) Banks may afford credit to constituents' accounts on the same day when Reserve Bank credits the banks' accounts in settlement of the clearing. It should be ensured that withdrawals against clearing instruments are allowed only after the fate thereof is known, i.e. consistent with the time prescribed by the Clearing House for return of the unpaid instruments.
 - (c) Withdrawals against instruments sent for clearing should be treated as unsecured credit and interest should be charged on the amount as per Reserve Bank's directive on interest rate on advances, irrespective of whether cheques/other payment instruments against which withdrawals

are allowed are local or outstation cheques/instruments. However, these instructions would not apply to the facility afforded to depositors for immediate credits in respect of cheques sent for collection.

20.II Issue/Payment of Demand Drafts, Mail Transfers and Telegraphic Transfers

The incidence of payment of forged or chemically altered drafts and mail transfers continues to be high and a matter of concern. Double or irregular payment of telegraphic transfers is also not uncommon. A number of frauds involving fake telegraphic transfers using the secret code numbers prescribed in the secret code book of the bank concerned have also come to light.

Preventive measures

- (i) Strict control should be exercised over the custody of secret documents. Bank Demand Draft and Mail Transfer forms should be treated as security items and branches should take adequate safeguards against their pilferage. These should be held in joint custody and balanced daily and verified periodically.
- (ii) Banks should exercise abundant care and caution in the design, printing, etc. of draft forms. Drafts should be printed on sensitive paper to reduce the possibilities of alterations being made in the contents.
- (iii) Banks may consider supplying all their branches with such devices as protectograph machines or pin-point typewriters or protective cheque writers, to be made use of while issuing demand drafts/mail transfers.
- (iv) While passing drafts for payment, the Officers should observe the laid down procedures and exercise due care and caution in the verification of signatures of drawing officials and in ensuring that the drafts have not been fraudulently issued or altered. All drafts for Rs.5,000/- and above should be subjected to closer scrutiny. In cases, where the relative advice has not been received and there is a doubt about the genuineness of the payee, amount, etc. the issuing branch should be contacted by fax/telex/telegram. In any case, where drafts for large amount are to be paid in cash, extra alertness on the part of passing officers is called for.
- (v) Drafts/mail transfers for amounts of Rs. 10,000/- and above should be signed by two officials jointly. Deviation from observance of this safeguard may be allowed only in exceptional circumstances.
- (vi) A system of incorporating suitable numerical or other codes in mail transfer advices will be useful in preventing fraudulent payments thereof.
- (vii) Telegraphic/Telex messages relating to remittance of funds should be sent in coded language, together with a check signal.

- (viii) A system of sending facsimile/copy of drafts issued to the drawee branch/bank may be introduced in lieu of the existing system of separate draft advices, if not already in vogue. The cut off point for issuance of the facsimile copy of draft is to be decided by the banks themselves.
- (ix) Extreme care should be taken while handling high value instruments and allowing withdrawals of large amounts in newly opened accounts.

20.III Discounting/Purchase of Telegraphic Transfers (TTs)

Branches/Offices of banks, more particularly those in non-Metropolitan centres, arrange for and avail of TT discounting/purchasing facility to meet adverse clearing and/or to replenish their cash. The safeguards to be followed in respect of this facility are as under:

A) In the case of applicant banks

- (a) Applications to discount TTs should be signed by one or two officials, who are authorised to borrow monies, depending on their Power of Attorney/Delegated Authority, duly registered with the discounting bank.
- (b) Banks should be allowed to discount TTs under the arrangement only if not more than one-reimbursement advice is outstanding.
- (c) The applicant bank should wire to the nominated office for reimbursement on the same day.
- (d) Periodical statements on TTs discounted should be submitted by the applicant branch to its Controlling Office.
- (e) Inter-branch reconciliation system of the applicant bank should throw up, from time to time, cases of undue delay in provision of reimbursement in relation to its date of purchase.

B) In the case of banks which purchase/discount TT

- (a) Application for purchase of TT should, in all cases, be signed by the authorised officials of the applicant banks. The Powers of Attorney/Authority of all such officers authorised to borrow monies on behalf of the bank should be registered with the purchasing/discounting bank. Attested specimen signatures of all such officials should also be kept on record.
- (b) Proceeds of the discounted TT should, as far as possible, be made available by credit to the account of the applicant bank with the bank purchasing/discounting the TT or by issue of Bankers' Cheques, payment of which could be collected after they are properly discharged by the applicant bank. The applicant bank will, in addition, have to issue letter of authority in favour of one or more of their responsible employees/cashiers, to actually collect the amount from the purchasing bank.

- (c) Branches would be authorised to purchase/discount TTs under the arrangement only if not more than one reimbursement advice is outstanding. The purchasing banks should wire to its designated branch to receive reimbursement for the TT discounted/purchased. Similarly, the designated branch of the purchasing/discounting bank should advise receipt of reimbursement by telegram.
- (d) A proper record of TTs discounted should be maintained both at the purchasing/discounting branch and the designated branch of the purchasing/discounting bank.
- (e) Should the reimbursement of a TT purchased/discounted be not received within seven days, the matter should be reported telegraphically to the Controlling Office of the purchasing/discounting bank, which in turn, should report the matter to the Head Office of the applicant bank. For this purpose, the purchasing office should submit to the Controlling or Head Office a weekly statement of TTs outstanding for more than seven days, incorporating all related particulars.

20.IV Opening of Letters of Credit, Issue of Guarantees and Co-acceptance of Bills

Instances of banks suffering substantial losses on account of frauds/irregularities on the part of customers who were extended one or more of the captioned facilities are many. Essential safeguards in respect of each of the three facilities are indicated below :

(1) Opening of Letters of Credit

Banks have come to grief by opening Letters of Credit (LCs) for customers who had opened only a current account with the bank and enjoyed no other credit facilities. Thus, LCs had been opened without looking into the customer's genuine need, reliability, ability and the source of funds to retire the bills when received, details of credit facilities enjoyed with other banks, if any, and the reasons as to why the customer, had not approached these other banks for the LCs facility. The validity of the import licence, etc. and whether the customer and the person mentioned in the import licence are one and the same was not properly verified. Banks should, therefore, while opening LC, besides observing the usual safeguards, also keep the following points in view :

- (i) LCs should not normally be opened for customers who do not enjoy credit facilities with the bank but only maintain a current account.
- (ii) If any request is received from such a customer, the bank should subject the proposal to thorough scrutiny and satisfy itself about the genuine need of the customer.

- (iii) Before establishing the credit, the bank should also be satisfied through proper credit appraisal that the customer would be in a position to retire the bills when received under the credit and would not approach the bank for credit facility in this regard.
- (iv) Where the importer enjoys credit facilities with other banks, the reasons for his approaching the bank for opening a LC should be ascertained and invariably, reference should be made to his existing bankers with whom he is enjoying credit facilities.
- (v) It should also be ensured that the goods to be imported under the LC are covered by valid import licences issued either in the name of the customer or properly transferred in his favour. The bank should also satisfy itself about the identity of the importer and that the person mentioned in the import licence/trasferee of the licence and the importer are one and the same.
- (vi) Banks should not establish LCs against guarantee of other banks and also should not issue guarantees to other banks for opening letters of credit on behalf of their clients. However, authorised dealers in Foreign Exchange are permitted to accept, at their discretion, guarantees/margin from third parties as security for opening of LCs for imports in India.
- (vii) LCs should be issued in security forms serially numbered.
- (viii) The LCs issued by banks for Rs. 10,000/- and above should invariably be signed by two officials jointly, deviations being allowed in only exceptional cases, e.g. non-availability of two officials at a branch.

(2) Issue of guarantees

While issuing Guarantees, in addition to the precautions in respect of new parties, similar to those to be taken while opening LCs for new parties, banks should observe the following safeguards:

- (i) In the case of performance guarantee, banks should exercise due caution and have sufficient experience with the customer to satisfy themselves that the customer has the necessary experience, capacity and means to perform the obligations under the contracts and is not likely to commit any default.
- (ii) Banks should normally refrain from issuing guarantees on behalf of a customer who enjoys other credit facilities not with them but with other bank.
- (iii) The guarantees issued by banks for Rs. 10,000/- and above should invariably be signed by two officials jointly, deviations being allowed in only exceptional cases, e.g. non-availability of two officials at a branch.

(3) Co-acceptance of bills

Banks should keep in view the following safeguards :

- (i) While sanctioning co-acceptance limits to their customers, the need therefor should be ascertained and such limits should be extended only to those customers who enjoyed other limits with the bank.
- (ii) Only genuine trade bills should be co-accepted and the banks should ensure that the goods covered by bills co-accepted are actually received in the stock accounts of the borrowers.
- (iii) The valuation of the goods as mentioned in the accompanying invoice should be verified to see that there is no over-valuation of stocks.
- (iv) The banks should not extend their co-acceptance to house bills/accommodation bills drawn by group concerns on one another.
- (v) The banks discounting such bills co-accepted by other banks should also ensure that the bills are not accommodation bills and that the co-accepting bank has the capacity to redeem the obligation in case of need.
- (vi) Bank-wise limits should be fixed, taking into consideration the size of each bank for discounting bills co-accepted by other banks and the relative powers of the officials of the other banks should be got registered with the discounting banks.
- (vii) Care should be taken to see that the co-acceptance liability of any bank is not disproportionate to its known resources position.
- (viii) A system of obtaining periodical confirmation of the liability of co-accepting banks in regard to the outstanding bills should be introduced.
- (ix) Proper records of the bills co-accepted for each customer should be maintained so that the commitments for each customer and the total commitments at a branch can be readily ascertained and these should be scrutinised by Internal Inspectors and commented upon in their reports.
- (x) It is also desirable for the discounting bank to advise the Head Office/Controlling Office of the bank, which has co-accepted the bills, whenever such transactions appear to be disproportionate or large.
- (xi) Proper periodical returns may be prescribed so that the Branch Managers report such co-acceptance commitments entered into by them to the Controlling Offices. Such returns should also

reveal the position of bills that have become overdue and which the bank had to meet under the co-acceptance obligation. This will enable the Controlling Offices to monitor such co-acceptances furnished by the branches and take suitable action in time, in difficult cases.

- (xii) Co-acceptances in respect of bills for Rs. 10,000/- and above should be signed by two officials jointly, deviation being allowed only in exceptional cases, e.g. non-availability of two officials at a branch.
- (xiii) Before discounting/purchasing bills co-accepted by other banks for Rs. 2 lakh and above from a single party the bank should obtain written confirmation of the concerned Controlling (Regional/ Divisional/ Zonal) Office of the accepting bank and a record of the same should be kept.
- (xiv) When the value of total bills discounted/purchased (which have been co-accepted by other banks) exceed Rs. 20 lakh for a single borrower/group of borrowers, prior approval of the Head Office of the co-accepting bank must be obtained by the discounting bank in writing.
- (xv) The instructions at items (xiii) and (xiv) above are not applicable to co-accepted bills eligible for rediscounting by the Industrial Development Bank of India and Small Industries Development Bank of India under their respective Bills Rediscounting Schemes.
- (xvi) At times, banks open LCs on behalf of their constituents and also co-accept the bills drawn under such LCs. As the co-acceptance of such bills is superfluous, the discounting banks, whenever they come across such transactions, should first ascertain, from the co-accepting bank, the reasons for such co-acceptance of the bills drawn under its own LC and only after satisfying themselves of the genuineness of the transaction, they may consider discounting such bills.

20.V Investments

The following safeguards could be observed for prevention/timely detection of frauds in this portfolio :

- a) All promissory notes, debentures, shares, bonds, etc. should be properly recorded and held under joint custody. A separate register may be maintained to record the particulars of securities taken out/re-lodged. They should be subjected to periodical verification, say once a quarter or half-year.
- b) Certificates should be obtained at half-yearly intervals in respect of securities lodged with other institutions.

- c) Purchases and sales authorised by officers in the Investment Department should be periodically reported to higher authorities, indicating the considerations, which weighed with them for putting through the transactions.
- d) To the extent possible, quotations should be obtained from a few well known brokers and, for this purpose, a panel of brokers may be prepared, the rates offered by all of them should be recorded in an appropriate register maintained for the purpose.
- e) The following control system for accounting, balancing, reporting, etc. should be introduced :
 - (i) There should be a clear functional separation of (a) trading, (b) settlement, monitoring and control and (c) accounting. Similarly, there should be a functional separation of trading and back office functions relating to banks' own investment Account, Portfolio Management Schemes (PMS) Clients' Accounts and other Constituents (including brokers') Accounts.
 - (ii) For every transaction entered into, the trading desk should prepare a deal slip which should contain data relating to nature of the deal, name of the counterparty, whether it is a direct deal or through a broker and, if through a broker, name of the broker, details of security, amount, price, contract date and time. The deal slips should be serially numbered and controlled separately to ensure that each deal slip has been properly accounted for. Once the deal is concluded, the dealer should immediately pass on the deal slip to the back office for recording and processing. For each deal there must be a system of issue of confirmation to the counterparty. The timely receipt of requisite written confirmation from the counterparty, which must include all essential details of the contract, should be monitored by the back office.
 - (iii) Once a deal has been concluded, there should not be any substitution of the counterparty bank by another bank by the broker, through whom the deal has been entered into, likewise, the security sold/purchased in the deal should not be substituted by another security.
 - (iv) On the basis of vouchers passed by the back office (which should be done after verification of actual contract notes received from the broker/counterparty and confirmation of the deal by the counterparty) the Accounts Section should independently write the books of accounts.
 - (v) In the case of transactions relating to PMS Clients' Account (including brokers) all the relative records should give a clear indication that the transaction belongs to PMS Clients/Other Constituents and does not belong to bank's own Investment

Account and the bank is acting only in its fiduciary/agency capacity.

- (vi) Records of Subsidiary General Ledger (SGL) transfer forms issued/received, should be maintained. Balances as per bank's books should be reconciled at the quarterly intervals with the balances in the books of Public Debt Office of the Reserve Bank of India. If the number of transactions so warrant, the reconciliation should be undertaken more frequently, say on a monthly basis. This reconciliation should also be periodically checked by the internal audit department. Any bouncing of SGL transfer forms issued by selling banks in favour of the buying bank should immediately be brought to the notice of the Department of Banking Operations & Development of the Reserve Bank by the buying bank. Similarly, a record of Bankers Receipts (BRs) issued/received should be maintained. A system for verification for the authenticity of the BRs and SGL transfer forms received from other banks and confirmation of authorised signatories should be put in place.
- (vii) Banks should put in place a reporting system to report to the top management, on a weekly basis, the details of transactions in securities, details of bouncing of SGL transfer forms issued by other banks and BRs outstanding for more than 15 days and review of investment transactions undertaken during the period.
- (viii) Banks should not draw cheques on their account with the Reserve Bank for third party transactions, including inter bank transactions. For such transactions, bankers' cheques/pay orders should be issued.
- (ix) The Internal Audit Department should audit the transactions in securities on an ongoing basis and monitor compliance with the laid down management policies and prescribed procedure⁹ and report the deficiencies directly to the management of the bank.

20.VI Advances

The frauds have taken place in banks mainly due to non-observance/non-application of the procedures and instructions laid down and checks provided for. A contributory factor is the inadequate supervision over the branches exercised by the controlling authorities and their failure to ensure that the various officials acted in conformity with the guidelines and instructions issued by the Head Office. It is, therefore, imperative that banks should strictly ensure that the internal systems and procedures and the control and supervision of branches by the Regional/Zonal Offices are made effective.

A) Safeguards/corrective measures

The following safeguards/corrective measures are suggested.

- (i) All proposals for advances without exception should emanate from the bottom and only after proper appraisal sanctions should be made.
- (ii) No excesses should be sanctioned unless it is absolutely essential. Normally, necessity for large and ad hoc amounts cannot arise overnight. If it happens, it indicates either unrealistic projections in the credit proposals or improper assessments of credit requirements.
- (iii) Ad hoc amounts/excesses wherever sanctioned should be promptly reported to higher authorities without waiting for regularisation of advances, explaining the circumstances leading to the need for unforeseen urgent funds. Controlling/higher authorities should watch regularisation effectively.
- (iv) Sanctions within discretionary powers also should be promptly reported to the controlling authorities in the stipulated manner. In case of non-receipt of relative returns continuously over a period, the controlling authorities should arrange to depute an official to the branch concerned and obtain the pending returns which should be scrutinised diligently and prompt follow up action should be taken where required.
- (v) Caution should be exercised against attempts by main borrowers to float fictitious companies in order to facilitate sanction of large limits ostensibly within the discretionary power of the sanctioning authority obviating need to put up the proposal to higher authorities for sanction.
- (vi) The existing arrangements for granting credit against uncleared effects should be reviewed for effective regulations and prevention of misuse.
- (vii) In case of oral sanctions and sanctions beyond discretionary powers, the following steps should be taken :
 - (a) Proper record of oral instructions/sanctions should be maintained by the sanctioning as well as disbursing authority concerned, explaining therein the circumstances under which oral/telephonic sanctions had to be conveyed/obtained.
 - (b) Written confirmation of the competent sanctioning authority should be obtained by the disbursing authority within a week, furnishing details of the proposal, with a proper appraisal.

- (c) Banks should devise a system by which instances of release of credit facilities on oral instructions by different functionaries are invariably brought to the notice of Head Office/Board periodically, say once a quarter.
- (viii) The discretionary powers of the concerned officials should be reviewed if a tendency is noticed on their part to exceed such powers frequently.
- (ix) Stern action should be taken against officials who are found to be consistently indulging in extending unauthorised accommodation and/or oral sanctions.
- (x) In respect of advances which are sticky/bad or doubtful of recovery, banks may take the following steps :-
 - (a) Banks should evolve arrangements for critical assessment periodically, say once in a half year, at the various levels, (i.e., Branches/Regional Offices/Zonal Offices/Head Office) of all advances granted with appropriate cut-off points, to ensure that post-disbursement safeguards are followed by the branches, Regional Offices etc. and the reviewing authority should furnish a certificate on the results of such a review.
 - (b) A system should be introduced for a close review of all sticky advances for sustained follow-up action for their regularisation/recovery and a periodical review of all such advances beyond a suitable cut-off point should be placed before the higher authorities, say, once every half-year particularly when there is an adverse shift in the asset classification.
 - (c) In the case of individual advances, which have revealed major irregularities or have become sticky or bad or doubtful of recovery, banks should necessarily look into the staff side of the cases to fix responsibility on the concerned official/s and take necessary disciplinary/corrective action, wherever necessary.
- (xi) While extending loans/overdrafts against the pledge of shares and debentures of companies, the genuineness of the shares and debentures should be verified and the guidelines and safeguards prescribed by the Reserve Bank in connection with loans and overdrafts against shares and debentures should be strictly followed.
- (xii) (a) In case of loans/overdrafts against the security of fixed deposits, apart from usual safeguards, the branch giving the loan should hold the relative deposit receipts against which the loan is granted and the issuing branch should be advised

of the lien. Further, advance against FCNR/NRE deposit to the depositor himself or to a third party should be granted only under the specific request/mandate of the depositor and after verifying the authenticity of the signature of the depositor.

- (b) The undermentioned systemic improvements may also be introduced, if not already in vogue :-
 - (i) Surprise short-inspections of the advances portfolio with adequate frequency in respect of all major advance oriented branches.
 - (ii) Careful scrutiny of the abstract of General Ledger balances of branches by the Controlling Offices/Head Office and prompt investigation into large variations under any account head;
 - (iii) Reporting of large payments/negotiations made at a branch in respect of bills and LC transactions of another branch to the Controlling Office of the latter branch as also the Head Office and
 - (iv) Frequent visits and submission of reports of the visits by the Controlling/Head Office functionaries to branches with special focus on all advance accounts above a cut off point, large entries in suspense account, heavy and abnormal deposits and withdrawals in individual accounts, etc.

B) Safeguards in respect of advances against Hypothecation/Pledge of merchandise

The following safeguards regarding advances against merchandise are advised.

- (i) Before sanctioning any credit limit, the bank should ensure that the applicant was not enjoying similar facilities with other banks. In case it was found that he was having any credit facilities from any other bank/banks, detailed information should be called from those banks. As far as possible, parties should be advised to restrict their borrowings to only one bank.
- (ii) The bank should obtain from the borrower/s written application accompanied by a declaration about the existing credit arrangements and an undertaking that the stocks will not be hypothecated to any other bank without its prior approval. The undertaking should also be incorporated in the stock statements which the borrower is required to submit to the bank periodically. The terms of sanction should, inter alia, stipulate that the advance

would be recalled forthwith in case it was subsequently found that the borrower had made a false statement in this regard.

- (iii) In case the borrower is allowed to avail himself of credit facilities against hypothecation of stocks from various banks, it should be ensured that such stocks are segregated/demarcated in different godowns/shops and the same are properly recorded in separate stock books so as to facilitate easy verification by the bank officials.
- (iv) Godowns in which goods pledged to the bank are kept should be properly secured under joint custody with locks made by well known manufacturers with the bank's name engraved thereon. The bank's name boards should be invariably displayed at the shops/godowns where the stocks hypothecated to it are stored so that these will serve as a notice to third parties of the bank's charge in case of partnership/proprietary firms and individuals. As even nameplates facilitate removal/replacement, more enduring arrangements like painting/engraving clearly on the godowns/premises should be considered.
- (v) Periodical stock statements should be obtained from the borrower in respect of hypothecated goods and scrutinised. Surprise inspection of stocks hypothecated should be conducted at irregular intervals. The stock statements should be compared with balance sheet figures.
- (vi) Meticulous verification of the borrower's title to goods pledged/hypothecated and their quality/quantity should be done.
- (vii) Adequate insurance cover should be taken for the pledged goods.
- (viii) Controlling offices should obtain a monthly certificate from branches indicating that periodical stock statements are received and the pledged/hypothecated stocks are verified by branch officials, commenting on their quality, turnover, value, etc.
- (ix) Controlling offices/vigilance department should have a squad for surprise inspection of goods pledged/hypothecated.

(C) Safeguards in respect of advances against Bills of Exchange

The chief precaution to be exercised while allowing advances against bills (irrespective of whether they are clean or documentary, unasked or demand) is ensuring that they represent genuine transactions. For this purpose, banks should insist upon perusing the relative invoices and, when in doubt, the relative contracts or orders.

- (a) The banks should be circumspect in discounting bills drawn by front companies of industrial groups.

- (b) Bills financing should be part of the working capital credit limit provided to the borrower after proper appraisal of the working capital needs.
- (c) The standing and creditworthiness of the borrower as well as the drawee of the bills should be carefully looked into.
- (d) At the collecting branches, the bills should be promptly presented for payment on due dates and fate should be informed to the sending branch.
- (e) For the purpose of retirement of bills, the borrower should not be allowed the facility of bills purchase/discount.
- (f) Caution should be exercised in regard to advances in the form of bills discounted /granted to front companies.
- (g) Cheque purchase facilities should not be permitted as a matter of course but should be extended to prime customers and that too, sparingly.
- (h) It has to be ensured that bills facilities are not disproportionate in relation to the business of the borrower, the drawees are creditworthy and are not associates and the documents are genuine.
- (i) In the case of documentary bills, the railway receipts/truck receipts/bills of lading tendered therewith should be scrutinised carefully to verify their genuineness, the quality and quantity of merchandise covered by them, the date of issue, etc. and ensure that transport receipts are from approved carriers and not stale.
- (j) The banks should, at the time of discounting the accepted bills, ensure that confirmation in regard to the acceptance is obtained from drawees, specially where the bill amounts are large or where there may be reasons to suspect the genuineness of the bill or acceptance.
- (k) The entries in regard to bills purchased i.e., despatch, receipts and realisation of the documents should be checked with advices and, in the case of local bills, with the bills themselves, as well as with other papers showing that the purchase on discount was duly authorised.
- (l) To prevent misuse of cheque purchase facilities, banks should introduce a system under which two signatures (Manager and Accountant/another officer) are required for purchase of any cheque beyond a particular limit, say, Rs. 2 lakh. Banks should also ensure that the cheque purchase facilities allowed by them beyond the above limit are reported to the Controlling Offices by the branches invariably on the same day. The responsibility for submitting the report to the Controlling Office will rest with

officers purchasing or discounting the cheques. In addition, a monthly return should be submitted to the Controlling Office promptly regarding all cheque purchase transactions allowed by the branch beyond the above limit and the Internal Inspectors should verify the same during the inspection. Statutory auditors should also be asked to conduct a sample checking of the transactions.

- (m) Banks should also introduce a system for submission by branches of a daily statement to their concerned Controlling Offices giving particulars of cheques of Rs. 2 lakh and above returned for want of funds in the accounts with them. The statement should include particulars of drawer, drawee, centre from which the cheque has emanated, amount of the cheque, date of receipt, date of return, etc.
- (n) Branches should report to their immediate higher authorities and the Head Office all cases of bills purchased/discounted (other than cheques) by them but returned unpaid for amounts exceeding Rs. 10 lakh in the case of any single borrower within three days and such accounts must be dealt with utmost circumspection. The facilities should be withdrawn if bills are frequently returned unpaid.
- (o) Bills facilities should not be treated as clean advances, debiting the returned bills to borrower's account and allowing fresh drawals. Bills are negotiable instruments and when they are dishonoured by non-acceptance or non-payment, noting and protesting should be done and prompt action taken against both drawee and drawer.
- (p) The operating and controlling staff should be made accountable and deterrent action taken for permitting/perpetuating irregular bill transactions.

D) Safeguards against 'kite-flying'

- (i) The limits against clearing cheques should be sanctioned only in respect of prime customers.
- (ii) Drawings should normally be confined to bank drafts.
- (iii) In respect of cases where the limit against uncleared effects is not sanctioned to constituents the banks may afford credit to the constituents accounts for the cheques deposited by them, on the same day RBI credits the banks' accounts in settlement of the clearing.
- (iv) Banks should stop the practice of issuing bankers' cheques against instruments deposited in clearing.

- (v) Banks should introduce a system under which two officials should be authorised for purchase of cheques beyond certain limits.
- (vi) Any large returns should be carefully watched and reported, the limits, if any, sanctioned to such constituents should be cancelled forthwith.

E) Safeguards against diversion of funds

The diversions ultimately lead to the accounts becoming sticky. Therefore, banks should

- (i) include a suitable clause in the loan document to the effect that the borrower is prohibited from using the loan amount or any part thereof for any purpose other than the one for which it has been sanctioned and if the bank apprehends or has reason to believe that the borrower has violated or is violating this condition, it has the right to recall the loan amount or any part thereof at once notwithstanding anything to the contrary contained in the loan agreement or any other agreement.
- (ii) ensure that drawals from cash credit/overdraft accounts are strictly for the purpose for which the credit limits have been sanctioned by them. There should be no diversion of working capital finance for acquisition of fixed assets, investments in associate companies/subsidiaries and acquisition of shares, debentures or other investments in the capital market. This has to be done so even if there is sufficient drawing power/undrawn limit for the purpose of effecting drawals from the cash credit account.
- (iii) decide with the approval of Board of Directors a suitable cut off point for cash credit limits requiring such detailed scrutiny on an ongoing basis and evolve proper arrangements for the purpose.

20.VII Other fraud-prone areas

A) Cash

- (1) The essential safeguards, to be observed for prevention of loss through misappropriation/theft of cash, such as, (a) observing the principle of dual custody, (b) verification of daily cash balance before its lodgment in safe, (c) maintenance of proper records relating to cash in safe and in transit, (d) arranging for separate enclosures for cashiers, (e) proper lodgment of duplicate set of vault/safe keys and periodical rotation thereof, (f) posting of guards and (g) insurance of cash in hand and in transit, are generally incorporated in the books of instructions of all banks. However, the tendency to be lax in the observance of one or more

safeguards is not uncommon, which encourages the unscrupulous elements to perpetrate frauds.

- (2) Apart from ensuring that such safeguards are invariably observed at all branches, bank should have a system of periodical verification (say, once a month) of the entire cash balance at each branch by an officer who is not one of the joint custodians. In the case of smaller branches where there is no extra officer available for the purpose, such verification should be arranged by the Head Office/Regional Office concerned by deputing one of their officers or an officer from an adjoining branch.
- (3) Surprise checking of cash with cashiers should be done at frequent intervals.
- (4) Cash should not be tendered or received other than in the cash department. In addition, proper systems should be evolved for ensuring that no branch maintains unduly large cash balance for long, as also for promptly detecting any unwarranted delay in booking the entries pertaining to remittance of cash.
- (5) With regard to remittance of cash it is necessary not only to maintain proper record of receipt and delivery of cash both inter-branch and inter-bank vis-a vis adequate security thereof, but also to insist on submission of the statement showing the remittance to and fro to the controlling office promptly for their information/scrutiny and record.
- (6) Banks should evolve suitable systems of adequate security and custody of cash and other valuables at larger branches and also those in dacoit/terrorist attack prone areas.
- (7) All deposits/withdrawals from currency chests should be immediately accounted for and the transaction advised to the Issue Department of Reserve Bank of India under whose jurisdiction the currency chest is situated.
- (8) Cash in safe, at counters and in remittance, should be fully insured.

B) Suspense account

While some banks have a number of such accounts both on the liabilities and assets sides in the General Ledger, others have only one account each under liabilities and assets and maintain subsidiary ledgers for different accounts of a suspense nature. The more important safeguards for prevention of frauds in Suspense account are :

- (i) The types of accounts which could be maintained by the branches should be standardised. The items of transactions which could be booked under suspense account should be standardised.

- (ii) These accounts should be balanced at periodical intervals (say, fortnightly) and the balancing of books checked and authenticated by the Manager or a Senior Official at the branch.
- (iii) The branches should be required to send periodical statements in respect of all 'suspense' accounts to the Head/Regional Office. While the statements should invariably disclose the particulars of all outstanding entries, in the case of the accounts pertaining to 'debit' transactions, it is desirable to obtain the particulars of all entries passed therein since the date of the previous statement. Adequate arrangements should be made at the Controlling Offices to critically scrutinise these statements.
- (iv) The differences arising out of non-balancing of Day Book, etc., should not be allowed to be transferred to 'suspense' accounts as a matter of routine. All vouches pertaining to such transfers and reversal thereof should be required to be authenticated only by the Branch Manager or by Officer-in-Charge of the concerned department in the case of larger branches.

C) Head Office account

This is one of the susceptible areas for frauds, particularly because such frauds generally remain undetected for long on account of the involvement of more than one branch in each transaction. The safeguards suggested are :

- (i) Giving printed serial number to advices (at least the consolidated ones) and keeping them in proper custody.
- (ii) Verifying the signatures on advices received from other branches.
- (iii) Careful checking by an officer of the daily statement to be sent to Head Office.
- (iv) Undertaking reconciliation without undue delay and at short intervals.
- (v) Special control measures in respect of entries involving original debits and reversal of earlier entries.
- (vi) Prompt follow-up of outstanding entries, particularly the debit entries involving large amounts.

D) Accounts with other bank/s

The observance of the following safeguards could be helpful in prevention/early detection of frauds in such accounts :

- (i) The cheques drawn on these accounts should be required to be signed by two officers, preferably the Manager and the next in command at branch and the relative cheque book should remain

in the custody of one of the two officials authorised to operate the account.

- (ii) The vouchers pertaining to the transactions in the Bankers accounts should be signed by one of the authorised officials, while the relative entries in the Banker's ledger should be checked by another officer.
- (iii) The balances in the Bankers' accounts should be periodically reconciled with the balances disclosed by the statements of accounts received from the concerned banks and the relative outstanding entries should be authenticated by both the authorised officials; in bigger branches where the Bankers accounts are regularly operated upon by officials other than the Manager, the periodical reconciliation should be submitted to the Manager for perusal.
- (iv) All branches/offices maintaining accounts with other banks should be required to send to the Head/Regional Office a statement containing the particulars of the reconciliation.

E) Immovable property, furniture and fixtures and stationery

Frauds in these portfolios mainly involve payment of purchase/hire charges at rates higher than the market rates. The suggested safeguards are :

- (i) There should be a system of obtaining quotations from as many vendors/suppliers as practicable and maintaining proper record thereof.
- (ii) Where authority to place orders has been delegated to Regional Offices/branches, they should be required to report all larger orders/contracts to the concerned Departmental Head at the Head Office. At the Head Office, the concerned official should be required to report all larger orders/contracts authorised by him to the higher authority.
- (iii) The officials handling these portfolios should normally be rotated after 2 to 3 years.
- (iv) In the case of furniture and fixtures, each office should be required to maintain a proper record of each item, as also to verify the items once or twice a year and submit a certificate thereof to the Regional/Head Office.
- (v) Proper records should also be maintained at the Stationery Department at the Head/Regional Office/s and periodically a surprise verification of at least some of the items should be carried out.

- (vi) Internal Inspectors should be required to periodically examine the transactions involving purchase of stationery etc. and to verify the stocks of stationery on hand, as also the various items of furniture and fixtures.
- (vii) Banks should maintain separate record of large premises deals giving the details, consideration weighed in awarding the contracts etc. The Internal Inspection machinery as also the vigilance department should scrutinise them and ensure that the deals have been made in the interest of the bank.

F) Income and Expenditure Accounts

The frauds in these accounts take place only through the collusion of bank staff. The following safeguards are suggested in this regard.

- (i) Calculations relating to interest/commission payable/chargeable to the customers should be properly checked by the supervising officials. A system of an additional test check by a Senior Official or the Internal Inspectors in respect of interest charged in larger advance accounts or interest paid on larger deposits could be introduced.
- (ii) The refund of excess interest/commission charged to the customers should be authorised by the Manager or a Senior Official after due verification.
- (iii) To ensure adequate control over items of expenditure, suitable limits should be prescribed for different categories of officers at the Head Office, Regional Offices and Branches.
- (iv) Returns of Charges Account may be obtained from different offices at periodical intervals and scrutinised by the controlling offices to ensure that all expenditure is incurred after obtaining sanction of the appropriate authority and where no prior sanction was obtained, to verify the genuineness of the need and the amount involved.

G) Other miscellaneous areas

Frauds are also perpetrated in respect of other services rendered by banks, such as, collection of bills, issue of Pay Orders/Bankers' Cheques, acceptance of articles for safe custody, hiring of safe deposit lockers, etc. In these areas too the usual safeguards of maintenance of proper records, dual control, periodical balancing/verifications, submission of control returns, etc., should be suitably prescribed and observed. Pay Order/Bankers' Cheques for Rs. 10,000/- and above should be signed by two officials jointly, deviation being allowed only in exceptional cases, e.g., non-availability of two officials at a branch.

20.VIII Administrative measures for prevention of frauds.

(1) Recruitment

The antecedents of all persons selected for appointment in the bank should be carefully verified, as far as practicable, irrespective of the cadre in which he or she is appointed. In regard to those who were earlier working in other organisations, careful enquiry should be made to ascertain the reasons for the change and his/her performance record and reputation in that organisation.

(2) Instructions on desk job

All employees handling various duties should be made aware of, inter alia, the essential safeguards which should be observed in the discharge of those duties. While in this regard institutional training has an important role to play, in view of the practical limitations, each employee should at least be required to go through the book of instructions and/or the instructional circulars pertaining to the work to be handled by him/her before posting him/her to a new desk. Such essential instructions could be incorporated in 'desk cards' prepared for different types of work, such as, Current/Savings Bank accounts, fixed deposits, outward/inward bills, clearing, Head Office account, loans, etc.

(3) Duties and responsibilities of employees

To the extent possible, the duties which an employee has to discharge while attached to a particular desk and the responsibilities attached thereto should be clearly laid down. This will not only prevent the concerned employee from pleading ignorance in case of loss due to his/her negligence/indifference, but also enable the bank to fix the responsibility squarely on the erring employee.

(4) Staff strength

Excepting where it is not practicable (say, in one-man offices), the bank's management should ensure that the principles of dual custody (say, over cash, securities, etc.) and not allowing any voucher, register, ledger, etc. to remain unchecked by higher authority, are observed at all times.

(5) Rotation and leave

- (a) Banks should take suitable steps to transfer their officials at reasonable intervals and insist on their going on leave periodically. As regards clerical staff, their duties should be clearly defined and they should be rotated from desk to desk at reasonable intervals. This should form an integral part of career plan for the staff members.
- (b) In no case should an employee be allowed to have an absolute and exclusive control over any important financial operation and

its accounting aspects. It should also be ensured that close relatives are not employed in the same office.

(6) Life style of employees

Affluent living or living beyond means of officials should be taken cognisance of as a warning signal and close watch should be kept on such staff.

(7) Disciplinary action

- (a) Banks should take a serious view of irregularities committed and erring staff member should be given punishment befitting the seriousness of the irregularity. Mere transfer of erring employee will not prove a deterrent. Quick disposal of departmental inquiries should be ensured and the progress in this regard should be periodically reported to the Top Management.
- (b) Cases involving gross negligence of duty whether they involve any loss to the bank or not and cases of malafide action should be examined thoroughly and the concerned employee should be suitably warned/punished, irrespective of his grade.

(8) Maintenance of security items, records, etc.

No unauthorised person should have access to security items like blank cheques/draft/mail transfer forms/fixed deposit receipt/payment order books, as also account opening forms, specimen signature cards, loose ledger sheets, etc. No laxity in this regard at any branch or office should be permitted. Similarly, the ledgers and other books of accounts, voucher bundles and other items of stationery should not be allowed to remain scattered around the branch premises and one or more officials should be entrusted with the responsibility for ensuring that at the end of each working day they are stored in locked almirahs or drawers.

(9) Educating the public

Now that more and more semi-literate or illiterate persons are being induced to develop banking habit, the banks should advise them of the basic precautions which they should take to prevent frauds in their accounts. Apart from putting up suitable posters containing appropriate instructions for those who can read them, the bank employees should personally explain them to the semi-literate/illiterate customers. They should also be encouraged to seek the assistance of one of the bank officials for filling up withdrawal forms, deposit slips, etc., rather than that of other customers or total strangers.

(10) Strengthening of machinery for internal controls

- (i) Banks should periodically examine their organisational structure and review and refine their systems and procedures to the extent considered necessary to prevent recurrence of frauds and to ensure that warning signals do not remain unnoticed.
- (ii) The Regional/Zonal Offices should be headed by competent and responsible officers and they should be made accountable for the lapses on the part of the branches under their control
- (iii) Banks should designate an officer of General Manager's rank as compliance officer who should ensure that various items of work in different departments are carried out strictly in accordance with systems and procedures laid down by the bank. He should also ensure that all RBI and Board instructions are meticulously observed and be made responsible for any irregularity arising out of deviation from the laid down rules. The appointment of the compliance officer should be approved by the Board.
- (iv) It may also be ensured that no employee is required to shoulder an unduly heavy load of work, which should force him to disregard essential safeguards.
- (v) The Chairman, other Senior Executives at Head Office and Regional/Zonal Managers should make it a point to visit branches on a selective and surprise basis in order to familiarise themselves with the special operational and customer service problems even at remote branches. The visits should not be casual and perfunctory. This would create a sense of alertness among the staff and thereby help in improving the administration and curbing malpractices. The controllers during their visits to branches should, inter alia, check at random various books of drawing powers, stock statements received, etc. vis-a-vis balances outstanding. The controllers should also see some of the balance books to ensure that proper maintenance of books and correctness of the balancing books besides obtaining periodical reports. Periodical conferences of Branch Managers should be held to review performance and take steps for toning up administration and plugging loopholes.
- (vi) One of the ways of preventing frauds is speedy and timely balancing of books of accounts and reconciliation. Besides improving the existing arrangements, the need for mechanisation in selected areas could be considered. The bank managements should make special arrangements to follow-up large un-reconciled/un-responded entries, say for Rs. 25,000/- and above, and it may even be necessary to have a special squad to set right such entries. A periodical review of the progress in reconciliation of accounts should be placed before the Board every quarter.

- (vii) Banks should review the adequacy or otherwise of the internal inspection/audit machinery and take suitable steps to strengthen the same, keeping in view the need for inspecting/auditing not only all branches but also Regional/Zonal Offices and Head Office Departments at regular intervals. It should be the responsibility of the Internal Inspectors/auditors to make a critical examination of the working of the branches and report clearly the deficiencies, if any in the observance of essential safeguards, such as, subjecting transactions to verification/ check, exercising dual control in sensitive areas, balancing of various books at prescribed intervals, submitting control returns, etc. at the branches, as also the Regional/Zonal Offices and Head Office Departments. They should make an indepth study of the fraud prone areas, during the course of inspection to ensure that there is no scope for frauds remaining undetected. Wherever necessary, they should make a deeper probe. The audit/inspection staff should be made accountable for any lapses/deficiencies in the working of branches not brought to light in the inspection/audit reports. Effective follow-up action should be ensured on all inspection/audit reports and the position in this regard should also be taken into account for the purpose of performance appraisal of Branch Managers. Inspection/audit Departments should perform the watching functions expected of them efficiently and with due care. The following instructions should be complied with in connection with inspection/audit of branches.
- (a) All poorly rated branches should be inspected within 12 months and others between 12-18 months. The inspection/audit should be really of surprise character. The coverage of such inspection/audits should also be made more comprehensive to, inter alia, include a thorough examination of the internal control system obtaining at the branches including the various periodical control returns submitted to the controlling offices. The internal inspection report should specifically comment on the position of irregularities pointed out in the inspection report of RBI. The inspection/audit officials should also critically analyse and make in-depth study of the corruption/fraud prone areas such as appraisal of credit proposals, balancing of books, reconciliation of inter-branch accounts, settlement of clearing transactions, suspense account, premises and stationery accounts leaving no scope for any malpractices/irregularities remaining undetected.
- (b) With a view to strengthening the credibility of the inspection system in detecting cases of frauds/malpractices, steps need to be taken to gear up the inspection/audit machinery and to improve the quality of

officers in the inspection department. The head of the inspection department at the Head Office should be a sufficiently senior person and report directly to the Chairman. At the Zonal/Regional level also there should be audit machinery under an official of sufficient seniority as the Zonal/Regional Chief to conduct the periodical audit of branches under its jurisdiction. The officers posted to this department should have sufficient experience and exposure.

- (c) The internal inspection should be supplemented by surprise short inspection at irregular intervals particularly at large branches to be carried out by officials appropriate higher levels not only to look into the general working of the branches but also to ensure that no malafide practices are being indulged in by the branch officials. In addition wherever warranted spot/special inspections should also be carried out on receiving signals to that effect.
- (d) Besides surprise inspections, there should be a regular system of revenue audit of the large branches. The reasons for leakage of income unearthed during such audit should be examined in depth and action taken against the officials responsible for the lapses.
- (e) A regular and effective system of inspection of Head Office departments and controlling offices should be introduced. Such inspections should be conducted by very senior officials.
- (f) Banks should introduce portfolio inspections particularly in critical/sensitive areas such as, credit, investment, off-balance sheet facilities besides transactions connected with premises deals, stationery, computerised areas, etc.
- (g) A system of exclusive scrutiny of credit portfolio with focus on larger advances and group exposures at regular intervals may be introduced. A special scrutiny of high value accounts shifted to the bank along with executives/officials including General Managers/ Executive Directors/Chairman and Managing Directors transferred from other banks should be done. Similarly, the accounts transferred from other branches along with the officials should be subjected to thorough scrutiny during the internal inspection.
- (h) Banks should examine the need for introducing a separate division of the Internal Inspection machinery to scrutinise credit portfolio only.

- (i) The various types of inspections enumerated above should not be mere fault finding missions. Inspectors be advised to educate the staff for properly adhering to the prescribed safeguards and explain the hazards of deviation from the prescribed system/guidelines.
- (viii) (a) Non-submission of control returns in time should be viewed seriously by the controlling authorities and in case of continuously defaulting branches, if necessary, visits by officials from Controlling Offices should be undertaken to remedy the situation. The control returns should not be obtained as a matter of formality and just filed but scrutinised diligently by the Controlling Offices to find out any unusual features and these should be followed up effectively.
- (b) The existing information system may be examined and rationalised and strengthened. The multiplicity of returns should be avoided and their proper compilation and timely submission ensured so as to have their efficacy as tools of control.
- (c) Controlling offices should submit a report on scrutiny of control returns to top executives apprising them of remedial action initiated by them.
- (d) The controlling offices should also get confirmation from branches once in a quarter for the nil arrears position of the control returns. Monthly certificates should be obtained from branches about the completion of inspection of assisted units at stipulated intervals and to the fact that no deficiency with regard to quality /quantity is observed in the stocks pledged/hypothecated to the bank.
- (e) Whenever any abnormal position is reflected in the control returns there should be surprise inspection immediately so that the interest of the bank can be safeguarded and no time is allowed to the delinquent officials to further aggravate the situation or tamper with the records.
- (f) A proper system of control returns and audit should be introduced to govern the working of the subsidiaries and associate concerns of the banks. Appropriate guidelines should be issued to ensure that subsidiaries do not become the vehicle for banks to undertake activities, which are prohibited for banks to engage in.
- (ix) Banks should evolve a system under which an employee coming across an irregular practice in any of the operating areas should

be made responsible to report the same to higher authorities for remedial action.

- (x) The financial and administrative power of the officials should be laid down. The abuse of power, gross violation, etc. should be clearly defined for proper accountability. There have been instances where the officials including the Chairman and the Managing Director just prior to their retirement have sanctioned or written off large advances in an injudicious manner. The sanctions under delegated powers exercised three months prior to the retirement of any official should be put up immediately to the next higher authority.

(11) Concurrent audit

The Concurrent Audit system is to be regarded as a part of banks' warning system to ensure timely detection of irregularities and lapses which help in preventing fraudulent transactions at branches. The banks managements should, therefore, bestow serious attention to the implementation of various aspects of the system such as, selection of branches, coverage of business operations, appointment of auditors, appropriate reporting procedure, follow up/rectification process and utilisation of the feed back from the system for appropriate and quick management decision.

(12) Restriction on access to vouchers

Access to vouchers should be allowed only on written requisition of the Manager and proper record should be maintained of the time and date of release and return, besides the name of the concerned official who has requisitioned them.

20.IX Additional measures of internal control for safeguarding bank's interests

In addition to the measures which banks should take for prevention/timely detection of frauds in common fraud prone areas, they should take the following measures to safeguard their own interest:

(1) Balancing of books

The system of getting ledgers periodically balanced by staff other than the concerned ledger keepers and exercise of appropriate supervision in balancing goes a long way in preventing early detection of unauthorised entries in customers' accounts. It should be ensured that ledgers are balanced at specified intervals and if there is any difference, the same should be located expeditiously. Unauthorised entries/alterations in the ledgers should be scrutinised. There should be a periodical rotation of ledger keepers. The deposit accounts of the employees should be maintained in separate ledgers.

(2) Balancing of transactions relating to clearing of cheques, drafts, etc.

- (i) Inward/outward clearing is often not balanced in certain branches of banks and the resulting differences, debited/credited to nominal accounts (e.g. suspense and sundry deposit account), are left untraced for long periods. The measures for minimising the differences and arrangements for taking follow-up action, on a continuing basis, for adjustment of the outstanding items, are sometimes inadequate. The risks involved in allowing the differences to accumulate are manifold and this is an area which affords wide scope for perpetration of frauds. Further, such frauds may remain concealed if prompt steps are not taken to locate the differences. It is, therefore, imperative for the banks to exercise constant vigil and take necessary measures to ensure that clearing accounts are balanced daily as far as possible and that the differences, if any, are located and adjusted promptly.
- (ii) In this regard, banks may consider the following suggestions for suitable action :
 - (a) In each major branch, a particular officer may be made responsible for ensuring that clearing is balanced daily. Similarly, at the Head Office, a sufficiently Senior Officer may be made responsible for ensuring that branches balance the clearing everyday and , if any differences arise, they are traced out early. He may call for the requisite information periodically, say, once in a quarter.
 - (b) The working of the clearing department should not be allowed to be hampered by shortage of staff; the position in this regard may be reviewed periodically.
 - (c) Where the number of cheques handled is heavy, banks may consider resorting to mechanisation to the extent possible.
 - (d) Old differences may be segregated as on a specific date and it may be ensured that clearing is balanced daily from that date onwards. If the old differences are large in number, a special cell may be created for tracing the errors and adjusting the entries.
 - (e) In regard to old differences for petty amounts, which have not been traced in spite of efforts, the matter of their writing off may be considered in consultation with Auditors and with the approval of the appropriate authority in the bank.

- (iii) In the case of cheques, drafts, etc. payable by other banks/branches at the same centre, the general practice is to present them through the clearing house/the Service Branch and the instrument so presented is deemed to have been paid by the drawee unless it is returned within a specified period. Hence, loss of any instrument after it is dispatched by 'the collecting branch' would result in its not being debited to the drawer's account, while the party on whose behalf it has been presented would be entitled to withdraw the amount involved at its will. It is, therefore, essential that at all stages the branch receiving a bunch of instruments from another bank or branch should invariably verify the relative list (or schedule) prepared by the collecting bank/branch to ensure that no instrument listed therein is missing.
- (iv) Apart from the fact that clearing differences should not be left untraced for long as they could arise on account of fraudulent tampering with instruments, it is essential to maintain proper records of all instruments presented by each bank and also to preserve the 'lists' 'schedules' etc. received in respect of instruments presented by others, for facilitating the identification of the errors and adjustment of the 'differences' as early as possible.
- (v) It has been observed that difficulty in balancing of clearing transactions is particularly experienced by the Service branches of banks that have a large number of branches at a particular centre. It is suggested that at these branches be provided with adequate staff to ensure that the transactions are balanced daily and differences, if any, are located and adjusted expeditiously.

(3) Book of Instructions

- (i) While almost all banks have brought out books of instructions, there may be delays in updating them in the light of the latest developments. Banks, no doubt, issue circular letters to their branches from time to time, but prompt measures to codify the instructions contained therein so as to make available to the staff a Hand Book of Instructions for ready reference is equally important. It is, therefore, necessary for banks, which do not have books of instructions on any subject to bring out, expeditiously, relative comprehensive books of instructions. It is also desirable that separate subject-wise/desk-wise booklets are available at the Head Office/Regional Offices/Branch Offices for the use of the staff members. In banks where the books of instructions have fallen into disuse due to obsolescence, steps may be taken to re-write the relative books and bring them up to date. The compilation/revision of such books of instructions can be usefully entrusted under a time-bound programme, to a small committee of officers who have adequate experience of the

working of the Head Office/Regional Office/Branch Offices, under the overall supervision of a senior officer.

- (ii) The banks should also make standing arrangements for periodically updating the books of instructions and subject-wise/desk-wise booklets. A procedure may also be devised whereby members of the staff are afforded an opportunity to study and become fully conversant with the relevant instructions before they take up a particular item of work and to make available to them the subject-wise/desk-wise booklets for reference purpose, as and when required.

(4) Prompt communication of contents of Reserve Bank's circulars to branches/other offices

The banks should ensure that contents of all important circulars, particularly those which concern the operations at branches, are transmitted to the Controlling Offices/Branches promptly. It is expected that instructions from the Reserve Bank should reach branches within 15 days from the date of their receipt at the Head Office.

(5) Acceptance of hospitality by bank officers from their clients

Banks should issue suitable instructions to all their officials that they should not accept hospitality from their clients like staying in their guest houses or accepting dinner/drinks from them or place themselves in any way under obligation to their clients. It may also be noted that the senior management of banks should not place themselves in a position which will create an impression in the minds of the other functionaries of the bank that the parties have developed close intimacy with the top management. Incidentally, Government of India had advised the Chairman and Managing Directors of the Public Sector Banks and Financial Institutions that bank officers should refrain from accepting lavish hospitality from their clients (vide D. O. No. 12/21/82 B.O.I. dated 10th February 1983) and a copy thereof was forwarded by the Reserve Bank to the Private Sector Banks.

(6) Furnishing of opinion reports on borrowers

Banks should exercise utmost caution while furnishing opinion reports to other banks and not betray the confidence reposed in them by issuing good opinion reports about borrowal accounts contrary to the actual state of affairs. Further, if the system of obtaining opinion reports is misused, it will lose its credibility and the banks will lose the only means of cautioning each other against fraudulent customers. Banks should, therefore, advise their branches that the opinion reports issued by them about their customers to other banks should depict the true state of affairs and they should refrain from making such statements as are likely to mislead the other banks and that deviations from Head Office instructions /formats prescribed for the purpose would be viewed seriously and appropriate action would be taken against the officials responsible.

(7) Caution advices regarding unscrupulous borrowers

The Reserve Bank has been issuing Caution Advices to all commercial banks advising them the names of the unscrupulous borrowers (along with names and addresses of firms, their associates, proprietor/partners/directors, etc.) who are reported to have defrauded banks. The objective in sending these advices is to caution the banks in respect of these parties and to stress the need to make indepth enquiries before granting/renewing any facility to these parties. These advices are issued in the form of secret D.O. letters in the names of the chief executives of the banks. Banks should note the instructions contained in these letters and take action strictly as advised.

(8) Measures for curbing malpractices and harassment of customers

For strengthening the preventive measures for curbing malpractices and harassment in banks, the following measures are suggested:-

- (i) The Internal Inspectors should be asked to contact customers and members of the public and, based on their reaction, give a special report to the Head Office indicating their impression about the image of the bank, in particular, in the area of customer service, manner of dealing with complaints/grievances, financing priority sectors and weaker sections, any unusual feature in the standard/style of living of the bank staff, etc. This should be done in a discreet and responsible manner so as not to affect the general environment of developmental and lending activities of banks.
- (ii) A comprehensive review of the functioning of Customer Service Committees and Grievances Redressal Machinery should be conducted on a quarterly basis, so as to focus the drawbacks in their functioning and take steps to improve the same. For this purpose, the complaints received may be analysed (region-wise and transaction-wise, time taken for disposal, etc.) so as to find out the reasons for large number of complaints in a particular region and activity of the bank, as also for delays in their disposal or apathy on the part of officers to look into them and initiate remedial measures. The Regional/Controlling offices may be impressed upon to visit the branches under their jurisdiction regularly and submit a report covering these points to the Head Office. A copy of this review may be placed before the Board and forwarded to the Reserve Bank for information.

(9) Periodical balancing of Books

- (a) Banks should initiate necessary steps to ensure that all books are balanced. In the case of arrears in balancing banks may freeze the differences upto a particular past date and ensure that books are balanced for the subsequent period invariably. As regards the

frozen arrears, necessary steps should be taken to clear them expeditiously.

- (b) The banks should furnish a quarterly statement giving data on balancing of books in the format given in Volume II of the Manual (item No.39) to the concerned Regional Offices of DBS and Central Office of DBS within one month from the close of the quarter to which the statement relates. The banks should furnish in the statement the position of all the branches where the books of accounts have been balanced and where they have not been balanced at the end of the reporting quarter whether the balance difference in such branches is frozen or not.

(10) Credit Monitoring

Reserve Bank of India issued instructions to banks that the requirement of reporting to it by banks under the system of Health Code-based classification of advances ceased with effect from 1st April 1994 as it had been replaced by new supervisory norm of asset classification. However, as far as banks are concerned this should not imply automatic abandoning the system. Unless they have redesigned an appropriate in-house credit monitoring system abandonment of the Health Code-based classification of advances would result in creating a vacuum in the monitoring system of banks. Banks should, therefore, feel free to continue the system to evaluate the health of their credit portfolio.

20.X Frauds in the computerised environment

At present, there is great opportunity available to banks to learn from the experience of developed countries. This would help devise standards for suitable internal controls required. Some of the suggestions for prevention of frauds in computerised environment are as under:

A) General measures

- (i) Systems and equipment needs of the bank should be planned for at least three to five years. It should be subject to annual review by Top Management.
- (ii) The hardware and software purchase standards need to be standardised.
- (iii) Hardware should be tested and proven one with adequate warranty.
- (iv) The software acquired from outside should be ensured to conform to bank's requirements with adequate controls and should be tested and audited before acceptance.
- (v) In-house software development should be standardised and periodical systems audit/review should be conducted.

- (vi) Systems in banks should be well documented and kept up-to-date and secure. Changes to the system need to be controlled.
- (vii) Data processing procedures, backup procedures, etc. should be evolved covering all computer systems of the bank and made known to all concerned.
- (viii) System administration procedures and duties of personnel should be clearly spelt out for every computer installation and made known to the employees.
- (ix) Confidentiality of information should be categorised and access rights must be specified.
- (x) Customer complaints relating to computer areas should be looked at from the computer systems point of view. Computer Planning and Policy Departments (CPPDs) should be associated with this exercise.
- (xi) Security procedures covering hardware, software backup, storage of both computer records and reports, stationery etc. should be standardised.
- (xii) Computer audit should be made a meaningful exercise by involving the auditors at the system development stage itself. The officers trained in systems audit by IBA in their long term training programmes can be utilised for this purpose.
- (xiii) Operational auditors should be trained for audit around the computer, as part of internal audit of branches.
- (xiv) Quarterly snap inspections of the branches should be made by the branch level senior officers and/or by Zonal Office/Regional Office officers, to especially verify whether drawing power/limit interest rates, etc. are correctly entered.

B) Administrative measures

- (i) Banks must add relevant paragraphs covering computerised aspects, while issuing general Administrative instructions. To this extent there is need for awareness of various systems in the banks in non-computer departments, e.g., credit, deposits, development, general operations department, systems and procedures department, etc.
- (ii) Training of operational level officers needs to be streamlined to include the computer aspects of each topic in each session.
- (iii) Standards should be evolved as regards
 - (a) On line storage periodicity.
 - (b) Storage of historical data.

- (c) Procedures regarding old records.
 - (d) Application-wise back up procedures and off-site storage of backups, etc.
 - (e) Uninterrupted power supply should be ensured.
 - (f) Back up of files should be taken up at periodical intervals and kept at a nearby office.
- (iv) Employees in EDP Cells, computer areas should be screened and should be carefully selected. At their unwillingness to work they should be replaced.

C) Preventive Vigilance measures

- (i) In every computer installation at least two persons should be charged with the duties of
 - (a) System administration
 - (b) Data based administration and processing. Their duties should be spelt out. Necessary back up officers should be trained and kept ready.
- (ii) Rotation of duties across computerised offices/branches should be ensured in such a way that while the acquired skills are not wasted, access to those applications whose programmes have been developed by concerned persons, is denied to them. Also, it should be ensured that this segregation is observed in subsequent rotations/postings.
- (iii) Every bank should have at their Head Office, CPPD, a library containing authenticated manuals and documentation for system software and application software programmes with their source codes and hardware manuals
- (iv) Procedures should be established for conveying sensitive control information, such as, limits, drawing power, interest rates, charges, forex rates, etc. by the concerned divisions to computer section.

D) Insurance

It is prudent to obtain insurance cover in respect of particular risks within the bank. For example, some of the risks such as cost of replacing data, software and equipment. It may also be possible to ensure the consequential losses to a bank following damage to computer resources and consequent business interruptions. However, insurance should not be regarded as substitute for a good control mechanism. It may also be prudent to identify types of losses that are not covered by insurance and lay greater emphasis on control mechanism in respect of such areas as a matter of policy.

20.XI Review of frauds

1. The trend in the number of frauds in various banks calls for effective action for their prevention. It appears that the essential step needed therefor is to make a detailed study of the frauds including those perpetrated on the subsidiaries and affiliates/Joint Venture Participations functioning both in India and abroad that have already taken place with a view to finding out the gaps in the systems and procedures or the defects in following them and initiating prompt necessary steps to plug the loopholes. It is possible that some of the banks are already having such an examination in respect of individual frauds and taking corrective measures. Apart from this, a periodical review of all the frauds that have been perpetrated in the bank will also be helpful for initiating adequate measures for prevention of frauds. The main aspects which may be taken into account while making such a review might include the following :
 - (i) Whether the system in the banks is adequate to detect the frauds, once they have taken place, within the shortest possible time.
 - (ii) Whether the fraud cases are examined from staff accountability angle and, wherever necessary, the cases are reported to Vigilance Cell for further action in the case of Public Sector Banks.
 - (iii) Whether deterrent punishment is meted out wherever warranted to the persons found responsible with a view to spreading the message in the institution that any wilful infringement of rules and regulations will result in severe consequences.
 - (iv) Whether the frauds have taken place because of any loopholes in the systems and procedures and, if so, whether adequate action has been taken to plug the same.
 - (v) Whether the frauds have taken place because of the laxity in following the systems and procedures and, if so, whether effective action has been taken to ensure that systems and procedures are scrupulously followed by staff concerned.
 - (vi) Whether the fraud cases are reported to local police or the Central Bureau of Investigation (CBI), as the case may be, for investigation.
2. The undermentioned information may also be incorporated in the review notes:
 - (i) The total number of fraud cases and total amount detected/ reported during the period under review and the amount outstanding.
 - (ii) Analysis of fraud cases over Rs. 1 lakh/10 lakh/50 lakh/100 lakh.

- (iii) Estimated loss to the bank and the amount recovered during the period under review and provision made, if any (for 3 years).
 - (iv) Number of cases (with amounts), where staff members are involved, during the period under review and action taken against staff.
 - (v) Category-wise classification and analysis of frauds.
 - (vi) Region-wise/Zone-wise break-up of figures of number of fraud cases (with amounts)
 - (vii) Time taken to detect frauds (No. of cases detected within three months, six months, one year, above one year, of their perpetration).
 - (viii) Analysis of fraud cases reported to CBI/Police and present position in the matter.
 - (ix) No. of fraud cases where final action has been taken by the bank and cases disposed off .
 - (x) The preventive/punitive steps taken by the bank during the period under review to reduce/minimise the incidence of frauds.
 - (xi) A comparative analysis of the current year figures with those of the previous two years.
 - (xii) A separate annexure may also be enclosed with the review note detailing the modus operandi of major frauds reported during the period under review along with their present position.
 - (xiii) Special efforts made to reduce/minimise the incidence of frauds.
3. Bank should arrange to conduct the review, as indicated above, on a half-yearly basis. The review note may be put up to the Board of Directors before the 31st October and 30th April. Three copies of the review note should be forwarded to the Regional Office of the Reserve Bank of India, under whose jurisdiction the Head Office of the Bank falls. The banks should nominate a Senior Officer to attend to the work relating to the reviews and he should be made responsible for the timely preparation of the note, its submission to the Board and transmission to the Reserve Bank.

20.XII Reporting of cases of frauds, etc. to State Police Authorities by Private Sector banks

The following guidelines are issued for reporting of fraud cases, such as, unauthorised credit facilities extended by banks for illegal gratification, negligence and cash shortages, cheating, forgery, etc. to the State Police authorities :

- (a) In dealing with cases of frauds involving bank funds, the concerned bank should not merely be actuated by the necessity for recovering expeditiously the amount involved, but should also be motivated by public interest and the need for ensuring that guilty persons do not go unpunished.
- (b) Having regard to the above, as a general rule, cases of frauds on banks involving an amount of Rs. 1 lakh and over, committed by outsiders on their own and /or with the connivance of bank staff/officers and cases of frauds committed by bank employees themselves involving bank funds exceeding Rs. 10,000/-, should invariably be referred to the State Police.

20.XIII Information relating to frauds, robberies, etc. to be submitted to Reserve Bank of India

Banks are required to furnish particulars/data relating to instances of frauds involving misrepresentation, breach of trust, manipulation of books of accounts, fraudulent encashment of instruments like cheques and bills of exchange, unauthorised handling of securities charged to the bank, misfeasance, embezzlement, theft, misappropriation of funds, conversion of property, cheating, irregularities, etc. to Reserve Bank of India from time to time. In this regard the following statements have been prescribed.

(1) Initial quick reporting of frauds of Rs. 5 lakh and above

Banks should report to the Reserve Bank promptly, by means of a D.O letter addressed to the Chief General Manager, Central Office, D.B.S. Mumbai, all cases of frauds involving Rs.5 lakh and above immediately after such frauds come to the notice of their Head Office indicating, inter-alia, the names of parties involved (if they were proprietorship/partnership concerns or private limited companies, the names of proprietors, partners and directors), amount involved, nature of fraud and the modus operandi (in a nutshell), name of the branch/office where committed, whether complaint with the police/CBI had been lodged and names of officials involved.

(2) Reporting of Individual frauds in the perscribed format.

- (a) Banks should send a report, in duplicate of all frauds (including those perpetrated at their foreign branches, in the case of Indian banks) involving Rs. 1 lakh and above, in the proforma given in volume II of the Manual (item No. 40), to the Regional Office of the Reserve Bank under whose jurisdiction they fall, as soon as a case of fraud comes to their notice. Apart from reporting the fraud in the prescribed format to the concerned Regional Office, banks should also endorse a copy of the fraud report to that Regional Office, in whose area the branch of the bank at which the fraud has been perpetrated is functioning. Banks should note that in the aforementioned proforma, frauds have been classified as under on the basis of the provision of Indian Penal Code:

- (i) Misappropriation and criminal breach of trust.
 - (ii) Fraudulent encashment through forged instruments, manipulation of books of accounts or through fictitious accounts and conversion of property.
 - (iii) Unauthorised credit facilities extended for reward or for illegal gratification.
 - (iv) Negligence and cash shortages.
 - (v) Cheating and forgery.
 - (vi) Irregularities in foreign exchange transactions.
 - (vii) Any other type of fraud not coming under the specific head as above.
- (b) In this regard, banks should further note that
- (i) cases of "negligence and cash shortages" referred to in item (a) (iv) above are to be reported as frauds if the intention to cheat/defraud is suspected/proved.
- Cases of cash shortage upto Rs. 1,000/- reported on the same day by persons handling the cash and where there is no suspicion of fraud need not be reported, as fraud. However, cases of cash shortages involving more than Rs.1,000/- and those detected by the management/ inspection should be reported, irrespective of the amount involved.
- (ii) cases of Theft and Burglary should not be reported as frauds. (All cases of Theft, Burglary, Dacoity and Robbery are to be reported separately, vide item (7) below.)
- (c) Further, banks should report such cases in a consolidated form category wise [mentioned at item 5 of the Proforma given in Vol.II of the Manual (item No. 40)]. It is clarified that attempted cases of fraud need not also be reported in the prescribed proforma. However, individual cases of attempted frauds may be advised to the Reserve Bank by way of a letter indicating the modus operandi and how the fraud was detected.
- (d) In order to have uniformity in the matter of accounting of fraud cases relating to Negotiable Instruments, it is advised that cases of frauds perpetrated through alteration/additions in Negotiable Instruments, or collection of instruments for accounts not properly introduced should be reported by paying bankers to the concerned Regional Office of the Reserve Bank as soon as a case comes to its notice. The fraud report submitted by the paying

banker would be taken into account purely for statistical purposes. It may, however, be noted in this regard that this procedure will have no bearing on the dispute between the paying banker and the collecting banker. The collecting bankers should also report such fraud cases in the usual format to the concerned Regional Offices to enable them to follow up the cases with regard to the lapses/staff accountability aspects. Collecting banks, however, need not include the amounts of such cases in statistical statements furnished on quarterly/half-yearly basis to the Regional Offices.

(3) Quarterly/half-yearly statements

(i) Statement I

Consolidated information regarding the number of cases of frauds reported to Reserve Bank of India during each calendar quarter, amount involved in these cases and action taken by the Bank.

(ii) Statement I A

Detailed information regarding the list of cases of frauds reported to Reserve Bank of India during the calendar quarter.

(iii) Statement II

Information relating to cases of frauds reported to Reserve Bank of India for the half-year ended 30th June and 31st December.

(iv) Statement III

Quarterly statements of "Vigilance Cases" (to be submitted only by the Public Sector Banks).

(a) In this regard the following instructions should be followed:

(i) Statement Nos. I and IA relate to cases of frauds reported to Regional Offices of the Reserve Bank during the quarter and the action taken by the banks like reporting to the Central Bureau of Investigation (CBI)/Local Police authorities and taking up investigation by the banks themselves. These statements are required to be submitted to the Central Office of the Reserve Bank by the end of the month following the quarter to which they relate.

(ii) Statement No. II, which is in four parts, viz., A,B,C and D, will relate to half year ending June and December each year and is to be submitted

to the Central Office of the Reserve Bank. Information relating to the years 1979 onwards is required to be furnished in the statement.

- (iii) Statement No.III, which relates to "Vigilance Cases" is also to be submitted to Central Office of the Reserve Bank. The information may be furnished in a classified manner as under :

A. Cases relating to:

- (i) Frauds
- (ii) Bribery and other corrupt practices
- (iii) Others (specifying the nature)

B. (i) Officers

(ii) Other than officers

[Proformae of the above statements are furnished in Vol.II of the Manual (item No. 41)]

- (b) Originally all the banks were instructed that the information relating to frauds, etc. contained in the statements, should be placed before the Board of Directors/Executive Committee/Local Advisory Board (LAB) at fixed periodical intervals. Banks may submit these statements to RBI irrespective of whether or not the information is required to be placed before their Board in terms of calendar of Reviews prescribed by RBI from time to time.
- (c) The statements II and III relating to the quarter/half year ending 31st March, 30th June, 30th September and 31st December, should be sent so as to reach within 45 days from the end of the quarter/half year. A copy each of the statements should be simultaneously sent to the concerned Regional Office of the Reserve Bank to which the bank is reporting individual cases of frauds. The statements which are sent to the Central Office or Regional Offices of the Reserve Bank should be sent in covers marked 'Secret'.
- (d) Banks should include all cases of fraud in the statements in Form I, IA and II i.e. frauds involving amount upto Rs.1 lakh for which banks are not required to submit individual reports in the prescribed format vide item (2)above should also be included in the statements. However, total number and amount of fraud cases upto

Rs. 1 lakh are to be included in these statements in consolidated form only. Further, cases of attempted frauds are not to be included in any of the Statements.

(4) Outstanding cases of frauds

Banks should report full details of outstanding cases of frauds, on a quarterly basis, as per proforma given in Vol.II of the Manual (item No.42) to the respective Regional Offices of the Reserve Bank under whose jurisdiction the Head Office of the bank is functioning. The information should include the position of all outstanding frauds, i.e. number and amount, with a broad classification as indicated in the proforma. Such data should be submitted for the quarters ending 31st March, 30th June, 30th September and 31st December each year and should be submitted by 15th of the month succeeding the quarter.

(5) Further details of frauds in borrowal accounts

It had been observed that a large number of cases of frauds in banks were committed by unscrupulous borrowers, including companies, partnership firms and proprietary concerns or their directors, partners and proprietors by means of :-

- (i) fraudulent discount of instruments or kite-flying in clearing effects;
- (ii) fraudulent removal of pledged stocks/disposing of hypothecated stocks without the knowledge of the bank resulting in the accounts becoming unsecured/inflating the value of stocks in the stock statements and drawing excess bank finance; and
- (iii) diversion of funds outside the borrowing unit, lack of interest or criminal neglect on the part of the borrowers, their partners, etc. as also due to managerial failure leading to the unit becoming sick and due to laxity in effective supervision over the operations in the borrowal accounts on the part of the bank functionaries rendering the advances difficult of recovery.

Banks should, therefore, send to the Central Office of the Reserve Bank full details/facts of the cases, involving an amount of Rs. 5 lakh and above where the bank had suffered financial losses in the above manner. The details should be furnished within three weeks from the date of detection of such frauds, in the proforma given in Vol.II of the Manual (Item No.43). Copies of FIRs filed with CBI/Police should also be furnished.

(6) Progress report in cases of frauds of Rs. 1 crore and above

Banks should furnish to the Central Office of the Reserve Bank a detailed report, in the format given in Vol. II of the Manual (Item No. 44) on all cases of frauds of Rs. 1 crore and above reported by them covering all parameters, viz. position of recoveries, police/CBI investigation, action

against staff involved, suits filed, if any, etc. These reports should be submitted for quarters ending 31st March, 30th June, 30th September and 31st December and should reach Reserve Bank by 10th of the month following the quarter to which they relate. In case of no development subsequent to the last report, a NIL statement may be furnished.

7) Reporting of Robberies / Dacoities / Thefts and Burglaries

- (i) All cases of bank robberies/dacoities/thefts/burglaries should be reported to the Central Office of the Reserve Bank within 24 hours of their occurrence, followed by subsequent detailed report in the Proforma given in Vol. II of the Manual (item No.45) and a copy each of the report in the format should be forwarded to the Security Adviser, Security Planning Cell, Reserve Bank of India, Central Office Building, Mumbai - 400 001 and the Ministry of Finance, Department of Economic Affairs (Banking Division), New Delhi. A copy of the report may also be sent to the Regional Office of the Reserve Bank under whose jurisdiction the branch of the bank, whereat dacoity has been perpetrated, is functioning. A quarterly consolidated statement, covering all cases pertaining to the quarter, may also be forwarded to the Central Office of the Reserve Bank in the same proforma to enable it to build up a data base for ready reference. The quarterly statements should be sent by 15th of the month succeeding the quarter. Banks, however, need not report individually cases of theft and burglary involving amount of less than Rs. 10,000/- . Such cases should be included in the consolidated statement.
- (ii) For the guidance of banks, definitions of Robbery, Dacoity, Theft and Burglary are furnished in the Annexure. To facilitate storage of data relating to Robberies etc. on the computers, it is decided to classify them as under:
 - (a) Bank robberies/dacoities, i.e cases in which the incident had taken place whilst the Branch was open and there was loss of cash/other valuables/instruments/properties, etc. of the bank.
 - (b) Attempted dacoities/robberies, i.e. where the incident had taken place during the period when the branch was functioning but there was no loss of cash/other valuables/instruments/properties, etc. of the bank.
 - (c) Burglaries, i.e where there was loss of bank's properties during the period when the branch was closed and where the incident was committed stealthily by breaking into the branch premises; and.
 - (d) Attempted burglaries, i.e where there was no loss of cash/other valuables/instruments/properties, etc. of the bank but the branch had been broken into stealthily.

8) Reporting disciplinary cases and cases referred to CBI

- (i) In addition to the statements/reports on frauds, robberies etc. which all scheduled commercial banks are required to send to the Reserve Bank periodically, the Public Sector Banks should forward to the Reserve Bank of India a copy each of the quarterly statistical statements relating to Vigilance cases which they are required to submit to the Central Vigilance Commission.
- (ii) In terms of Government of India's letter No. 1/58/82-Vig dated the 15th February 1983, each Disciplinary Authority is required to submit a statement, every quarter, to the Chairman/Managing Director indicating the details of cases which are more than 6 month old, the explanation as to why it could not be completed within 6 months, the likely time by which the case would be completed, etc. A copy each of the aforementioned statements submitted by the Public Sector Banks to Government should also be forwarded to the Reserve Bank.
- (iii) (a) To enable the Reserve Bank to have the details of cases in each bank which are being investigated by CBI, a half-yearly statement [Item No. 46 of Volume II of the Manual] as at the end of June and December each year, containing details of the cases relating to the bank which are being investigated by CBI, should be forwarded to the Reserve Bank. In particular the undernoted information in respect of each case may be furnished in the statement:

Name of the branch	Nature of account involved	Name of the party	Amount
(1)	(2)	(3)	(4)
Brief details of the case	Name and designation of the bank employee, if involved	Date on which the case was filed with CBI	The present position of the case
(5)	(6)	(7)	(8)

Note:

If the details of the case have already been reported to Reserve Bank of India, the Reference No. and date of the bank's letter reporting the case to Reserve Bank of India may also be given in column No.5.

- (iv) Banks may also note to inform the Reserve Bank as soon as any case is filed by a bank with CBI for investigation.

- (v) Public sector banks should submit a quarterly statement to Central Office of Depoartment of Banking Supervision of the Reserve bank showing action taken against delinquent employees for their involvement in cases of frauds and corrupt practices in the format given in Volume II of the Manual. (item No.47)
- (vi) The above statements/reviews should be sent in a cover marked 'Secret' and should reach Reserve Bank not later than the end of the month following the date to which the statements relate.

Annexure
[Paragraph. 20. XIII (7) (ii)]

Definition of Robbery, Dacoity, Theft and Burglary

1. Section 378 of the Indian Penal Code 1860

THEFT:

Whoever, intending to take dishonestly any movable property out of the possession of any person without that person's consent, moves that property in order to such taking, is said to commit theft.

2. Section 390 of the Indian Penal Code, 1860

ROBBERY:

In all robbery there is either theft or extortion. When theft is "robbery", if in order to the committing of the theft, or in committing the theft, or in carrying away or attempting to carry away property obtained by the theft, the offender, for that end, voluntarily causes or attempts to cause to any person death or hurt or wrongful restraint or fear of instant death or of instant hurt, or of instant wrongful restraint.

When extortion is robbery- Extortion is "robbery" if the offender, at the time of committing the extortion, is in the presence of the person put in fear, and commits the extortion by putting that person in fear of instant death or instant hurt, or of instant wrongful restraint to that person, or to some other person, and, by so putting in fear, induces the person so put in fear then and there to deliver up the thing extorted.

3. Section 391 of the Indian Penal Code 1860

DACOITY:

When five or more persons conjointly commit or attempt to commit a robbery, or where the whole number of persons con-jointly committing or attempting to commit a robbery, and persons present and aiding such commission or attempt, amount to five or more , every person so committing, attempting or aiding is said to commit 'dacoity'.

**4. Burglary: (Source: Halabury's Laws of England, Fourth Edition,
pp. 683 Vol. II para 1274)**

BURGLARY:

A person is guilty of burglary if (1) he enters any building or part of a building as trespasser and with intent to commit any of certain specified offences, or (2) having entered any building or part of a building as a trespasser he steals or attempts to steal anything in the building or that part of it or inflicts or attempts to inflict on any person in it any grievous bodily harm.

The specified offences are offences of stealing anything in the building or part of a building in question, of inflicting on any person in it any grievous bodily harm or raping any woman in it, and of doing unlawful damage to the building or anything in it.

CHAPTER - 21

OFF-SITE SURVEILLANCE

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OFF-SITE SURVEILLANCE

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OFF-SITE SURVEILLANCE

21.1 Off-site monitoring and surveillance

- (i) (a) The off-site monitoring and surveillance system has been introduced effective from March 1996 quarter for Indian banks (foreign banks from December 1995 quarter). In the first tranche of DSB Returns, the domestic and foreign banks are required to furnish 7 and 5 reports respectively, which require quarterly reporting on :
- (i) assets, liabilities and off balance-sheet exposures,
 - (ii) risk weighting of these exposures, capital base and the CRAR ratios,
 - (iii) unaudited operating results for the quarter,
 - (iv) detailed analysis of quality of various assets (asset quality),
 - (v) large credit exposures on single borrower and borrower group exposures.
- (b) The two additional reports for domestic banks require reporting on “connected and related lending” and “profile of ownership, control and management (half-yearly)”
- (c) The details about the seven first tranche returns are given below. The formats of the returns are given in Volume II of the Manual (Item Nos. 48 to 54)

Important aspects covered by the DSB Returns.

Return I : Report on Assets, Liabilities and Exposures.

- Assets – Cash, Loans and Advances, Investments, etc.
- Liabilities – Deposits, Borrowings, Provisions, etc.
- Capital and Reserves
- Off Balance Sheet exposures – Credit contingents and commitments, Foreign Exchange contracts and derivatives.
- Long outstanding unreconciled entries – Accounts with Banks, Inter-branch Adjustments, and Sundry Debtors.

Return II: Report on Capital Adequacy

- Computation of Capital Base
- Computation of Risk Weighted Assets
- Risk based Capital Ratios – CRAR, Core CRAR

Return III : Report on Quarterly Operating results

- Interest income, Interest expenses
- Earnings before provisions and taxes
- Interest receivable on NPAs not recognised as income
- Net profit and retained earnings.

Return IV : Report on Asset Quality

- Portfolio Analysis – Loans and Advances, other interest bearing assets (by delinquency in interest payment)
- Classification of Risk Assets – Standard, Sub-standard, Doubtful and Loss
- Sectoral Analysis of Loan assets – Priority sectors and other sectors
- Top 30 impaired credits – details
- Quality of securities portfolio – SLR securities, Non-SLR securities.

Return V : Report on Large Credits (Prudential exposure norms)

- Large credits to individual borrowers (above 15% of Total Capital funds to be reported)
- Large credit to borrower groups (above 30% of Total Capital funds to be reported)
- Top ten credit exposure to other banks

Return VI : Report on Connected Lending

- Credit to subsidiaries and associates
- Credit to significant shareholders (holding 5% or more of share capital or voting power)
- Credit to directors/ managers

Return VII : Report on Ownership and Control

- Top ten shareholders and others
- Shareholder control -- details about significant shareholders
- Composition of Board of Directors
- Key Executive Officers

- (ii) (a) In addition, annual BANKPROFILE returns have been prescribed for getting information on the profile of the banks and quarterly RALOO (Returns on Assets and Liabilities of Overseas Operations) returns on the overseas operations of the branches of Indian banks. The formats of the return is given in volume II of the Manual (Item No. 55)

(b) The BANKPROFILE returns cover the following aspects

- Bank's top management
- Financials e.g. equity, assets, income and return ratios
- Supervisory compliance i.e. capital adequacy ratios, priority sector lending, NPAs and export credit
- Financial/portfolio structure – advances, investments, deposits and off-balance sheet exposures
- Portfolio growth and financial performance
- Organisational profile – branches, employees and para-banking services offered
- Solvency profile – capital, health of assets, loss provisions, liquidity, etc.
- Details about overseas and global operations

(c) The RALOO returns cover (consolidated as well as branch-wise) the following details :

- Assets, liabilities and exposures
- Analysis of customer credit
- Summary of problem credits and provisions
- Account-wise details of credits which have been classified non-performing during the quarter
- Maturity-wise analysis of assets and liabilities
- List of large borrowers
- Currency position in respect of 4 major international currencies (USD, STG, DEM, Yen)

- (iii) Detailed guidance notes issued to banks to facilitate accuracy in compilations and timely submission of the returns and formats of the returns are given in Volume II of the Manual. (Item No. 34)

21.2 Performance Monitoring system for Public Sector banks.

- (i) Performance Monitoring System (PMS) for the Public Sector Banks was introduced at the instance of the Government of India, Ministry of Finance which wanted to have certain essential information on the financial condition and performance of the public sector banks being the owner of the banks. Accordingly, the public sector banks were advised to submit half-yearly returns under the PMS starting from 30 September 1995. The returns/reports under PMS cover the overall business and financial operations of the public sector banks as also the spread enjoyed by the bank, earnings on capital, etc. The report is sub-divided into:
- (a) a report on the performance in regard to its Indian operations which covers total deposits, borrowings, money at call and placements with other banks, total loans and advances,

contingents, net advances, deposit portfolio ratios and percentages on asset quality (credit), etc. – Statement I;

- (b) The performance in regard to its Overseas operations which covers a consolidated report on the overseas branches covering customer deposits, borrowed funds, total assets, money market placements, investments, loans and advances (Net), contingents, assets quality percentages of credit portfolio, total income, total expenditure and operating surplus, etc. - Statement IA;
 - (c) The performance on the total operations of the bank - a report on its Capital and Earnings which covers mainly the various earnings of the bank including an earning analysis comprising the average cost of funds, average yield on funds, average yield on advances, average yield on investments, interest spread along with the data on Own funds and Reserves, Capital Adequacy Ratios, etc. – Statement II and
 - (d) Report on organisation and house-keeping covering the number of branches and controlling offices of the bank, the total number of staff employed further bifurcated into Officers and others, business per employee in Indian branches and global branches; balancing of books in Indian branches where the balancing of books is in arrears further categorising the same for the periods of being in arrears into 3-6 months, 6-12 months and over. The report also details the number of unreconciled long outstanding entries in inter-branch accounts divided into the number of debit items and amount involved, the number of credit items and the amount involved and the total number of entries and amounts, etc. - Statement III.
- (ii) The formats of the reports are given in Volume II of the Manual (Item Nos. 56 to 59)

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MISCELLANEOUS

22.1 Donations by banks

- (i) The profit making banks may make donations during a financial year, aggregating up to one percent of the published profit of the bank for the previous year. The prescribed limit of one per cent is the outer limit for the bank as a whole including overseas branches, if any. The donations made for various purposes should be within the prescribed limit and there is no exempted category or separate limit in respect of donations made for specific purposes (e.g. National and other relief funds). Banks are prohibited from making donations in excess of the limit prescribed . The loss making banks can make donations totalling Rs.5 lakhs only in a financial year. No bank can carry forward the unutilised amount of the permissible limit of any year for use in subsequent years.
- (ii) Banks may take their own decision in regard to the purpose of the donations. The Boards of Directors of banks may clearly lay down a policy (a) of making donations including the purpose for which donations may be given; (b) that it should not be linked to deposit mobilisation ; and (c) the donation should be fairly well distributed rather than being concentrated on a few donees, etc.
- (iii) The banks should submit annual review of donations to their Boards of Directors .

22.2 Foreign Contribution (Regulation) Act, 1976 [FCRA]

- (i) The associations having a definite cultural, economic, educational religious and social programmes and receiving foreign contributions should get themselves registered with the Ministry of Home Affairs, Government of India.
- (ii) They are permitted to receive foreign contributions only through one of the branches of a bank which an association should specify in its application for registration with the Ministry of Home Affairs.
- (iii) If an association is not registered with the Central Government, it can accept any foreign contribution only after obtaining specific prior permission of the Central Government.
- (iv) (a) There are certain organisations of political nature not being political parties specified by the Central Government under

section 5 (1) of the Act. These organisations require prior permission of the Central Government for accepting any foreign contribution . The list of names of such organisations is furnished in the Annexure I.

- (b) There are certain organisations/persons (not mentioned in Section 4 of FCRA) who currently stand prohibited by the Government of India, Ministry of Home Affairs from accepting any foreign contributions under section 10 (a) of the act. The names of such organisations are given in Annexure II. The banks should ensure that their branches keep special watch on the accounts of the organisations/persons given in the Annexures and any violation of the provisions of the said Act by them are reported to the Ministry, immediately.
- (c) The Government of India, Ministry of Home Affairs have also prohibited some organisations functioning in the State of Jammu & Kashmir from accepting any foreign contributions under Section 10(a) of the Act. Further, certain individuals are required to obtain prior permission before accepting any hospitality under Section 10(d) of the said Act. A list of such organisations and individuals is given in Annexure III. The banks may instruct their branches to keep a watch on their accounts and irregularities, if any, noticed should be brought to the notice of the Ministry
- (v) In order that there is no violation of the provisions of the Act and the rules framed thereunder, the banks should observe the following precautions:
 - (a) They should afford credit of the proceeds of cheques/drafts representing foreign contributions only if the association has been registered with the Ministry of Home Affairs, Government of India.
 - (b) They should insist on production of a communication from the Ministry of Home Affairs conveying prior permission of the Central Government for acceptance of specific amount of foreign contribution in case the association has not been registered under FCRA.
 - (c) They should not afford credit to the account of such associations as are not registered with the Ministry of Home Affairs separately for the purpose of accepting foreign contribution under FCRA.
 - (d) They should not afford credit to the account of such association as had been directed to receive foreign

contributions only after obtaining prior permission of the Central Government.

- (e) They should not allow the credit of the proceeds of the cheques/demand drafts, etc. to the organisations of a political nature, not being political parties (including their branches and units),unless a letter containing the prior permission of the Central Government under FCRA is produced by such organisations.
 - (f) They should note the registration number, as conveyed by the Ministry of Home Affairs to the various associations, in the relevant records, particularly the pages of the ledgers in which the foreign contribution accounts of associations are maintained, to ensure that no unwanted harassment is caused to such associations.
 - (g) In case any cheque/demand draft is received by a branch of a bank for realisation of its proceeds and credit to the account of the association/oraganisation which has not been registered or which require prior permission, the concerned branch should seek the instructions of the Ministry of Home Affairs.
 - (h) A bank branch should not credit the account of association / organisation of a political nature, not being a political party, as specified by the Central Government and of a non-registered association unless the association / organisation produce a letter of the Ministry of Home Affairs conveying permission of the Central Government to accept the foreign contribution.
 - (i) Where permission has been granted, such permission should be treated as to accept only the specific amount of the foreign contribution which is mentioned by the Ministry of Home Affairs in the approval letter.
 - (j) The concerned branch of the bank should keep on its record a copy of the letter of registration endorsed by the Ministry of Home Affairs.
- (vi) As per provisions of the Foreign Contributions(Regulation) Act [FCRA], the organisations/associations could accept contributions from 'foreign source' only if they are registered with the Ministry of Home Affairs or only after obtaining prior permission from that Ministry. The term 'foreign source' has been defined in section 2(e) of the Act. While remittances from Indians abroad i.e. Indian citizens for the purpose of contributing to the aforesaid associations/ organisations will not attract the provisions of the Act, in the case of contributions given by non-resident foreign citizens of Indian origin through their NRE and FCNR accounts maintained in India the provisions of the Act will be

attracted and the contributions are to be treated as 'foreign source'. Hence recipient associations/organisations will require registration under the Act or prior permission of the Central Government before accepting contributions from 'foreign source'.

- (vii) A half-yearly statement at the end of 30th September and 31st March every year in a consolidated form in respect of all the branches dealing in foreign exchange should be sent by the Head Office of each bank as per the format given in the Annexure-IV direct to the Ministry of Home Affairs.
- (viii) The banks should designate a 'Nodal Officer' at the Head Office who should be responsible to ensure accurate and timely submission of statement to the Government of India (Ministry of Home Affairs). The statement should be sent positively within two months of the closure of the concerned half-year.
- (ix) In order to familiarise the bank officers with the provisions of Foreign Contribution (Regulation) Act, 1976 [FCRA] and ensure accurate and timely submission of the half-yearly statement, the banks should include a brief exposure to the provisions of the Act in their training programmes.

Annexure I

[Paragraph 22.2(iv)A]

List of 165 Organisations of Political nature (not being a political party) notified under Section 5 (1) of the Foreign Contribution (Regulation,) Act, 1976

Sl No

Name of the Organisation

Notified on 18 . 2 . 77

1. All Indian Kisan Sabha, 16-D Feroze Shah Road, New Delhi
2. Bharatiya Khet Mazdoor Union, New Delhi.
3. All Indian Trade Union Congress, New Delhi.
4. All India Kisan Sabha, 4, Ashoka Road , New delhi.
5. Centre of Indian Trade Unions, Calcutta.
6. Bharatiya Mazdoor Sangh, New Delhi.
7. Indian National Trade Union Congress, New Delhi.
8. United Trade Union Congress, Calcutta .
9. National Front of Indian Trade Unions, Calcutta.
10. All India Federation of University & College Teachers Organisation, Calcutta.
11. All India LIC Employees Federation, Mumbai
12. All India Bank Employees Federation, Delhi.
13. All India Defence Employees Federation, Pune.
14. All India State Govt. Employees Federation, Hyderabad.
15. All India Railwaymen's Federation, New Delhi.
16. Indian Railway Worker's Federation, New Delhi.
17. Bharatiya Railway Mazdoor Sangh, Mumbai.
18. All India Loco Running Staff Association, Assam .
19. Government Employees National Forum, Nagpur
20. All India Federation of Electricity Employees, Nagpur
21. National Federation of Post & Telegraph Employees (K. L. Moza Group)
New Delhi
22. Trade Union Co-Ordination Centre, Calcutta.
23. Progressive Labour Union, Durgapur, West Bengal.
24. Kerala Trade Union Front, Trichur.
25. Swatantrata Thozilali Union Calicut
26. Swatantrata Thozilali Union, Mavoor, Calicut.
27. Labour Progressive Federation, Chennai.
28. Anna Thozhir Sanga Peravai, Chennai.
29. State Central Labour Union, Sri Nagar, J & K
30. Sarva Shramik Sangh, Mumbai.
31. .Bharatiya Kamgar Sena, Mumbai.
32. National Labour Coordination Council, Calcutta.
33. United Trade Union Congress, Calcutta.
34. National Labour Organisation, Ahmedbad.
35. All Indian Students Federation, New Delhi.

36. All India Youth Federation, Delhi.
37. Student Federation of India, Calcutta.
38. Democratic Youth Federation, Calcutta.
39. Akhil Bhartiya Vidyarthi Parishad, Mumbai.
40. Democratic Students Organisation, Calcutta.
41. Comsomal, Calcutta.
42. Revolutionary Youth Organisation, Calcutta.
43. Progressive Democratic Students Union, Hyderabad.
44. Radical Students Union, Hyderabad.
45. Progressive Students Union, Calcutta.
46. Punjab Students Union.
47. All India Sikh Students Federation, Amritsar.
48. Kerala Students Congress, Kottayam, (K.M.Mani Group)
49. Kerala Students Congress, Kottayam, (K.M. George Group)
50. West Bengal Chhatra Parishad, Calcutta.
51. World Tamil Youth Federation, Madras.
52. National Federation of Indian Women, New Delhi.
53. Samajwadi Mahila Sabha, Pune.
54. Nikhil Bangga Mahila Sangha, Calcutta.
55. Islamic Study Circle, Sri Nagar
56. Awami Action Committee, J & K, Sri Nagar.
57. All Jammu And Kashmir Awami Maqbool Mahaz.
58. Jammu and Kashmir People's League, Sri Nagar
59. Ujani Asom Rajya Parishad, Gauhati.
60. Tribal Front, Agartala.
61. Communist League of India, Baroda.
62. All India Muslim Majlis-E-I-Mushwarat at, Delhi.
63. Tabligh Jameet, New Delhi.
64. Lok Neeti Parishad, New Delhi.
65. All India Sarwa Seva Sangh, Wardha.
66. Citizens for Democracy, New Delhi.
67. Jharkhand Mukti Morcha, Bengal Parganas Bihar.
68. Nag Vidarbha andolan Samity, Nagapur.
69. Maha Vidarbaha Rajya Sangharsh Samiti.
70. Marathwada Janata Vikas Parishad, Aurangabad
71. Maharashtra Ekikaran Samiti, Komeka, Pelgoium.
72. The Kannada Paksha, Bangalore .
73. The Kannada Cheluvaligars, Bangalore.
74. Dravida Kazhagam, Chennai.
75. Tamil Nadu Toilers Progressive Party, Chennai.
76. The Neelachakra, Cuttack.
77. Dalit Panthers, Wadala, Mumbai.
78. Peoples' Union for Civil Liberties and Democratic Rights, New Delhi
79. Dalit Panthers, Bhawani Path, Pune.

Notified on 16.9.80

80. All India Insurance Employees Association, Calcutta.
81. All India National Life Insurance Employees Federation, Mumbai.
82. National Federation of Indian Railwaymen, New Delhi.
83. Institute of Indian Labour, Calcutta.
84. National Federation of Posts & Telegraph, (Shashi Bhushan Group) New Delhi
85. Indian National Plantation Workers Federation, Assam.
86. Anand Marg, Calcutta.
87. Proutist Universal, New Delhi.
88. Volunteer Social Service, Allahabad.
89. Seva Dharma Mission, Varanasi.
90. Education Relief and Welfare Sector, Calcutta.
91. Anand Marg Universal Relief Team, Calcutta.
92. Universal Proutist Students Federation, New Delhi.
93. Jammāt -E-Islami Hind, Delhi.
94. Rashtriya Swayam Sevak Sangh, Nagpur.
95. Shiromani Gurudwara Prabandhak Committee, Amritsar.
96. Delhi Gurudwara Prabandhak Committee, Delhi,
97. The Jammu & Kashmir Islami Hammat-E-Tulba.
98. Anjuman Nasrat-ul-Islam, Sri Nagar.
99. Jammu & Kashmir Islamic Study Circle.
100. The Jammu & Kashmir Muslim Auqaf Trust, Sri Nagar
101. All India Peace and Solidarity Organisation, New Delhi.
102. Indo-Soviet Cultural Society, New Delhi.
103. All India Indo-Korean Friendship Association, New Delhi.
104. All India Indo-GDR Friendship Association, New Delhi.
105. Indo-Czech Cultural Society, New Delhi.
106. Indo-Bulgarian Friendship Association, New Delhi.
107. Indo-China Friendship Association, New Delhi.
108. All India Dr.Dwarakanath Kotnis Memorial Committee, Calcutta.
109. National Federation Progressive Writers, New Delhi.
110. All India Association of Democratic Lawyers, New Delhi.
111. General union of palestine Students (India Branch) New Delhi
112. Moral Re-Armament (MRA), Panchgani, Maharashtra,
113. Rashtra Seva Dal, Pune.

Notified on 27. 5 . 82

114. Afghan Liberation Centre, (ALC) New Delhi
115. Iranian Students Islamic Association (ISIA) or Union of Iranian Students Islamic Association (UISIA), Bangalore .
116. Indian Youth Congress (I), New Delhi.
117. Indian Youth Congress (S), New Delhi.
118. National Students Union of India (I), New Delhi.
119. National Students Union of India (S), New Delhi
120. Yuva Janata, New Delhi.
121. Janata Yuva Morcha, New Delhi.
122. Tamira-E-Millat, Hyderabad.
123. Student Islamic Union (S. I. U) Hyderabad.

124. Halqa Tulaba Islam, Patna.
125. Students Islamic Movement in India (SIMI), Aligarh.
126. Jai Gurudev and Door Darshi Party, Mathura.
127. Shiv Sena, Mumbai.
128. Mass Movement, Mumbai.
129. Human Rights Protection Committee, Trivandrum.
130. Akhil Bharatiya Nepali Bhasha Samiti, Darjeeling.
131. Mahas-E-Azadi, J&K.
132. Jammāt Ahal-e-Hadis, J&K.
133. Rashtra Savika Samiti, Wardha, Maharashtra.
134. Vishwa Hindu Parishad, (VHP) Mumbai.
135. Revolutionary Students Organisation (RSO), Kerala.
136. Hind Mazdoor Sabha, Mumbai.
137. Yuva Lok Dal, New Delhi.
138. Dal Khalsa, Chandigarh.
139. Jamat Ahle Hadis or All India Ahle-E-Hadis.
140. Jammāt-E-Islami, J & K, Sri Nagar.
141. Christian Action Group (CAG), Chaobasa, (Bihar)

Notified on 4. 1. 84

142. Deeni Talimi Council, Lucknow

Notified on 5. 11 . 85

143. Nadvat-ul-Ulema, Lucknow

Notified on 7. 8 .86

147. People's Relief Committee, 7, Jantar Manter Road, New Delhi
148. Islamic Welfare Trust, P. O Omessary, Via Kotuwalli, Calicut Dist.
149. Orissa Gramin Majdoor Sangh Sultanpur, Bhubaneswar, Dist. Puri.

Notified on 27 . 4. 87

147. All India Confederation of Bank Officer Organisations
Pandyan House, Frere Road, Mumbai - 400038.
148. Iqbal Memorial Trust, Bemina, Srinagar, Kashmir.
149. All Assam Students Union Gauhati University Campus,
Jhalukhari, Gauhati, Kamrup District, Assam.
150. Assam Jatiyatabadi Yuba Chhatra Parishad, Silphukuri,
Gauhati, Assam.
151. Shaheed Panja Singh Trust, 21, Akuli Rest House, Amritsar, Punjab.
152. All India Railway Employees Confederation, 26/12, Railway Colony,
Kishanganj, Delhi-110007.
153. Kisan Sewa Samiti, Chhatarpur, M P.
154. Asian Regional Institute of Juche Idea, S-502,
Greater Kailash New Delhi.
155. Ishaat-E-Islam Trust, 1353, Chitli Qabar, Delhi.
156. A. K. Gopalan Bhavan Trust, 14, Ashoka Road, New Delhi.

Notified on 5. 4. 1989

157. Rural Organisation for Social Education (ROSE), Rose Nagar, Thuckalay, Kanyakumari Distt., Tamil Nadu.
158. Palmhrah Workers Development Society (PWDS), Marthandam, Kanyakumari Distt. Tamil Nadu.
159. Hill Organisation for People 's Education (HOPE), Maruthamparai, Pathukany P.O Kanyakumari-629101
160. Malaival Makkal Niruvanam Pandimal Vill, Arumani, Kanyakumari-629151,Tamil Nadu.
161. Rural Education and Action for Development (READ), Mathilagam, Marthamdam, Kanyakumari-629165, Tamil Nadu.
162. Indian National Plantation Workers Federation Suit 125, 25-a, Park Street, Calcutta-700016 W. Bengal.
163. Centre for Rural Employment & Education for Development Kanyakumari - (T.N)
164. William Carey Study and Research Centre, Calcutta
165. Jaspur Samaj Seva Samiti.

ANNEXURE - II

[Paragraph 22.2(iv)(b)]

List of associations/persons not notified in section 4 of the FC(R) Act, which have been prohibited under section 10 (a) from accepting any foreign contribution.

No	Name & address of the the association/persons	Date of issue of order	Date of revocation if any
1	2	3	4
1.	Rural Action in Development, Dist. Cuddapah, A. P	12 . 5 .86	----
2.	Jamiatul-Hidaya P.O Box .NO .2 Manpur Sarva Ramgarh Road Jaipur (Raj.)	18 .11. 85	----
3.	Bhopal Technical Vocational Training Centre, Arora Colony, Bhopal, (M. P.)	26-8-86	----
4.	Shri R. Kamalanathan, Trichy, (T . N)	27-6-85	-----
5.	Boraoah Christian Mission, Trichy (T. N)	27-6-85	-----
6.	Smt. Helen Rebecca, Trichy (T. N)	27-6-85	-----
7.	Siloam Christian Aid Mission P (LTD.) Trichy (T .N)	27-6-85	-----
8.	Action for Peoples Partici- pation and Environment Care, A-62, Ashoka Marina Drive, Ernakulam, Cochin, Kerala.	2-6-87	-----
9.	Social Action Movement of Idukki, Palianimala Distt Idukki (Kerala)	2-6-87	-----
10.	Anakkara Vikasana Sangham, H. NO . 3 Ward No. V Chakkapallon Panchayath Anakkaray, Distt. Idukki (Kerala)	2-6-87	5-10-90
11.	High Range Integrated Development Society for the Social Amity, AP Vill, 124 Moozhikatt Buildings Annexe, Ayyappancoil, P.O. Idukki (Kerala)	2-6-87	----

No	Name & address of the the association/persons	Date of issue of order	Date of revocation if any
1	2	3	4
12.	Society for Action with the Poor, H. No.126, Ward No. V Mangavath, Parvirizha, Adoor, P. O. Pathanamthitta (Kerala)	2-6-87	----
13.	Baba Jagtar Singh of Kar Seva Organisation, Taran Taran, Distt. Amritsar (Punjab).	26-8-87	5-5-94
14.	Shri Krishvardan Beharilal Hingwala, 17, Koregaon, Pune (MAHARASHTRA)	8-1-88	-----
15.	Sh Surinder Mohan Singh, D-I Flat-No- 103, Yogi Park, 12-A Koregaon Park, Pune (MAHARASHTRA) .	8-1-88	-----
16.	Shri Narain Dass C/o R. K. Aggarwal, Yok and Yeti Appts. Bund Garden Road Pune (MAHARASHTRA)	8-1-88	-----
17.	Sh Lal Prasas Singh 99/2 Yerawada, Pune (MAHARASHTRA)	8-1-88	-----
18.	Mrs Hemlata Das Boziers 33 Koregaon Park, Pune, (MAHARASHTRA)	8-1-88	-----
19.	Sh Jaspal Singh 32 Koregaon Park, Pune, (Maharashtra)	8-1-88	-----
20.	Sh Ashok Kumar Bhaskar C-2 Sparter Luxury Decan College Road, Yerawada, Pune (Maharashtra)	8-1-88	-----
21.	Sh Devendra Singh Bewal 17, Koregaon Park, Pune, (Maharashtra)	8-1-88	-----
22.	Sh Vishwabandhu Shukla, 352/9, Boat Club Road, Pune (Maharashtra)	8-1-88	-----
23.	Sh Mukesh K Barde Satyam Flat No. 405-B Simpiti Road, Borivali (W) Mumbai (Maharashtra)	8-1-88	-----

No	Name & address of the the association/persons	Date of issue of order	Date of revocation if any
1	2	3	4
24.	Sh Narender Kumar Gulab Chand Jain, 32 Koregaon Park, Pune (Maharashtra)	8-1-88	-----
25.	Islamiya College, Kuthiyadi, Calicut Distt, (Kerala)	3-3-88	-----
26.	Community Service Society 5/83, Keelaperuvalla Asari Pallam, Augercoil, Kanyakumari (T N).	8/11-7-88	-----
27.	Society for Peoples Action for Development, 11-4-5 Donica Road, Chenchupet, Tenali Guntur, A P.	8-12-88	-----
28.	Catholic Church Senopati, Manipur	28-4-89	9-3-90
29.	Konkani Projecto Awaj, Datta Prasad Building M G Road, Panaji Goa.	29-6-89	-----
30.	Bochasanwasi Shri Akshar Purushottam Sanstha, Shri Aksharpurushattam Temple Shahibaug Ahmedabad (GUJARAT).	1-8-89	17-11-89
31.	Open Arms, A..C.T. College, Lower Tonkpura Road Hyderabad (A .P.).	28-2-89	15-11-91
32.	Vikash Prashad, Gandhi Nagar Korapur, (Orissa)	27-3-90	-----
33.	Childern 's Development Communities India, 134, Banerjee Road Calcutta (W. Bengal).	14-5-92	-----
34.	Madras Church of Christ, 11, Sheny Road Nangamalokon, Chennai (T. N.)	19-4-93	-----
35.	New Life Community Development Society, Jaipur (RAJ.).	29-10-93	-----

No	Name & address of the the association/persons	Date of issue of order	Date of revocation if any
1	2	3	4
36.	Tibetan Culture & Education Foundation, Bangalore, C-10, Devatha Plaza, Residency Road, Bangalore (Karnataka)	3-8-94	-----

ANNEXURE III

[Paragraph 22.2(iv)(c)]

List of organisations functioning in the State of Jammu & Kashmir prohibited from accepting foreign contributions under Section 10(a) of the Foreign Contribution (Regulation) Act, 1976

- [a] J & K Muslim Conference
- [b] Falah -e -Aam Trust
- [c] Public Relief Trust
- [d] Alamdar Trust

List of individuals in the State of Jammu & Kashmir required to obtain prior permission before accepting any foreign hospitality under Section 10(d) of Foreign Contribution (Regulation) Act, 1976

- [a] SAS Gilani
- [b] Peer Haffizullah Maqdoomi
- [c] Shabnam Lone
- [d] Yasin Malik
- [e] Javed Ahmed Mir
- [f] Nayeem Khan
- [g] Shabir Ahamed Shah
- [h] Moulvi Umar Farooq
- [I] Mian Abdul Qayoom
- [j] Mohd. Abdullah Tari
- [k] Prof. .Abdul Gani
- [l] Moulvi Abbas Ansari
- [m] Baha-ud-din Farooqi

ANNEXURE - IV
[Paragraph 22.2(vii)]

**Details of foreign contribution received by Associations covered under the
Foreign Contribution (Regulation) Act, 1976.**

Statement for the half year ended

Name and address of the branch of the Bank _____

Sl. No.	Name and address of the Association and account number	Registration Number under FC(R) Act, 1976	Letter(s) & date of MHA granting permission under FC(R) Act, 1976	No. of credit to the account	Date of credit to the account	Amount (in Rs.)	Details of donor(s) if available
1.	2.	3.	4.	5.	6.	7.	

22.3 Collection facility ‘at par’ for dividend / interest warrants, refund orders, etc.

It is left to the discretion of the banks to extend ‘at par ‘ facility on merits of each case for corporate clients for the encashment of dividend warrants/interest warrants, refund orders etc. The bank should put in place an adequate internal control mechanism to safeguard their interests while determining the policy regarding ‘at par’ facility with the approval of their respective Boards . The banks should prescribe a package of safeguards depending on their risk perception and judgement of the standing of the corporates, the investor base, arrangements for pre-funding of the facility, the monitoring of drawings there- against, periodic reconciliation, etc. Further, banks should ensure that the pre-funding arrangements to meet the payment of the instruments are suitably tied up before the grant of ‘at par’ facility to a client so that dividend/ interest warrants are not dishonoured due to lack of funds, when presented for payment .Chronic cases of defaults on the part of companies in meeting their liabilities on the dividend/interest warrants, etc. may be communicated to the Registrar of the Companies or the Ministry of Finance (Department of Company Affairs), to enable them to take action against such companies under the Companies Act,1956.

22.4 Import of Gold / Silver /Platinum

- (i) Under the liberalised Export Import Policy, Government of India has stipulated that the exporter availing the schemes of gold/silver/platinum jewellery and articles thereof may obtain gold/silver/platinum from the nominated agencies and the nominated agencies are MMTC, HHEC, STC, SBI and any agency authorised by Reserve Bank of India (RBI) (cf. Paragraph 8.15 of Export Import Policy 1997-2002). RBI has decided to nominate scheduled commercial banks fulfilling certain eligibility criteria to import gold for supply to jewellery manufacturer-exporters, Returning NRIs and Special Import Licence Holders besides sale in the domestic market. RBI (ECD) has decided to permit the authorised banks to import gold under different arrangements besides outright purchase on D/P basis as laid down in paragraph 2 of RBI circular AD(GP Series) No. 7 dated 6 March 1998.
- (ii) Introduction of any gold deposit scheme or other gold related products would require prior approval of the Reserve Bank of India, DBOD, Central Office.
- (iii) Gold borrowed from abroad by banks, in terms of paragraph 2(i) of the RBI circular AD(GP Series No.7) dated 6 March 1998 referred to in paragraph (i) above will form part of the bank’s Demand and Time Liabilities and will be subject to Cash Reserve Ratio and Statutory Liquidity Ratio.

- (iv) Gold held by a bank on its own account will qualify as eligible assets for meeting SLR requirements under Section 24 of the Banking Regulation Act, 1949.
- (v) The bank should lay down with the approval of their Boards of Directors prudential limits on taking open position in gold and also obtain the specific approval of the Reserve Bank of India for such limits. The banks keeping open position in gold should also maintain Tier I capital to the extent of 5% of the open position limit (as in the case of forex open position), in addition to the existing capital adequacy requirements specified by RBI. With effect from 31.3.1999, the entire open position limit on gold will carry a risk weight of 100% and instead of calculating CRAR separately @5% of approved open position limit for gold and deducting from Tier I capital, risk weights in respect of gold should be added to the other risk weighted assets for calculation of CRAR.
- (vi) Entering any forward deal in gold is prohibited under the Forward Contract Regulation Act, 1952.

22.5 Economy in expenditure on publicity /advertisements

(a) Ceiling on expenditure of publicity /advertisements

Although there is no ceiling on publicity expenditure, both for domestic as well as overseas publicity, the banks should exercise caution and effect economy while incurring expenditure on publicity. The banks should also in this context bear in mind the following suggestions for implementation.

- (i) The banks should draw up publicity/advertisements budgets on a systematic annual basis and get it approved by the Board.
- (ii) Publicity should be intended mainly for the constituents of the banking system including in particular, the small borrowers.
- (iii) Publicity should be cheap and effective.
- (iv) Increasing use should be made of regional language newspapers with a view to reaching the common man through their media in place of costly advertisements in media and language which do not reach the masses.
- (v) Increasing use of Governmental agencies could help to a considerable extent in pruning the expenditure.
- (vi) It would be useful if cost-benefit studies of the various campaigns undertaken by a bank are made periodically with a

view to deciding upon the continuance or otherwise of such campaigns.

- (vii) The banks should obtain the prior approval of their Boards of Directors for their Principal Advertising Agencies through whom the bulk of their expenditure on publicity through newspapers, radio, television and films is incurred.
- (viii) Wherever the services of advertising agencies other than principal agencies are utilised in view of the exigencies of the situation, the matter may be reported immediately or on monthly basis to the Board of Directors giving the full details of the job entrusted, the extent of expenditure and the reasons for utilising the services of the agencies.
- (ix) Expenditure on publicity through printed matters, calendars, diaries, give aways, etc. may be directly incurred without utilising the services of any advertising agency within the overall publicity budget approved by the bank's Board of Directors.
- (x) Rural publicity should be intensified by appropriate measures for bringing about further improvements in the services rendered by the banks of their constituents. The banks and the Indian Banks Association may make available to the Field Publicity Units of the Central Government the publicity material and films produced by them so that these could be used at the various centres where such field publicity is undertaken.
- (xi) The Committee on public sector undertakings in its 47th report had observed that the public sector banks should evolve suitable machinery for assessing the effectiveness of the various media and publicity and should also have a review at the level of the management once a quarter and at the level of the Board of Directors once a year (Recommendations No 8 and 9). The banks should show the total expenditure on public relations and publicity as a note to the Profit and Loss Account (Recommendation No. 11).

b) List of items of expenditure to be included under publicity/advertisement

In order that the banks classify their publicity expenditure on uniform basis, a list of items of expenditure that may be booked under publicity/advertisement forwarded to the banks is given in the Annexure.

c) List of items not coming under publicity/ advertisement

The following expenses may be excluded from the head of publicity expenditure:

- (i) Expenditure incurred by banks in connection with the publication of balance sheets in one newspaper as required under Section 31 of the Banking Regulation Act, as it is a statutory requirement. Expenditure incurred on publication of balance sheet, etc. as a measure of publicity may, however, be included in publicity expenditure.
- (ii) Expenses incurred in connection with “Tender Notices” and Advertisements for recruitment.
- (iii) Expenses incurred in connection with publication of house journals/ magazines, and
- (iv) Cost of forms, etc . which should rightly go under ‘printing and stationery’.

ANNEXURE

[Paragraph 22.5 (b)]

List of Items to be included under the head ‘Publicity/Advertisement Expenses by Public Sector Banks

- 1. Advertisements through the Press**
 - (i) In newspapers, periodicals, magazines, journals, house magazines, etc.
 - (ii) Branch opening/shifting announcements
 - (iii) General and Special campaigns
- 2. Radio**
- 3. Audiovisual (Television, film, cinema slides, etc)**
- 4. Hoardings**
- 5. Non-conventional publicity in rural areas. such as, exhibitions and trade fairs.**
- 6. Pamphlets and brochures**
- 7. Gift articles such as diaries, calendars, key chains, etc.**
- 8. Cost of construction/maintenance of fountains/traffic islands/umbrellas, etc. at public places .**
- 9. Souvenirs**
- 10. Expenses in connection with Press Conferences and tours of press correspondents.**
- 11. Contribution to Joint Publicity Committee for Public Sector Banks.**

22.6 Institutions eligible to participate in the Call/Notice Money Market and Bills Discounting Scheme

The Reserve Bank of India from time to time approves the institutions eligible to participate in Call/Notice Money Market and Bills Rediscounting scheme. Some of the institutions are permitted to participate only as lenders in the Call /Notice Money Market and Bills Rediscounting Scheme. A list of institutions so far permitted to participate both as lenders and borrowers and only as lenders is given in the Annexure I & II.

ANNEXURE - I

[Paragraph 22.6]

List of Institutions permitted to participate in the Call/Notice Money Market

(A) Permitted to participate in the call/notice money market both as lenders and borrowers

1. All Scheduled Commercial Banks
2. Co-operative Banks
3. Discount and Finance House of India Ltd.
4. Securities Trading Corporation of India Ltd.

(B) Permitted to participate in the call / notice money market only as lenders

1. Life Insurance Corporation of India
2. Unit Trust of India
3. General Insurance Corporation of India and its Subsidiaries
4. Industrial Development Bank of India
5. National Bank for Agriculture and Rural Development
6. Industrial Credit & Investment Corporation of India Ltd.
7. Industrial Investment Bank of India
8. Export Credit & Guarantee Corporation of India Ltd.
9. S B I Mutual Fund
10. Canbank Mutual Fund
11. Industrial Finance Corporation of India
12. National Housing Bank
13. Tourism Finance Corporation of India Ltd.
14. Export Import Bank of India
15. LIC Mutual Fund
16. Small Industries Development Bank of India
17. BOI Mutual Fund
18. Indian Bank Mutual Fund
19. PNB Mutual Fund
20. GIC Mutual Fund
21. BOB Mutual Fund
22. IDBI Mutual Fund
23. Birla Mutual Fund
24. Morgan Stanley Mutual Fund
25. Apple Mutual Fund
26. Shriram Mutual Fund
27. J M Mutual Fund
28. Kothari Pioneer Mutual Fund
29. Prudential ICICI Mutual Fund
30. Alliance Capital Mutual Fund
31. 20th Century Mutual Fund
32. Taurus Mutual Fund

33. Tata Mutual Fund
34. Reliance Capital Mutual Fund
35. Jardine Fleming Mutual Fund
36. PNB Gilts Ltd.
37. SBI Gilts Ltd.
38. Gilt Securities Trading Corporation Ltd.
39. ICICI Securities and Finance Company Ltd.
40. H B Mutual Fund
41. Templeton Mutual Fund
42. Sun F & C Mutual Fund
43. ITC Threadneedle Mutual Fund
44. Escorts Mutual Fund
45. Sundaram Mutual Fund
46. DSP Merrill Lynch Mutual Fund

ANNEXURE - II

[Paragraph 22.6]

List of Institutions permitted to participate in the Bills Rediscounting Scheme

1. All Scheduled Commercial Banks
2. Life Insurance Corporation of India
3. General Insurance Corporation of India and its Subsidiaries
4. Industrial Credit & Investment Corporation of India Ltd.
5. Unit Trust of India
6. Industrial Investment Bank of India
7. Export Credit & Guarantee Corporation of India Ltd.
8. Industrial Development Bank of India
9. S B I Mutual Fund
10. Can Bank Mutual Fund
11. Industrial Finance Corporation of India
12. National Bank for Agriculture and Rural Development
13. Discount and Finance House of India Ltd.
14. National Housing Bank
15. Tourism Finance Corporation of India Ltd
16. Export-Import Bank of India
17. LIC Mutual Fund
18. Madhya Pradesh Rajya Sahakari Bank Maryadit, Bhopal
19. Maharashtra State Co-operative Bank Ltd, Mumbai
20. Tamil Nadu State Apex Co-operative Bank Ltd, Chennai
21. Small Industries Development Bank of India
22. BOI Mutual Fund
23. Indian Bank Mutual Fund
24. PNB Mutual Fund
25. GIC Mutual Fund
26. Rajasthan State Co-operative Bank Ltd., Jaipur
27. Securities Trading Corporation of India Ltd.
28. BOB Mutual Fund
29. IDBI Mutual Fund
30. Birla Mutual Fund
31. Morgan Stanley Mutual Fund
32. Apple Mutual Fund
33. Shriram Mutual Fund
34. J. M. Mutual Fund
35. Kothari Pioneer Mutual Fund
36. Prudential ICICI Mutual Fund
37. Alliance Capital Mutual Fund
38. 20th Century Mutual Fund
39. Taurus Mutual Fund
40. Tata Mutual Fund
41. Reliance Capital Mutual Fund
42. Jardine Fleming Mutual Fund
43. PNB Gilts Ltd.

44. SBI Gilts Ltd.
45. Gilt Securities Trading Corporation Ltd.
46. ICICI Securities and Finance Company Ltd
47. H B Mutual Fund
48. Templeton Mutual Fund
49. Sun F & C Mutual Fund
50. ITC Threadneedle Mutual Fund
51. Escorts Mutual Fund
52. Sundaram Mutual Fund
53. DSP Merrill Lynch Mutual Fund
54. **Select Urban Co-operative Banks viz .,**
 - (I) Abhyudaya Co-operative Bank Ltd ., Mumbai
 - (ii) Bassein Catholic Co-operative Bank Ltd ., Vasai, (Dist Thane)
 - (iii) Bombay Mercantile Co-operative Bank Ltd ., Mumbai
 - (iv) Sangli Urban Co-operative Bank Ltd ., Sangli
 - (v) Shamrao Vithal Co-operative Bank Ltd., Mumbai
 - (vi) Saraswat Co-operative Bank Ltd., Mumbai
 - (vii) Janmata Sahakari Bank Ltd., Pune
 - (viii) Rupee Co-operative Bank Ltd ., Pune
 - (ix) New India Co-operative Bank Ltd., Mumbai
 - (x) Goa Urban Co-operative Bank Ltd., Panaji
 - (xi) Ahmedabad Mercantile Co-operative Bank Ltd., Ahmedabad
 - (xii) Co-operative Bank of Ahmedabad Ltd., Ahmedabad
 - (xii) Kalupur Commercial Co-operative Bank Ltd., Ahmedabad
 - (xiv) Madhavpura Mercantile Co-operative Bank Ltd., Ahmedabad
 - (xv) Rajkot Nagrik Sahakari Bank Ltd., Rajkot
 - (xvi) Surat Peoples' Co-operative Bank Ltd., Surat

22.7 Settlement of institutional transactions for depository

- (i) The Securities and Exchange Board of India (SEBI) has made compulsory for institutional investors/banks having a minimum portfolio of securities of Rs.10 crore to settle all transactions through the depository from 15th January 1998 so as to reduce the risk associated with paper based transactions. The banks should, therefore, settle transactions in the securities as notified by SEBI only through the depository.
- (ii) With a view to providing depository services to their customers which will help the investors as well as the banks, the banks particularly, those with large branch network should consider the question of registering themselves as depository participants.

22.8 Misuse of banking channels for violation of fiscal laws and evasion of taxes - Issue of payment of DDs, MTs, TTs and TCs for Rs.50,000 and above

In order to curb the misuse of banking channels for violation of fiscal laws and evasion of taxes, Demand Drafts (DDs), Mail Transfers (MTs), Telegraphic Transfers (TTs), Travellers Cheques (TCs) for Rs. 50,000/- and above should be issued by banks only by debit to the concerned customer's account or against cheques or other instruments tendered by the purchaser and not against cash payment. Similarly, such payments for Rs. 50,000 and above should be made through banking channels and not in cash.

22.9 Affixing of Permanent Income-tax number by applicants for DDs, MTs, TTs, TCs, etc.

The banks have to adhere to the following instructions:-

- (i) While entertaining applications from customers (whether constituents or not) for Demand Drafts, Mail Transfers, Telegraphic Transfers, Travellers Cheques, etc., if the amount involved exceeds Rs. 10,000/- (Rupees ten thousand only) the applicants should be advised to affix the permanent income tax account numbers on the relative application forms. The permanent income tax numbers to be quoted should be that of the remitter of funds and not that of the messenger/agent, who may be the applicant.
- (ii) Corporate bodies are exempted from requirement.
- (iii) No liability of quoting permanent account number need be cast on the beneficiary of a remittance.
- (iv) The scheme is limited for the time being only to the bank offices within the municipal limits of Greater Mumbai.

22.10 Demand for general information by Income Tax Officers in regard to Call Deposits and Fixed Deposits in banks under Section 133(6) of the Income-tax Act, 1961

The Income Tax Officer can call for information regarding call deposits and fixed deposits of Rs.50,000 and above after duly recording the reasons for making the requisition . The relevant order of the Government issued on 14th June 1977 is given in the Annexure

ANNEXURE
[Paragraph 22.10]

Government of India
Department of Revenue & Banking
(Banking Wing)
New Delhi

No.4 (2) 76/Accts.

Dated the 14th June 1977

To

All Public Sector Banks

**Subject :- Demand for General Information by I.T.Os in regard
to Call Deposits and Fixed Deposits in Banks-
Under Section 133(6) of Income Tax Act.**

Sir,

I am directed to state that the scope of the powers of the Income Tax Officer under Section 133(6) of the Income-tax Act was considered by the Central Board of Direct Taxes in consultation with the Ministry of Law and they were advised that the Income Tax Officer can call for information regarding call deposits and fixed deposits of Rs 50,000/- or above, after duly recording his reasons for making the requisition. All banks are advised to comply with such requisitions if and when received from the Income Tax Officers.

Yours faithfully,

N. Balasubramanian
Deputy Secretary to the Government of India

22.11 Inspection of banks books of accounts by Income Tax authorities in exercise of powers under Section 133A of the Income-tax Act, 1961

The Central Board of Direct Taxes has clarified that the Income Tax Officers cannot resort to a blanket inspection of the bank's books under Section 133A of the Income-tax Act. A copy of the order dated 5th December 1975 issued by Government of India in this connection is given in the Annexure.

ANNEXURE
[Paragraph 22.11]

Government of India
Ministry of Finance
Department of Banking
New Delhi 110001.

No. 8 (42) 73/Accts.

5th December 1975

To

The Chairmen & Managing Directors
of all Nationalised banks and Chairman,
State Bank of India

**Subject:- Blanket Inspection of Banks' Books by Income -tax authorities in the
purported exercise of powers under Section 133-A of the Income Tax -
Act, 1961.**

Sir,

1. Recently an instance was brought to the notice of this Department where some branches of a nationalised bank in a particular city were approached by the Income-tax Authorities for a general inspection of the bank's books purporting to exercise the powers conferred on them under Section 133A of the Income-tax Act, 1961.
2. A question had been raised by the concerned nationalised bank as to whether the provisions of Section 133-A of the Income-tax Act, 1961 in fact confer on the Income - tax Authorities such wide powers of inspection in respect of all the books of a bank, without reference to any particular assessee or intended assessee over whom the Income-tax Officer has jurisdiction, or any assessment proceedings. Since it was felt that exercise of powers under the aforesaid Section of the Income-tax Act 1961 on the part of the Income Tax Authorities may cause serious inconvenience to the working of the branch concerned the matter was examined in consultation with the Central Board of Direct Taxes.
3. The Central Board of Direct Taxes have now clarified that instructions were being issued to the concerned Commissioner of Income Tax to advise his officers not to resort to a blanket inspection of the bank's books under Section 133 A of the Income Tax Act and to exercise due care and circumspection while exercising powers under this Section .It has further been indicated that wherever a bank is of the view that a particular Income Tax Officer is, exceeding his jurisdiction, the matter may be brought to the notice of the concerned, Commissioner of Income-tax.

Yours faithfully

M. K. Venkatachalam
Joint Secretary to the Government of India

22.12 Co-ordination between banking system and Income Tax and other authorities in respect of opening of accounts /hiring of lockers

a) Opening of deposit accounts

In order that deposit accounts are not opened in fictitious names for routing through black money transactions, avoidance of tax liability, etc., the banks should obtain (i) proper introduction before opening an account irrespective of its nature namely savings, current, fixed, recurring etc. and (ii) the full and correct address of the account holder should be recorded in the ledger folio. The banks should send a letter by registered post to the introducer for confirming the introduction in all cases where the introducer is not in a position to come to the bank at the time of opening an account.

b) Safe Deposit Lockers

In order to facilitate the identification of locker keys by the Income Tax officials, the banks should emboss on all locker keys identification code which will indicate the bank and the branch which has rented the lockers. The banks should devise suitable codification for this purpose.

c) Co-ordination with officers of Central Board of Direct Taxes

The banks should extend necessary help and co-ordination to tax officials whenever required. They should view with serious concern cases where their staff connived/assisted in any manner with offences punishable under the Income tax Act. In such cases, in addition to the normal criminal action, the staff member concerned should also be proceeded against departmentally.

22.13 Payment of instruments marked 'Account payee'

There have been cases where the banks have credited cheques drawn in their favour by other banks marked 'Account Payee' to the accounts of constituents even when they are not named in the cheques as the beneficiaries. It is necessary to ensure that in the case of cheques not having been drawn in the names of constituents nor containing any direction to pay to the constituents the proceeds thereof or having any other independent direction to that effect, the amount cannot be credited to a constituent's account. If any bank credited the account of a constituent who is not the payee named in the cheque without proper mandate of the drawer, it would do so at its own risk and would be responsible for the unauthorised payment. The banks should also ensure that the legal requirements relating to the payment systems laid down in the various relevant laws are fully observed. In the case of 'Account payee' cheques wherein a bank is a payee, the payee bank should always ensure that there are

clear instructions for disposal of proceeds thereof from the drawer of the instrument. If there are no such instructions, the cheque should be returned to the sender. The crediting of proceeds of such cheques to parties otherwise than in pursuance of clearly delineated instructions of issuer of such cheques is unauthorised and should not be done under any circumstances. The banks cannot, and also should not invoke 'market practice' in justification of doing that which is not supported by law or recognised banking practice.

22.14 Utilisation of accounts maintained by banks with the Reserve Bank of India

The facility of maintaining accounts with the Reserve Bank of India has been granted mainly to enable banks to fulfil their statutory obligations, settlement of transactions with the Reserve Bank of India /Government and settlement of inter -bank transactions or adverse clearing balances. The accounts maintained with the Reserve Bank of India should be utilised only for these purposes and not for facilitating credit to accounts of third parties.

22.15 Court Cases-Filing of appeals/affidavits according to the courts

There have been delays in preferring appeals/filing affidavits by some of the banks, resulting in rejection of such applications. Such situations should be avoided as they result not only in avoidable financial losses to the banks, but also hamper public interest.

22.16 Engagement of whole time Law Officers for appearing before courts to reduce cost of litigation

The banks should try to utilise the services of their Law Officers for appearing on their behalf before the courts, as the Law Officers of the public sector banks are not subject to the restrictions as regards their appearance before courts on behalf of their employees because of their whole time employment in the bank . The provisions of Advocates Act, 1961, read with the Bar Council Rules framed in the different States, exempted Law Officers of the Central Government or the State Government or any Public Corporation or body constituted by Statute from the restriction as regards appearance before Courts applicable to an advocate designated as a 'Law Officer ' and who is in whole -time service or employment, (e.g., Rules framed under Section 28(2)(d), read with Section 24(1)(c) of the Bar Council of Maharashtra by its notification No. 5262 of 1973 dated 7 May 1973.) For the purpose of these rules, the expression 'Law Officer' means a person who is so designated by the terms of his appointment and who by the said terms is required to act and/or plead in Court on behalf of his employer.

22.17 Court cases-Attendance of banks' officials and advocates

All the banks should ensure attendance of their representatives in courts on the date of hearing of cases in which they are involved, as a civil judge had adversely commented upon the absence of a banks' official and the advocate on the date of hearing of a case in which the bank was party.

22.18 Empanelment of advocates

All public sector banks should follow a uniform procedure for empanelment of advocates. Guidelines to be followed for this purpose prepared in consultation with Government of India and forwarded to the banks in January 1991 are furnished in the Annexure. The banks should ensure that the reviews of panels of advocates contemplated under the guidelines are undertaken on an ongoing basis.

ANNEXURE

[Paragraph 22.18]

Empanelment of Advocates by Public Sector Banks- Guidelines

- 1.1** Each branch should have at least one advocate in the vicinity of the branch for entrusting legal work. The number of advocates can be increased depending upon the size of the branch and the quantum of legal work.
- 1.2** The Advocates for being included in the panel should have put in atleast 5 years of successful practice at the Bar on the civil side and they should be advocates of undoubted legal acumen and unblemished integrity.
- 1.3** Advocates should have experience in attending to commercial matters or bank's suits and be conversant with banking laws.
- 1.4** Advocates exclusively practising in criminal courts can be recommended for attending to criminal work. While well reputed advocates in the area may be included in the panel, it should be ensured that they will be able to devote sufficient time and personal attendance to the Bank's work and also that they do not represent claim and ideologies adverse to those of the bank.
- 1.5** Advocates should also be willing to abide by the Bank's terms and conditions as to fees, charges, submission of pleadings for approval etc. Successful advocates, though less eminent, may also be chosen provided they can be depended upon to bestow their personal attention and are otherwise suitable for handling the bank's cases.
- 2.1** Other things being equal, special endeavour should be made to encourage advocates belonging to the SC/ST/OBC by enrolling them in the panels and allocating work to them.
- 3.1** In the case of advocates already in the existing panel, a brief resume of the work already handled by them, with specific recommendations whether they should be continued in the panel or otherwise, may be prepared .
- 4.1** The Branch Manager should collect particulars (as in the proforma given in Appendix) of, say 2 to 5, local advocates practising on the civil side in the district or other centres where any civil court is functioning and submit them to their Controlling Authority. Before submitting the lists, the Branch Managers should try to obtain through discreet enquiries as many particulars and details as possible about these advocates including the general opinion that is prevalent at the local bar about their competence, integrity and respectability. Informal, confidential and oral enquiries about them may also be made if possible, with judicial officers like District Judge, Civil Judge, Munsiff, etc. of the area, public sector undertakings and general litigants. It may not be necessary for the Branch Managers to refer to the names of

judicial officers with whom enquiries were made while recommending their empanelment to the controlling authority.

- 4.2 Efficiency and integrity should be main criteria for appointment.
- 4.3 The Controlling Authorities should satisfy themselves of the recommendations made by the branch managers and whenever possible, by independent enquiries before submitting the same to Zonal/Regional/Head Office for its views and advice. The Controlling Authorities should finalise a panel of 2 to 5 advocates for each district centre and for other centres where courts are functioning. Considering the volume of litigation involved, the question of enlarging a particular panel will have to be decided.
- 4.4 The sanction for inclusion of an advocate in the approved panel will be accorded by the Zonal Manager (not below the rank of General manager in the case of State Bank of India). On such sanction for being included in the panel, the branch will advise the advocate concerned orally (**not in writing**) of their being likely to be engaged as advocate for the bank as also the likely terms and conditions. The advocate will be advised in writing when being actually engaged by the bank.
- 4.5 It should be made clear to these advocates that under no circumstances they should use any legend containing the bank's name or symbol in their letter heads, sign-boards, name-plates, etc. such as Legal Adviser to _____ Bank, advocate for _____ Bank, etc.
- 4.6 It should be clearly understood that the approval for engagement of an advocate as bank's advocate or inclusion of his name in the approved panel does not amount to an appointment or right for an appointment to be made by the bank and the bank is free to employ any advocate of its choice, and no right exists for an empanelled advocate to claim that he alone should be entrusted with the bank's work.
- 5.1 In particular cases, when the services of an advocate of proven ability in a specialised branch of law, or a lawyer working for a reputed firm of solicitors, is required and his name is not in the bank's panel, on the specific recommendation of the branch manager, he may be engaged on the approval (pre/post facto) of the Controlling Authority in consultation with Head office (Law Department) which will, inter alia, take into account the undoubted legal acumen and unblemished integrity of such a lawyer/advocate.
- 5.2 If any expert written opinion is required on any legal issue, the matter may be referred to Head Office (Law Department) who will take the responsibility of obtaining such opinion.
- 6.1 An up-to-date record of panels of approved advocates for the various centres should be maintained with the Controlling Authority.

- 6.2** The branches are free to choose any advocate from the panel depending upon the vicinity, capacity to have the legal work completed expeditiously, availability, etc. It should be the endeavour to distribute the bank's work among the advocates in the panel so as to enthuse a healthy competition in skills, proper and timely attention and avoidance of undue monopolistic concentration of bank's work.
- 7.1** The review of advocates panel should be done once in three or four years. The branches should undertake this exercise and advise the Controlling Authority of the need to make any addition, deletion, etc. depending on the growing needs of the branch, performance of the existing members in the panels and any other relevant criteria. The list or panel of approved advocates need not remain as a static list of a privileged few. It should be capable of revision depending upon the bank's needs and also building into it new skills and providing opportunities for deserving upcoming advocates.
- 8.1** In the case of sticky advances to SSI, small business, agriculture, personal segment, it is enough if notices of demands prior to the suit in case of advance up to Rs.25000 in each case are issued only by the branch, a model of such notice may be standardised in consultation with the Legal Department /local lawyer.
- 8.2** Wherever possible, the task of issuing legal notices may be undertaken by the bank's own legal officers as these standardised demand notices are routine in nature.
- 9.1** It should be ensured that as long as a particular advocate is in the bank's approved panel, he shall not appear/advise against any branch of the bank. If any such feature is observed or if it is found that the advocate represents interests which are adverse to the principles of the Bank's advances or its proceedings for recovery or he is guilty of professional misconduct, steps should be taken to remove him from the panel and consequential follow up action taken to protect the bank's interest.
- 10.1** In filing suits for advances made on group guarantee basis, wherever members of a group are jointly and severally liable for the outstandings due from each member of the group, one suit including all such claims should be filed instead of separate suits for the outstandings due on each of such members' accounts. Thereby the cost of litigation in the courts of vakalat, plaint copies, process fees, decree copies and advocate's fees, can be reduced to the minimum possible and there will also be effective follow up of all such claims.
- 11.1** In cases of appeals, writ proceedings in the Supreme Court, and High Courts, Law Department of the Head/Central Office should invariably be consulted in the matter of engagement of advocates.

- 12.1** In some cases, it is observed that advocates who act expeditiously in the matter of filing suits do not show any interest in execution proceedings. Such advocates need not be retained in the panel unless there are other compelling circumstances to do so.
- 12.2** A system of proper checks and controls should be evolved at the level of the Controlling Authority to keep a watch over the legal expenses incurred by the bank so that they are kept at the minimum.
- 13.1** The Controlling Authority should frame a schedule of fees modelled on the basis of the Legal Practitioners/ Advocates Fees Rules, civil rules of practice, framed by the High Court of the state of its area of operation or similar or such other rules.
- 13.2** The schedule of legal fees, charges, rates, etc. should be framed in consultation with Head office (Law Department) and should be circulated to all branches. The same should be framed keeping in view the necessity to limit the legal charges to the barest minimum possible. In Mumbai, Calcutta, Chennai and Delhi and other metropolitan centres, the solicitor firms charge fees on the quantum minutes/hours basis.
- 13.3** The controlling Authority/Branch Manager has to obtain from the advocates, bills showing therein the break-up towards the actual stamp duty, process fees, typing charges, clerkage etc. and full professional fees of 25% to 50% of the same shall be paid at the time of filing the suit and the balance when the suit is finally disposed. The branches may ensure that the fees as paid according to the Legal Practitioners Fees Rules are duly certified and included in the costs mentioned in the decree.
- 13.4** If for some reason fees higher than those allowed under the Rules are to be paid, or if a senior counsel is to be engaged, the concerned official shall obtain permission of their respective senior official setting out the reasons for such payment.
- 14.1** The fees for scrutiny of title deeds should not be linked to the loan amount which as far as possible should not be disclosed to the advocates. The fees for scrutiny of title deeds will again depend upon the number of documents involved .the time that would ordinarily be spent on their scrutiny, intricate questions of law and fact, that may be involved in a particular reference, etc.
- 15.1** To avoid unnecessary payment of travel and hotel charges to advocates, where suits are to be filed in other centres, empanelled advocates at those centres alone should be engaged for filing such suits. A suitable schedule of discretionary powers to various officials for sanctioning advocate fees in respect of (i) suits and other civil proceedings and (ii) criminal proceedings /personnel matters may be circulated by the banks to the controlling authorities.

16.1

These broad guidelines are not by any means exhaustive and are capable of improvisation in the light of the experience of the banks in dealing with advocates. These could also be revised by RBI on the basis of suggestions and feedback that may be received in due course. Any instructions or guidelines already extant and not inconsistent with anything contained hereto shall be deemed to be part of the guidelines herein.

Appendix

Bio-data of willing advocates

1. Name of advocate
2. Age as on date of recommendation
3. Educational qualifications including distinctions in academic career
4. In which office trained as an apprentice/junior
5. Period of practices
6. List of institutions, companies, corporations, business houses engaging them on retainer basis or otherwise
7. Whether assessed to Income-tax
8. Whether willing to undertake Bank's legal work on bank's terms
9. Whether belongs to SC/ST/OBC
10. Any other relevant information
11. If already in the panel, brief resume of work handled and if found to be satisfactory, specific recommendation whether should be continued in the panel or not.

22.19 Settlement of disputes between public sector banks

In terms of Government of India's letter No.6/11/BO.II/83 dated 8th August 1984 disputes between public sector banks involving an amount not more than Rs 50,000 in each case should be settled through the good offices of the Reserve Bank of India. The Reserve Bank has been empowered by the Government to appoint one of its senior officers, preferably from its Legal Department as Arbitrator in cases which could not be settled. It is not necessary to have to execute a formal agreement between the two disputing banks for the arbitration proceedings. Further, the banks should co-ordinate the matter in such a way that the arbitration proceedings are completed at the earliest.

22.20 Settlement procedure in respect of Payment of fraudulent instruments

- (i) When a dispute arises between two banks on account of payment of fraudulent cheques /drafts, the practice has been for referring the matter to arbitration. In order that police complaints are also lodged in such cases, the bank which first comes to know of the fraud should file a police complaint immediately. In case the police investigation reveals no fraud or the case is closed by the police on certain grounds such as non-availability of evidence etc., the matter should be referred for arbitration to the Reserve Bank of India. The amount of limit pertaining to arbitration would be Rs 50,000, as hitherto.
- (ii) Once a prima facie forgery has been established, payment should be made to the affected account holder promptly against indemnity by the bank which maintains the account. It is desirable that such cases are settled as early as possible but positively within a period of four months from the date of complaint lodged with the bank by the account holder. The Savings bank account holder shall be compensated by way of interest at the prevailing Savings bank rate for the period involved.
- (iii) The banks should examine the powers delegated to the officials concerned at the branch/controlling office level with a view to expeditiously reimburse the amounts of cheques/drafts and interest to the customers.

22.21 Chit fund/Kuri business

The commercial banks should not undertake chit fund and kuri business.

22.22 Scheme of Amalgamation under Section 45 of the Banking Regulation Act, 1949- Proposals for compromise/write-off of debts /assets

Under the scheme of amalgamation under Section 45 of the Banking Regulation Act, the transferee bank takes over certain advances/other assets which are classified as 'Advances considered not readily realisable and/or doubtful of recovery' on collection basis. It is provided in the scheme of amalgamation that the transferee bank shall not, except with the prior approval of the Reserve Bank of India, enter into a compromise or arrangement with any debtor or write -off in such debt/asset if amount of debt or asset exceeds Rs.50,000. The bank should ensure that the compromise proposals are carefully considered taking into account the value of the securities held, net-worth of the borrowers and guarantors, if any, their repaying capacity, etc. so that maximum amount is recovered and the recourse to write -off is resorted to only in unavoidable cases and for the minimum amount .The assets taken over on collection basis should be dealt with by a transferee bank in the same manner as if these were advances/assets of the bank itself.

22.23 Banks dealings with undesirable activities of financial companies

- (i) The banks should not associate themselves in any manner with the undesirable activities of the financial companies. They should not directly or indirectly be a party in mobilising deposits from the public for the financial companies. The modus operandi adopted by certain financial companies are given below :-
 - (a) The financial company obtains a certificate from the bank to the effect that the company is depositing its money with the bank in the current account and a substantial portion thereof is placed in a fixed deposit account.
 - (b) The wordings given in the certificate by the bank give an impression that the bank has given guarantee to the certificate holders.
 - (c) The companies using the names of their bankers in their pay slips give an impression that the deposits are being collected by the banks.
 - (d) The companies resorting to large withdrawals by bearer cheques and the bank branches not satisfying themselves about the bonafides of such withdrawals and not noting even the names and addresses of the persons concerned.

- (e) The bank extending free remittance facilities to the companies for transfer of funds and without ensuring the bonafides of the transactions.
- (ii) The banks should not associate themselves with practices of the aforesaid nature as such acts give credibility to the operations of financial companies and an impression is created in the public minds that their deposits are safe with the banks.

22.24 Powers of Attorney guaranteed by banks in favour of officers holding specified posts

- (i) In terms of paragraph 139B(iv)(d) of the Public Debt Office Manual (third edition), the Public Debt Offices of the Reserve Bank are required to ensure among other things that the Powers of Attorney prescribed by holders of government securities are properly executed in all respects and the powers vested under the document are unconditional. The phraseology used in a few cases which cannot be considered as unconditional are given below:
 - (a) “Mr. X be and he is hereby nominated, constituted and appointed as manager of the Company in India South of latitude 20° in the place of Mr. Z”.
 - (b) “To manage the branch of the Bank in Chennai, India, and do all things necessary or expedient to be done for properly and efficiently conducting the business of the Bank at the said branch:”.
 - (c) “By this power of attorney the ----- Bank hereby appoints Mr. Y so long as he holds the post of Manager or Assistant Manager or Sub-Manager Or Accountant or Supervisor in the service of the bank, etc”.
 - (d) “The attorneys will exercise their powers subject to the general supervision and control of the Whole Time Director and the Chairman of the Bank”.
 - (e) “To buy and sell Government Securities but not to buy, sell or otherwise alienate or dispose of the same without sanction of the Directors.”
 - (f) “to invest -----in Government of India Securities, such investments however, not to exceed Rs.25 lakhs at a time and not exceeding Rs.1 crore in total”.

22.25 Prohibition on collection of donations by bank employees for trusts and other organisations

The Supreme Court had observed in its judgement of 16th April 1985 in Writ Petition No. 9933 of 1982, S. A. Kini and another Vs Union of India and others, that no employee of a nationalised bank or any other public sector corporation should engage himself in collecting donations for any trust or other organisation from persons with whom he comes into contact in the course of his employment. The banks should take steps to prohibit any such activities by incorporating a clause in the service regulations, where no such prohibition already existed, or otherwise, providing that no employee shall, except with the previous sanction of the competent authority ask for or accept contribution to or otherwise associate himself with the raising of any funds or other collections in cash or in kind in pursuance of any objective whatsoever. The banks should take deterrent penal action against employee violating these instructions .

22.26 Sale of lottery tickets by banks

The banks should not associate themselves, either directly or indirectly, with lottery schemes of organisations of any descriptions. Sale of lottery tickets on bank counters could be open to abuse and avoidable complaints from members of the public. A lottery would fall within the expression “Prize Chit” under the Price Chits and Money Circulation Scheme (Banning) Act, 1978, which imposed a total ban on the promotion and conduct of prize chit schemes except by the charitable and educational institutions notified in this behalf by the State Government, in consultation with Reserve Bank of India.

22.27 Arrangement for despatch of valuables by banks

An extract of the note detailing the procedure followed by the Reserve Bank of India for transport of silver/gold sent to the banks in September 1986 is given in the annexure. The banks could introduce a similar procedure in regard to movement of gold, silver and other valuable articles by them. Further, the movement of precious metals and jewellery of the value of Rs. 50,000/- and above should take place only using escorts’ protection from bank’s own guards or police guards. Small value movements may be made through the insured post services of the Post Office, within their value limits. These instructions are in addition to those issued by the Reserve Bank regarding the movement of currency and coins to be followed by the banks.

ANNEXURE

[Paragraph 22.27]

Procedure and arrangements for transport of coins/silver/gold-Reserve Bank of India and Extra - Treasury transfers.

The general rules for movement of coins/silver /gold are contained in Rules 683-731 of the Central Government Compilation of Treasury Rules. The Railway Coaching Tariff also prescribes certain instructions to be followed while sending remittance of these species of treasure . In order to maintain secrecy in regard to movement of treasure, only the persons and authorities directly concerned are advised of such movement. In this category, are the following office or agency receiving the transport contractor making necessary mazdoor/transport arrangements, Railway authorities (including Station Masters at intermediate stations involving transshipment). All of them are advised of the movement programme by confidential letter. The procedure followed is indicated in the following paragraphs:

I. Despatch of coins:

Individual consignments of coins weighing upto 20 and 15 quintals on broad guage and meter-narrow guage respectively (securely packed in boxes) are sent at Railway Risk by paying percentage charge on value (c.f. Rules 1206, 1213 and 1303 of I.R.C.A. Coaching Tariff No. 23, Part I, Vol. I). In other cases the treasure boxes are sent with representatives of remitting office (viz., potdar) and police escort of adequate strength provided by local police department. The coins are ordinarily sent in specially designed tamper-proof remittance boxes (viz., patent boxes). Occasionally wooden boxes locally prepared are also used.

(a) Remittances sent at Railway Risk :

The officials responsible for despatching the remittances have the boxes affixed with labels indicating date, number of the box, the denomination of coins to be packed therein and the name and address of the consignee. Thereafter the correct number of bags is put into the boxes and the boxes are securely screwed and sealed/nailed with lead seals. The boxes are then additionally strapped with steel strappings and sealed with signode seals. The Police Department provides adequate escort under an Escort Officer for taking the boxes to Railway Station . The remittance boxes so packed and sealed are weighed one by one in the presence of the officials despatching the remittance and the Escort Officer, the weight of each box is recorded against its individual entry in the invoice . After all the boxes have been weighed, the invoice is signed by the officials despatching the remittance and the Escort Officer. The Escort Officer then assumes charge of the remittance, whereafter the boxes are removed to Railway Station in the bullion van or police van or transport provided by the approved

contractor. A representative of the office is deputed to the Railway Station for booking the remittance. He obtains the Railway Receipt and brings it to office. A copy of invoice together with the Railway Receipt is forwarded to the consignee by post for taking delivery of the remittance on its arrival.

Normally guards of Railway Protection Force (RPF) and/or special guards of Railway accompany these consignments, over the Railways. Neither the Police Escort party nor RBI staff accompany these remittances.

(b) Remittance sent under Owner's Risk:

In case of remittances sent at Bank's risk (i.e., not at Railway Risk), the procedure for packing/invoicing etc., is the same as detailed above for remittances under Railway Risk. But remittances sent at Bank's risk are accompanied by the potdar (in whose presence the remittance was packed) and the Police Escort party under the Escort Officer (under whose supervision the remittance was weighed) upto the destination. Small remittances of this type are sent in a passenger compartment in which the potdar and police guards also travel. Sometimes the remittance may be carried in the brake-van also. Larger remittances invariably are sent in separate wagons attached to passenger trains. The wagons meant for the purpose are placed by the Railways at a siding earlier in the day of despatch of remittance. Before loading the accompanying potdar will examine the wagon and satisfy himself that it is secure. Before starting the loading he will get the "off" side door locked. He will personally supervise the loading of the boxes and after the loading is completed he will lock the door of the wagon on the "on" side. If the door can be secured by double lock, one key will be retained by him and the other by Escort Officer. If there is only one key it shall be held by the potdar. The potdar and the police escort are required under the standing instructions in the Issue Department Manual/Police Manual not to leave the platform or station premises under any circumstances even if it may entail overnight stay and they shall keep a close watch over the treasure boxes or wagon until departure of train. The potdar and the police escort will travel in the same compartment which is generally provided adjacent to the wagon. When the treasure is carried in the compartment itself the potdar and the police escort will travel in the same compartment, during halts enroute they shall also not leave the compartment. When the remittance is carried in brake-van, the potdar and the Escort Officer will alight at intermediate stations and if the brake-van is operated at any station, they shall keep watch to make sure that the treasure boxes are not unloaded. During the whole course of journey, the potdar is responsible for the contents of the boxes. In the event of any damage occurring to a box in transit, he will take over the coins that may fall out and verify the contents of the box and repack, if necessary. If any transshipment of

treasure boxes is involved enroute it shall be done under the supervision of the potdar and the police escort party.

The police department may also make arrangements for relieving the guards by another force at convenient points, giving to each party a stage of about twelve hours.

The potdar carries the Railway Receipt with him and hands it over at the receiving office for taking delivery. The boxes are weighed at the destination and the weights are agreed with those as stated on the invoice. The responsibilities are as under:-

- (i) The potdar deputed to accompany the remittance is responsible for the number of bags in each box. He is relieved by the receiving office after opening the boxes and agreeing the number of bags (mint-sealed bags).
- (ii) The Escort Officer's responsibilities for the remittance ceases only when he is relieved by the office receiving the remittance after weighment of the boxes and satisfaction about their external condition.

II Despatch of Gold in connection with Repayment of National Defence Gold Bonds 1980.

Despatch from Mumbai Office of RBI to its other offices:

A certain number of pieces of gold bars/discs of particular weight are placed in bags and these bags are packed in special remittance boxes, each box containing approximately 25 Kgs. of gold, in the presence of an officer deputed to accompany the remittance. The boxes are sealed with usual lead seals and secured with steel strappings. Where the boxes are sent by rail, the procedure explained under I(b) above is followed. Gold is generally not transported under Railway Risk. If gold has to be moved by air, the remittance boxes are carried to airport in the bullion van or covered police van and from airport to destination centres by chartered IAF planes with adequate police escort provided by local police authorities. In addition, a police escort in mobile wireless van also accompanies the remittance to airport. Loading/unloading operations into/from the aircraft is done on the tarmac itself with the police guards keeping watch over the entire operations.

Another officer or one senior workman staff is also deputed to accompany the remittance

22.28 Clearing House - Maintenance of Minimum balance

The member banks have to maintain certain Minimum Balance with the bank managing the Clearing House in terms of Rule 10(e) of the 'Uniform Regulations and Rules for Bankers' Clearing Houses' (URRNBCH). Subject to the provision, banks should keep adequate balances with the banks managing the Clearing Houses or should have overdraft arrangements with them or with some other bank/s at the centre, to meet their adverse clearing position promptly. The bank managing the Clearing House should not be forced to grant unauthorised overdraft to banks which fail to meet the adverse clearing position. Further, the member banks which fail to maintain the minimum balance as required in terms of Rule 10(e) *ibid* or do not have sufficient funds in their accounts to meet their adverse clearing position, will render themselves liable to pay penal interest in terms of Rule 10(g) *ibid*. In addition, they will also render themselves liable to have their membership terminated in terms of the same Regulation. Again, in terms of Rule 11 *ibid*, the defaulting banks will be called upon to return immediately cheques/other instruments drawn upon itself and its sub-members, to the member banks presenting them and the clearing settlement will be effected as if the said cheques/instruments did not participate in the clearing. Even in exigencies requiring accommodation, they should ensure that TT discounting/overdraft facilities are availed of by them on prior arrangement basis and they should not take these facilities for granted for raising funds.

22.29 Sale of Imported goods under Actual Users' Licence and pledged with banks

The banks should follow the procedure laid down by Government of India for the sale of imported goods under Actual Users' License. The instructions in this regard contained in paragraph 5.36 of the 'Hand Book of Import-Export Procedures-Vol. I(1997-2002)' are given in the Annexure.

ANNEXURE

[Paragraph 22.29]

Paragraph 5.36

- (1) Goods which are importable without restriction can be transferred by sale or otherwise by the importer freely. Transfer of imported goods, which are subject to Actual User condition under the Policy and have become surplus to the needs of the Actual User, shall be made only with the prior permission of the licensing authority concerned. The following information along with supporting documents shall be furnished with the request for grant of permission for transfer to the licensing authority concerned.
 - (i) Reasons for transfer of imported material,
 - (ii) Name, address, Importer Exporter Code No. and industrial licence/registration, if any, of the transferee,
 - (iii) Description, quantity and value of goods imported and those sought to be transferred:
 - (iv) Copies of import licence and bills of entry relating to the imports made,
 - (v) Terms and conditions of the transfer as agreed upon between buyer and the seller.
- (2) Prior permission of the licensing authority shall not, however, be necessary for transfer or disposal of goods which were imported with Actual User condition provided such goods are freely importable without Actual User condition on the date of transfer.

22.30 Buying or Selling of judicial or non-judicial stamp papers by banks on commercial basis

In terms of the Notification No. F.4(6)-BC/68 dated 25th March 1968 of Government of India, Ministry of Finance, Department of Economic Affairs, New Delhi, the provisions of Section 8 of the Banking Regulation Act do not apply to any banking company, in so far as the said provisions prohibit banking companies from engaging themselves in buying or selling, as agents of any State Government, of judicial and non-judicial stamp papers, on commission basis.

22.31 Collection of pension bills through banks

In terms of Order No. F. 10 (150-B/68) dated 16th December 1968 (copy given in the Annexure), the Government of India, Ministry of Finance, Department of Economic Affairs, New Delhi, a pensioner resident in India could authorise another person in India; including a bank, to claim and draw the pension admissible to him by giving a legally valid power of attorney in favour of the latter. The Government Treasuries and Sub-treasuries have standing instructions from Government of India, Ministry of Finance to accept bills relating to pension claims, if presented through banks, a few days in advance before the close of the month in which the claims relate so as to enable the pensioners to get payment soon after the month is over.

ANNEXURE
[Paragraph No. 22.31]

No. F.10(150-B/68)
Government of India
Ministry of Finance
(Department of Economic Affairs)

New Delhi, the 16th December, 1968.

OFFICE MEMORANDUM

Subject :- Drawal of pension by a pensioner resident in India through an agent having a legally valid power of attorney - Consideration of-

1. The undersigned is directed to state that a question has been raised whether a pensioner resident in India can draw his pension in India by giving a legally valid power of attorney in favour of another person in India. It has been held in consultation with the Comptroller and Auditor General of India that a pensioner resident in India can authorise another person in India to claim and draw the pension admissible to him by giving a legally valid power of attorney in favour of the latter.
2. In so far as the procedure for the drawal and payment of a pension is concerned a pensioner desiring to receive his pension through another person to whom he has given a valid power of attorney should endorse a copy of the deed conferring the power of attorney to his disbursing officer and the audit officer. The person holding the power of attorney will then prepare and present the bills, making a claim on behalf of the pensioner and receive the payment on his (the person holding the power of attorney) giving the quitance. If the person holding the power of attorney is an agent (including a bank) who has also executed a bond to refund overpayments, he can draw the pension for a period of not more than a year after the date of the life certificate furnished by him in respect of the pensioner in accordance with the provisions of Rule 347 of the Central Treasury Rules. If, however, the person holding the power of attorney is not an agent (including a bank) who has executed a bond to refund overpayments, he will either receive the payment in person from the disbursing officer after giving his quitance, or if he desires to draw the pension through an agent or representative nominated by him, he may receive payment through him but in either cases of receiving payment in person or through an agent or representative he will append to the bills for pension for each month a life certificates in respect of the pensioner duly signed by any of the authorities stated in Rule 343 ibid and also furnish certificates signed by the pensioner required under the provisions of Rule 354 (i) ibid.

It is also brought to notice that under the provisions of Rule 354(2) *ibid*, when a pensioner draws his pension through an agent who is authorised to do so by conferring on him a power of attorney, and who has executed a bond of indemnity under Rule 247 *ibid* (e.g. a scheduled bank), the certificate regarding re-employment and acceptance of commercial employment, modified suitably can be signed by the agent and the pensioner himself should furnish once a year, a certificate concerning the period for which the pension has been drawn on the basis of the agent's certificate.

3. The pension disbursing officer will maintain a register of power of attorney in the form prescribed in the Government Securities Manual and all cases in which the power of attorney has been granted will be recorded therein.
4. Ministry of Home Affairs, etc. are requested to bring these instructions to the notice of all concerned, particularly of those Government servants who are likely to retire shortly.

Lakshmi Narain

Under Secretary to the Government of India

22.32 Correspondent arrangements abroad

While it may be necessary to have correspondent relationship with banks in foreign countries where Indian banks are not established, it should be possible for Indian banks to route and increasingly larger share of foreign exchange transactions, particularly opening of letters of credit, through the branches of Indian banks, wherever they are established.

22.33 Facility for free transfer of funds to Regional Rural Banks

Regional Rural Banks (RRBs) have been mostly sponsored by public sector banks. They are mainly operating from rural areas with a view to developing the rural economy by providing various banking services. Hence public sector banks should extend facilities for remittance of funds between the Head Offices of the RRBs and their different branches free of cost irrespective of the fact whether the RRBs are sponsored by them or not. The remittances may be allowed in multiples of Rs. 5,000/- subject to a minimum of Rs.5,000/- at a time.

22.34 Grant of presents /awards to employees /directors

The bank should avoid grant of Silver Jubilee or other 'milestone' awards to their staff by way of cash payments. They could, however, distribute inexpensive mementos to their staff to commemorate such occasions. While Reserve Bank's prior approval is not necessary in granting awards or other 'milestone' presents and ex-gratia payment to staff members, the proposals for such awards /payment to staff should invariably be approved by the Board of Directors of the bank. The bank should also ensure that sufficient provisions/reserves have been made to meet the requirement of the Banking Regulation Act, 1949 and other relevant statutes as well as RBI instructions issued from time to time besides taking into consideration its overall profitability and responsibility to shareholders.

Where distribution of mementos or 'milestone' awards to the directors is involved, prior approval from the Reserve Bank of India should be sought in terms of Section 35B(1) (a) of the Banking Regulation Act, 1949.

22.35 Financial assistance to industries producing/consuming Ozone Depleting Substances (ODS)

- (i) Government of India has advised that as per the Montreal Protocol, to which India is a party, Ozone Depleting Substances (ODS) are required to be phased out as per schedule prescribed therein. The list of chemicals given in Annexures A and B to the Montreal Protocol is given in the Annexure. The Protocol has identified the main ODS and set time limits on phasing out their production/consumption in future leading to a complete phase out eventually. Projects for phasing out

ODS in India are eligible for grants from the Multilateral Fund. The sectors covered in the phase out programme are given below:

Sector	Type of Substance
1 Foam products	Chlorofluorocarbon -11 (CFC-11)
2 Refrigerators and air Conditioners	CFC-12
3 Aerosol products	Mixtures of CFC-11 and CFC- 12
4 Solvents in cleaning applications	CFC-113 Carbon tetrachloride, Methyl Chloroform
5 Fire extinguishers	Haloans –1211,1301,2402

- (ii) Keeping in view the above obligations, the banks should not extend finance for setting up of new units consuming/ producing above ODS.
- (iii) The Industrial Development Bank of India has advised the banks (vide Circular No FI/12/96-97 dated February 16,1996) that no financial assistance should be extended to small/medium scale units engaged in the manufacture of the aerosol units using CFC and that no refinance would be extended to any project assisted in this sector.

Annexure A

[Paragraph 22.35 (i)]

Controlled Substances

Group	Substance	Ozone Depleting Potential*/
Group 1		
CFC1 ₃	(CFC-11)	1.0
CF ₂ Cl ₂	(CFC-12)	1.0
C ₂ F ₃ Cl ₃	(CFC-113)	0.8
C ₂ F ₄ Cl ₂	(CFC-114)	1.0
Cl	(CFC-115)	0.6
Group II		
CF ₂ BrCl	(halon-1211)	3.0
CF ₃ ,Br	(halon-1301)	10.0
C ₂ F ₄ Br ₂	(halon-2402)	6.0

*/ These ozone depleting potentials are estimates based on existing knowledge and will be reviewed and revised periodically.

Annexure B

[Paragraph 22.35(i)]

Controlled substances

Group	Substance	Ozone Depleting Potential
Group I		
CF ₃ Cl	(CFC-13)	1.0
C ₂ FCl ₃	(CFC-111)	1.0
C ₃ F ₂ Cl ₄	(CFC-112)	1.0
C ₃ FCl ₇	(CFC-211)	1.0
C ₃ F ₂ Cl ₆	(CFC-212)	1.0
C ₃ F ₃ Cl ₃	(CFC-213)	1.0
C ₃ F ₄ Cl ₄	(CFC-214)	1.0
C ₃ F ₅ Cl ₃	(CFC-215)	1.0
C ₃ F ₆ Cl ₂	(CFC-216)	1.0
C ₃ F ₇ Cl	(CFC-217)	1.0
Group II		
CCl ₄	carbon tetrachloride	1.1
Group III		
C ₂ H ₃ Cl ₃ *	1,1,1-trichloroethane (methyl chloroform)	0.1

* This formula does not refer to 1,1,2-trichloroethane

22.36 Custody of securities of NBFCs with designated banks towards maintenance of liquid assets - Non-Banking Financial Companies (Reserve Bank) Directions, 1977

- (i) Non -Banking Financial Companies are required to maintain liquid assets in unencumbered Government securities /guaranteed bonds. In relation to the deposit liabilities in terms of Section 45IB of the RBI Act,1934, the Government securities/guaranteed bonds held by them under Section 45IB of the RBI Act should be kept in the custody of a branch of a scheduled commercial bank to be designated for the purpose by the company concerned at the place where the registered office of the company is situated . The securities so held with the designated branch can be withdrawn by the NBFCs only for repayment to depositors in an emergent situation or on account of reduction in the deposit liabilities as certified by the company's statutory auditors. These securities may however, be substituted by NBFCs concerned by lodgement of unencumbered approved securities of matching market value. The banks may extend the service of safe custody of the securities to NBFCs on request being made in that behalf and permit withdrawal of the securities in accordance with the directions of the Reserve Bank of India. The existing as well as revised percentage of liquid assets to be maintained by NBFCs and the effective dates prescribed for the purpose are given in the Annexure I. An extract of Section 45IB of the Reserve Bank of India Act is given in the Annexure II . A copy of the Notification DFC(COC) NO.111/ED/(SG)/97 dated June18,1997 is given in the Annexure III.
- (ii) The Government securities/ guarantee bonds required to be held by NBFCs under Section 45IB of the RBI Act in the custody of designated branch of a scheduled commercial bank should be valued at a price not exceeding the current market price of such securities. If, however, market quotations for such securities are not available (i.e. securities are not quoted) the securities should be valued at their carrying cost.

Annexure - I

[Paragraph 22.36(i)]

Statement giving details of the existing as well as revised percentage of liquid assets to be maintained by the Non-Banking Financial Companies and the effective dates prescribed for the purpose

Category of Financial Companies	Quantum of liquid assets		Date of effect	Reference date of deposit liabilities
	Existing ratio not less than (%)	Enhanced ratio not less than (%)		
(1)	(2)	(3)	(4)	(5)
a) Equipment Leasing & Hire Purchase Companies	10	12.5 15.0	1.1.98 1.4.98	(30.9.97) (31.12.97)
b) Loan/Investment companies				
i) Registered with RBI in terms of circular DFC.COC.NO. 828-174/ 92-93 dated 12.4.1993	10	12.5 15.0	1.1.98 1.4.98	(30.9.97) (31.12.97)
ii) Other Loan/ Investment Companies	5	7.5 10.0	1.1.98 1.4.98	(30.9.97) (31.12.97)
c) Residuary Non - Banking Companies	10	No Change		

Annexure - II

[paragraph 22.36 (i)]

45.IB (1) Every non-banking financial company shall invest and continue to invest in India in unencumbered approved securities, valued at a price not exceeding the current market price of such securities, an amount which, at the close of business on any day, shall not be less than five percent, or such higher percentage not exceeding twenty-five per cent, as the Bank may from time to time and by notification in official Gazette specify, of the deposits outstanding at the close of business on the last working day of the second preceding quarter :

Provided that the Bank may specify different percentages of investment in respect of different classes of non-banking financial companies.

- (2) For the purpose of ensuring compliance with the provisions of this section, the Bank may require every non-banking financial company to furnish a return to it in such form, in such manner and for such period as may be specified by the Bank.
- (3) If the amount invested by a non-banking financial company at the close of business on any day falls below the rate specified under sub-section (1), such company shall be liable to pay to the Bank, in respect of such short fall a penal interest at a rate of three percent per annum above the bank rate on such amount by which the amount actually invested falls short of the specified percentage, and where the shortfall continues in the subsequent quarters, the rate of penal interest shall be five percent per annum above the bank rate on such shortfall for each subsequent quarter.
- (4)
 - (a) The penal interest payable under sub-section (3) shall be payable within a period of fourteen days from the date on which a notice issued by the Bank demanding payment of the same is served on the non-banking financial company and, in the event of a failure of the non-banking financial company to pay the same within such period, penalty may be levied by a direction of the principal civil court having jurisdiction in the area where an office of the defaulting non-banking financial company is situated and such direction shall be made only upon an application made in this behalf to the court by the Bank; and
 - (b) When the court makes a direction under clause (a), it shall issue a certificate specifying the sum payable by the non-banking financial company and every such certificate shall be enforceable in the same manner as if it were a decree made by the court in a suit.
- (5) Notwithstanding anything contained in the section, if the Bank is satisfied that the defaulting non-banking financial company had sufficient cause for its failure to comply with provisions of sub-section (1), it may not demand the payment of the penal interest.

Explanation - For the purpose of this section -

- (i) “approved securities” means securities of any State Government or of the Central Government and such bonds, both the principal whereof and the interest whereon shall have been fully and unconditionally guaranteed by any such Government:
- (ii) “unencumbered approved securities” includes the approved securities lodged by the non-banking financial company with another institution for an advance or any other arrangement to the extent to which such securities have not been drawn against or availed of or encumbered in any manner :
- (iii) “quarter” means the period of three months ending on the last day of March, June, September or December.

Annexure - III

[Paragraph 22-36 (i)]

RESERVE BANK OF INDIA
DEPARTMENT OF FINANCIAL COMPANIES
CENTRAL OFFICE
15, NETAJI SUBHAS ROAD
P. B. NO. 571
CALCUTTA

Notification DFC(COC) No. 111/ED (SG)/97 dated June 18.1997

The Reserve Bank of India, in the public interest and being satisfied that for the purpose of enabling the Bank to regulate the credit system to the advantage of the country and for the purpose of ensuring the effective compliance of maintenance of percentage of assets by Non-Banking Financial Companies, considers it necessary to amend the Non-banking Financial Companies (Reserve Bank) Directions, 1977, and in exercise of the powers conferred by section 45J, 45K and 45L read with section 45IB of the Reserve Bank of India Act, 1934 (2 of 1934) and all the powers enabling it in this behalf, hereby directs that the said Directions contained in Notification No.DNBC.38/DG (H)-77 dated 20th June 1977, be amended as follows, namely,-

After paragraph 12 the following new paragraph shall be inserted, namely,-

“12A on and from October 1,1997,

- (1) every Non-banking Financial Company shall entrust to one of the scheduled commercial banks designated by it on that behalf, in the place where the registered office of the Non-Banking Financial Company is situated, the unencumbered approved securities required to be maintained by it in pursuance to section 45IB of the Reserve Bank of India Act, 1934 (2 of 1934);
- (2) the securities mentioned in sub-paragraph (1) above shall continue to be entrusted to such designated bank for the benefit of the depositors and shall not be withdrawn or encashed or otherwise dealt with by the Non-Banking Financial Company except for repayment to the depositors.

Provided that,

- (1) a Non- Banking Financial Company shall be entitled to withdraw a portion of such securities proportionate to reduction of its deposits duly certified to that effect by its auditor;
- (2) Where the Non-Banking Financial Company intends to substitute such securities, it may do so by entrusting substitute securities of equal value to the designated bank before such withdrawal.

Explanation

'scheduled commercial bank' means a bank included in the Second Schedule to the Reserve Bank of India Act, 1934 (2 of 1934) excluding a Regional Rural Bank or a Co-operative Bank."

(S. GURUMURTHY)
Executive Director

22.37 Expeditious disposal of references received from Prime Minister's Office and other VIPs

The banks should designate a nodal officer/officers who should communicate to the Banking Division, Ministry of Finance, Government of India, their name (s), full designation, address, official and residential telephone numbers, so that Government could pursue with that officer for the disposal of VIP references sent to the bank (vide government letter No. F.14 (60)/85-CP/VIP dated 18th September 1985). The banks should also advise the names, etc. of the designated nodal officer/officers to the Reserve Bank, Central office of DBOD.

22.38 Public Premises (Eviction of Unauthorised Occupants) Act, 1971- Guidelines issued by Government of India to public sector banks

The main objective of Government (Ministry of Urban Affairs & Employment) of extending the protection under the Public Premises (Eviction of Unauthorised Occupants) Act, 1971 to PSUs/Government controlled companies, etc. is to remove their difficulties in evicting the **unauthorised occupants** including their employees no longer in service and not to be used against genuine tenants causing undue hardships to them and/or in discriminatory manner which may invite unnecessary litigation and judicial intervention. Unnecessary eviction proceedings should not be initiated against lawful tenants by banks notwithstanding the fact that they have been residing in those premises for decades together with a commercial motive to let out the premises at higher rents after their vacation. The Board of Directors of banks should lay down a suitable policy to ensure strict compliance of the Government's instructions/guidelines in the matter including consideration of the grievances of the aggrieved tenants. The guidelines in this regard issued by Government to public sector banks are given in Annexure I & II.

Annexure - I

[Paragraph 22.38]

MINISTER OF
URBAN DEVELOPMENT
GOVT. OF INDIA

No. 21011(7)90/Pol.IV/H.II

New Delhi
January 14, 1992.

Sub : Issue of guidelines under Public Premises Act for statutory undertakings

Dear

1. The Public Premises (Eviction of Unauthorised Occupants) Act, 1971 (referred to as P.P. Act) provides for the eviction of unauthorised occupants from Public Premises by Estate Officers appointed by the Government or the Public authority and provides for a summary procedure of eviction within 15 days of passing the eviction order. The scope of this Act was expanded through an amendment in 1980 in order to bring within its purview the properties of the Companies defined under Section 3 of the Companies Act, 1956, in which at least 51% shares are held by Central Government and the properties of companies established by or under any Act and owned or controlled by the Central Govt. The cardinal principle of this amendment was removing the difficulties faced by these bodies in evicting unauthorised occupants including their employees no longer in service from the premises owned by these institutions.
2. As these institutions started eviction proceedings under the amended P.P. Act, persons affected by the amendment started clamouring for withdrawal of the amendment and validity of the amendment was also challenged in the Supreme Court. While upholding the validity of the amendment in the case of Ashoka Marketing Ltd. Vs. Punjab National Bank and various other civil petitions, the Supreme Court observed that every activity of the Public Authority should be guided by public interest, and that they were expected to deal with their tenants distinctly from private landlords. At the same time several representations against the eviction proceedings taken up under this Amendment have been received in this Ministry and various Administrative Ministries from individuals, Organisations, legal experts and Members of Parliament urging the Government to issue suitable guidelines so that the provisions of Public premises Act are not indiscriminately used by the Statutory Organisations etc. to oust the genuine tenants.
3. The matter was discussed in detail in an inter-ministerial meeting held on the 28th of August, 1991. The consensus in this meeting was that the Public Sector Undertakings should not use the P. P. Act to evict genuine tenants, but use the Act primarily to evict those found to be subletting the premises for commercial or residential purpose, or illegal occupants, or recalcitrant employees who have ceased to be in service of the Public Sector Undertakings.

4. Considering that the Amended P. P. Act so far it affects the PSUs and Corporations, has already been upheld by the highest Judicial Authority, the Government has decided that the protection of the Public Premises Act enjoyed by the premises of Government owned organisations mentioned in Para I above, should continue. At the same time, it has been decided to prescribe for the benefit of all these organisations a set of guidelines in order to prevent arbitrary use of the provisions of the P. P. Act to evict genuine tenants and to limit the use of the summary powers primarily to evict unauthorised occupants and retired employees of the enterprises. This will ensure compliance with the spirit underlying the protection extended by the Parliament to these Premises and the observation of the Supreme Court while upholding the validity of the amended Act. The guidelines would set limits for the resort to P. P. Act by the PSUs and ensure that the interest of the genuine tenants are not jeopardised. The following are the agreed guidelines:
- (i) The provisions of the P.P. Act should be used primarily to evict totally illegal occupants of the premises of public authorities or unauthorised sublettees, or employees who have ceased to be in their service and thus ineligible for occupation of the premises. The proceedings should be initiated in accordance with the provisions of the Act only in cases where the occupation becomes unauthorised on genuine grounds of law.
 - (ii) The provisions of the Act should not be resorted to either with a commercial motive or to secure vacant possession of the premises in order to accommodate their own employees, where the premises were in occupation of the original tenants to whom the premises were let either by the public authorities or the persons from whom the premises were acquired.
 - (iii) A person in lawful occupation of any premises should not be treated or declared to be an unauthorised occupant merely on service of notice of termination of tenancy, nor should any contractual agreement be wound up by taking advantages of the provisions of the Act. At the same time it will be open to the public authority to secure periodic revision of rent in term of the provisions of the Rent Control Act in each State, or to move under genuine grounds under the Rent Control Act for resuming possession. In other words, the public authorities would have rights similar to private landlords under the Rent Control Act in dealing with genuine legal tenants;
 - (iv) It is necessary to give room for allegations that evictions were selectively resorted to for the purpose of securing an unwarranted increase in rent, or that a change in tenancy was permitted in order to benefit particular individual or institutions in order to avoid such imputations or abuses of discretionary powers. The releases of permissions or change of tenancy should be decided at the level of Board of Directors of the Public Undertaking.
 - (v) All the Public Undertakings should immediately review all pending cases before the Estate Officer or Courts with reference to these guidelines, and withdraw eviction proceedings against genuine tenants on grounds otherwise than as provided under these guidelines. The Provisions under the P.P. Act should be used henceforth only in accordance with these guidelines.

I would request you to advise your officers to issue these guidelines to all the PSUs/Corporations under the administrative control of your Ministry/Department for strict enforcement. The guidelines may also be given wide publicity.

With kind regards.

Yours sincerely.

Sd/-

(SHEILA KAUL)

(Sent to all Ministries in the Union Council)

Annexure - II

[Paragraph 22.38]

Dr. P. S. A. Sundaram
Joint Secretary (HD)

Government of India
Ministry of Urban Development

D. O. No. 21011(7)90/Pol. IV/H. II

New Delhi – 110011
Dated the 5th August 1992

Dear Shri

1. I would like to draw your attention to D.O. of even number dated 14.1.92 from Union Minister for Urban Development addressed to all Union Ministers forwarding the guidelines that are to be followed by the public sector undertakings while taking recourse to the eviction proceedings under the Public Premises (Eviction of Unauthorised Occupants) Act, 1971.
2. This matter was further followed up with all the Central Government departments vide my d.o. letter of even number dated 2nd June, 1992 in which it was stressed that all the concerned departments should ensure strict enforcement of the guidelines by the public sector undertakings under their control and it was also requested that copies of the instructions issued to the public sector undertakings be sent to this Ministry.
3. In an inter-departmental meeting convened in this Ministry on 19th June 1992 to review the progress of implementation of these guidelines by the public sector undertakings, a few Departments like Department of Banking, Department of Insurance etc. have raised certain issues regarding implementation of the guidelines for clarification. Formal references in this regard were also received from those departments. In the light of the discussions in the said meeting, the points of reference for clarification received in this Ministry have been carefully considered, and with the approval of Minister of Urban Development, clarifications are provided as under.

Sr. No	Points of Reference/doubt	Clarification
1	Whether eviction proceedings should be permitted even in cases where the employee has been transferred or where the limited period tenancy has been terminated.	Yes
2	Whether eviction liability should also be extended to original tenants guilty of unauthorised subletting.	Yes, after giving opportunity to original tenants to explain the position.

3	Distinction has to be made between illegal occupation and unauthorised occupation and the PSUs should be allowed to proceed against unauthorised occupants	The public sector undertakings are not expected to stay eviction proceedings against the genuine tenant merely by service of notice declaring him as unauthorised occupant so long as he/she does not violate any of the tenancy conditions. The Act should be used by the PSUs mainly to evict those in illegal occupation of the premises or unauthorised subtenants. Hence there is no confusion in the guidelines as interpreted by certain PSUs like public sector banks/LIC etc. Where the tenancy is illegal or where the original tenant has connived at a breach of tenancy conditions, the PSU is within its rights to issue a notice under the provisions of law.
4.	The benefit of the guidelines should not be available to legal heirs of tenants where the premises are required by PSUs for their own use.	The Model Rent Control Legislation approved by the Govt. and placed before Parliament provided that the benefit of inheritability of tenancy will be available to legal heirs of the deceased tenant only if they do not own a house in the same area. The same principle can be extended to legal heirs of the deceased tenant under PP Act.
5.	The decision of the release of premises may be taken at the level of the Zonal Manager rather than requiring the Board of Directors to take the decision in each case.	The decision on the release of premises or change of tenancy may be taken at the level of Zonal Manager or a Committee of senior executives so long as the Board of Directors is kept informed of such decisions.

6. The banks/PSUs should be free to evict even authorised tenants if the premises are required for their own bonafide use including use by their employees or redevelopment of the premises or business use.
- Resorting to PP Act to vacate authorised tenants merely to secure possession of the premises to accommodate the PSUs employee, or for commercial redevelopment or to open a branch can not be agreed as it will be totally against the spirit of the guidelines for protecting interests of genuine authorised tenants. The Model Rent Control Legislation permit revision of present rents to the level of market rents over a period of and annual indexation of rents. After the State Government enact the amendments, on the lines of Model Rent Control Legislation, the PSUs can secure rent revision according to the new formula. As such, there is no justification for seeking eviction of original tenants merely to secure higher rents.
7. Where the guidelines issued for the public sector undertakings are uniformly applicable to premises owned by the Govt. departments also.
- Guidelines issued earlier in respect of public sector undertakings should also apply in regard to the premises owned by Central Government departments.
4. A copy of the instructions issued by your Ministry to the concerned public sector undertakings/concerned departments may kindly be sent to this Ministry for record. Since large number of representations from M.Ps and others are still pouring in this Ministry alleging non-compliance of the guidelines by the public sector undertakings/Government departments, it is requested that it may be ensured that the guidelines issued by this Ministry with the approval of the Cabinet in January 1992, along with the above clarifications are scrupulously followed by the public sector undertakings/Government departments under the control of your ministry.

With Regards

Yours Sincerely

Sd/-
(Dr. P. S. A. Sundaram)

22.39 Change of name of “Bombay” to “Mumbai”

The Government of Maharashtra (Revenue and Forest Department) by its Notification No. TLC2195/CR-804/M-10 Dated 28th July 1995 restored the original name “Mumbai” for “Bombay”. The new name “Mumbai” should be reflected in both English and Hindi and the change in name is to be brought about in all official communications, name plates, sign boards, office seals, rubber stamps, etc. The documents/instruments etc. which have already been executed and bear the name “Bombay” and not “Mumbai” need not be altered as it has been pointed out in paragraph 2 of Government Notification that in any law or instrument or other document any reference to the district of “the city of Bombay” and “Bombay Suburban District” (as they exist immediately before 28th July 1995) shall, unless the context requires otherwise, be deemed to be reference to the district of “the city of Mumbai” and “The Mumbai Suburban District” respectively. As regards the new instruments or the new documents are concerned the original name “Mumbai” for “Bombay” is necessary to be mentioned for “City of Bombay” both in English and Hindi.

22.40 Investment in Government Securities by trusts, provident funds and other unincorporated bodies.

- (i) Under Section 6 of the Public Debt Act, 1944 and Rule 8 of the Public Debt Rules, 1946, no notice of any trust is receivable by Government in respect of Government securities. Consequently, the Public Debt Office of the Reserve Bank treats, and has to treat, every person, if whose name a Government security stands, as the full owner thereof, even though the said person may be having no personal interest in the security but may be holding it merely as trustee of a particular trust or a fund. i.e. in a fiduciary or representative capacity. Holding of securities in the personal names of trustees is liable to lead to considerable difficulties under certain circumstances. Since the Public Debt Office is bound to treat the “holder” as the “owner”, it follows that if a trustee in whose personal name a security (belonging to a trust or a fund) is held, dies, the Public Debt Office would refuse to make any payment on the security to the trust or the fund unless the said trust or fund obtained legal representation (i.e. Probate, Letters of Administration or Succession Certificate) to the estate of the deceased trustee. As the obtaining of such a grant entailed considerable inconvenience and expenses, the funds or trusts concerned are, as a rule, unwilling to adopt this course and approach the Reserve Bank for relaxations. The Public Debt Office, within its discretion, may relax the requirement in exceptional cases on the condition that the claimant body execute a bond of indemnity in the Reserve Bank’s favour jointly with one or two sureties. Very often, it is difficult for the claimants to arrange for sureties of the requisite financial standing. It also sometimes happen that the trustee, in whose favour a security is held, resigned and omitted or refuse to transfer the security to his successor in office. In such cases, the Public Debt Office is unable to help the real beneficiary whose only course is to bring a suit against the ex-trustee in a civil court

for obtaining a proper decree to enable the Public Debt Office to recognise the claimant's title.

- (ii) A body which has a corporate status could, of course, hold Government securities in its corporate name, but this recourse is not available in the case of unincorporated bodies – to which category most trusts, provident funds, etc. usually belong. The most convenient course for such bodies is to hold securities in the form of Stock Certificates (and not in the form of Government Promissory Notes). Under Rule 8(2)(b) of Public Debt Rules, 1946, Stock Certificates could be issued in favour of official trustees ex-officio without mentioning their personal names, so that in the event of death or resignation, the security could be dealt with immediately by the successor-in-office, without any formality. No question of legal representation or indemnity bond would arise if securities are so held.
- (iii) Besides the above advantage, holding in stock is very convenient from the point of view of a long-term investor. For example, the periodical interest on Stock Certificates is remitted by the Public Debt Office to the holder or to the holder's bankers on the due date, without any cost to the holder, whereas a Government promissory note has to be physically presented for drawal of interest every time such interest was due. Again, if a Government promissory note is lost, the procedure for obtaining a duplicate is a long and expensive one, whereas a lost/destroyed Stock Certificate could be replaced by the Public Debt Office on the holder merely reporting the loss and executing an affidavit.
- (iv) Public Debt Offices have been offering the facility of a second Subsidiary General Ledger (SGL) account to the banks holding the investments of their constituents in Government securities, provident funds/trusts can maintain their securities account representing their investment in Government securities in the constituent's accounts of banks.
- (v) In case any securities are held by their trustees in their personal names, they are well advised to contact the nearest Public Debt Office for getting the position regularised.

22.41 Rounding off transactions to the nearest Rupee

All transactions including payment of interest on deposits/charging of interest on advances, should be rounded off to the nearest Rupee (fraction of 50 paise and above to be rounded off to the next higher Rupee and the fraction of less than 50 paise to be ignored) and such adjustments will not be construed as violations of Reserve Bank's directives on Interest Rates on Deposits/Advances. Issue prices of Cash Certificates should also be rounded off in the same manner. The banks should ensure that cheques issued by clients containing fraction of a Rupee are not rejected or dishonoured.

22.42 Utilisation of subscription money

- (i) In terms of Section 73(3) of the Companies Act, 1956, the application monies received in respect of issue of shares, debentures, bonds, etc. by banks are required to be kept in separate accounts with scheduled banks. Banks are required to ensure that the utilisation of the share application monies by companies is only for purposes specified under Section 73(3A) of the Companies Act. Banks are, however, permitted to invest, on request, the application monies received in respect of Public/Right Issue of shares, debentures, bonds etc. made by corporate entities in interest bearing short term deposits. Such investments should be made only with the banks which receive the application monies. Further, the interest rates on such short term deposits would be governed by the Interest Rate Directives issued by RBI.
- (ii) Banks are permitted to allow release of funds received in respect of Rights Issue of shares and debentures to the extent of the size of the issue on being approached by the companies with a certificate from the Stock Exchange that the prescribed minimum subscription has been received.

22.43 Opening of collection accounts for Public/Right Issues

- (i) Banks acting as bankers to the issue should scrupulously adhere to the various conditions stipulated in the Prospectus for the Public Issue while accepting share applications along with cheques. Banks should, inter alia, ensure that each application is accompanied by a separate cheque/payment instrument. Further, no application should be accepted after the closure of the issue.
- (ii) Before opening of a collection account for a Public/Right Issue, banks should obtain "No Objection" Certificate from the main bankers of the concerned company.

22.44 Involving SEBI in recovery of dues

Banks may submit their views, if any, on the irregular conduct of the accounts by the Capital Issuing Company to SEBI well in time before opening of the subscription. Banks should not request SEBI at the last moment to stop the Capital Issue or approach the Court impleading SEBI as a party relevant to the proceeding for recovery of their dues from the company.

22.45 Compliance Officer

- (i) The banks should designate the General Manager, in charge of audit and inspection as the 'Compliance Officer'.
- (ii) His primary function is to give macro level compliance in respect of instructions received from Government of India and the Reserve Bank of India and the bank's Board.
- (iii) He should arrange to obtain certificates from the officers in-charge of controlling offices in regard to compliance on an on-going basis.
- (iv) He should institute a system whereby he should receive from various sources such as internal audit/concurrent audit/vigilance division deviations noticed in compliance and measures taken to correct them.
- (v) He should take such further measures as are necessary to satisfy himself that there is ongoing compliance with the instructions of RBI/Government of India
- (vi) The Compliance Officer on the basis of certificates obtained by him and information obtained from various sources should furnish thereafter a certificate of compliance once a quarter to the Chief Executive Officer of the bank.
- (vii) The bank's Chief Executive Officer on the basis of the certificate of the Compliance Officer has to give a certificate of compliance with the instructions/guidelines of the Reserve Bank of India and Government of India to the bank's Board of Directors.
- (viii) The banks should ensure that the entrustment of other duties do not come in the way of the discharge of his responsibilities as Compliance Officer.

22.46 Parliament Questions – Furnishing material to Government for framing replies.

Government of India calls for material for framing replies to Parliament Questions from the banks directly in addition to the information called for from the Reserve Bank of India. A copy of the material as and when furnished by banks to the Government in reply to the Parliament Questions, should also be furnished to the Reserve Bank of India, Department of Banking Operations and Development, Central Office simultaneously by Fax/Telex/Letter.

22.47 Furnishing of Data – Violation of Secrecy Obligations.

- (i) The scope of the secrecy law in India has generally followed the common law principles based on implied contract. The bankers' obligation to maintain the secrecy arises out of the contractual

relationship between the banker and customer, and as such no information should be divulged to third parties except under circumstances which are well defined. The following exceptions to the said rule are now accepted.

- (a) Where disclosure is under compulsion of law
- (b) Where there is a duty to the public to disclose
- (c) Where interest of bank requires disclosure and
- (d) Where the disclosure is made with the express or implied consent of the customer.

- (ii) The banks should appreciate the implications of furnishing information that would violate the provisions of secrecy. Whenever any request is received for furnishing data/information, the banks should satisfy themselves that the information being sought is not of such a nature as will violate the provisions of the law relating to secrecy in the banking transactions. In cases in which the banks have doubts whether the furnishing of information might violate secrecy provisions, they should get specific legal advice.

22.48 Sexual harassment in work places Guidelines by Supreme Court to prevent such harassment and implementation thereof

- (i) The Hon'ble supreme Court of India has defined what constitutes sexual harassment in work places and laid down certain guidelines (given in the Annexure) to prevent such harassment. These guidelines have the consent of the Union Government. The Supreme Court has directed that the guidelines be strictly observed at all work places for the preservation and enforcement of right to gender equality of working women. The direction of the Court would be binding and enforceable in law (Article 141 of the Constitution) until a suitable legislation is enacted.
- (ii) As the onus for implementation of the guidelines lies solely on the employer, the banks should initiate immediate action to specifically ensure the following.
 - (a) Bring to the notice of those working in the bank the definition of sexual harassment as laid down by the Supreme Court and its express prohibition.
 - (b) Take all necessary action to suitably modify the conduct rules governing the employees to ensure that these include the express prohibition of sexual harassment and provide for appropriate penalties against the offender.
 - (c) Take all steps necessary to ensure that appropriate work conditions are provided in respect of work, leisure, health and hygiene, to further ensure that there is no hostile environment towards women at work places and no woman employees has reasonable grounds to believe that she is disadvantaged in connection with her employment.

- (d) Set up a mechanism in the bank to deal with complaints of sexual harassment.
- (iii) The action taken by banks for implementation of the guidelines laid down by the Supreme Court of India was to be intimated to the Reserve Bank of India.

ANNEXURE

[Paragraph 22.48(i)]

GUIDELINES AND NORMS LAID DOWN BY THE HON'BLE SUPREME COURT IN ITS JUDGEMENT DATED 14TH AUGUST, 1997 IN A PUBLIC INTEREST LITIGATION (PIL) WRIT PETITION (CRIMINAL) NO. 666/70 OF 1992 (VISHAKA & ORS. VS. STATE OF RAJASTHAN & ORS.) ON THE SUBJECT OF SEXUAL HARASSMENT OF WOMEN IN THE WORKPLACES.

The GUIDELINES and NORMS prescribed herein are as under :-

HAVING REGARD to the definition of 'human rights' in Section 2(d) of the Protection of Human Rights Act, 1993.

TAKING NOTE of the fact that the present civil and penal laws in India do not adequately provide for specific protection of women for sexual harassment in work places and that enactment of such legislation will take considerable time.

It is necessary and expedient for employers in work places as well as other responsible persons or institutions to observe certain guidelines to ensure the prevention of sexual harassment of women.

(i) Duty of the Employer or other responsible persons in work places and other institutions :

It shall be the duty of the employer or other responsible persons in work places or other institutions to prevent or deter the commission of acts of sexual harassment and to provide the procedures for the resolution, settlement or prosecution of acts of sexual harassment by taking all steps required.

(ii) Definition : For this purpose, sexual harassment includes such unwelcome sexually determined behaviour (whether directly or by implication) as :

- (a) physical contact and advances;
- (b) a demand or request for sexual favours;
- (c) sexually coloured remarks;
- (d) showing pornography; and
- (e) any other unwelcome physical, verbal or non-verbal conducts of sexual nature.

Where any of these acts is committed in circumstances whereunder the victim of such conduct has a reasonable apprehension that in relation to the victim's employment or work whether she is drawing salary, or honorarium or voluntary, whether in government, public or private enterprise such conduct can be humiliating and may constitute a health and safety

problem. It is discriminatory for instance when the woman has reasonable grounds to believe that her objection would disadvantage her in connection with her employment or work including recruiting or promotion or when it creates a hostile work environment. Adverse consequences might be visited if the victim does not consent to the conduct in question or raises any objection thereto.

(iii) Preventive Steps :

All employers or persons in charge of work place whether in the public or private sector should take appropriate steps to prevent sexual harassment. Without prejudice to the generality of this obligation they **should take the following steps :-**

- (a) Express prohibition of sexual harassment as defined above at the work place should be notified, published and circulated in appropriate ways;
- (b) The Rules/Regulations of Government and Public Sector bodies relating to conduct and discipline should include rules/regulations prohibiting sexual harassment and provide for appropriate penalties in such rules against the offender;
- (c) As regards private employers steps should be taken to include the aforesaid prohibitions in the standing orders under the Industrial Employment (Standing Orders) Act, 1946; and
- (d) Appropriate **work conditions** should be provided in respect of work, leisure, health and hygiene to further ensure that there is no hostile environment towards women at work places and no employee woman should have reasonable ground to believe that she is disadvantaged in connection with her employment.

(iv) Criminal Proceedings :

Where such conduct amount to a specific **offence** under the Indian Penal Code or under any other law the employer shall initiate appropriate action in accordance with law by making a complaint with the appropriate authority.

In particular, it should ensure that victim, or witnesses are not victimized or discriminated against while dealing with complaints of sexual harassment. The victim of sexual harassment should have the option to seek transfer of the perpetrator or their own transfer.

(v) Disciplinary Action :

Where such conduct amounts to mis-conduct in employment as defined by the relevant service rules, appropriate disciplinary action should be initiated by the employer in accordance with those rules.

(vi) Complaint Mechanism :

Whether or not such conduct constitutes an offence under law or a breach of the service rules, an appropriate complaint mechanism should be created in the employer's organization for redress of the complaint made by the victim. Such complaint mechanism should ensure time-bound treatment of complaints.

(vii) Complaints Committee :

The complaint mechanism, referred to in (vi) above, should be adequate to provide where necessary, a complaints committee, a special counsellor or other support service including the maintenance of confidentiality.

The Complaints Committee should be headed by a woman and not less than half of its members should be women. Further, to prevent the possibility of any undue pressure or influence from senior levels, such Complaints Committee should involve a third party, either NGO or other body who is familiar with the issue of sexual harassment.

The Complaints Committee must make an annual report to the Government department concerned of the complaints and action taken by them. The employers and person in charge will also report on the compliance with the aforesaid guidelines including on the reports of the Complaints Committee to the Government department.

(viii) Worker's initiative :

Employees should be allowed to raise issue of sexual harassment at workers' meeting and in other appropriate forum and it should be affirmatively discussed in Employer-Employee Meetings.

(ix) Awareness :

Awareness of the rights of female employees in this regard should be created in particular by prominently notifying the guidelines (and appropriate legislation when enacted on the subject) in a suitable manner.

(x) Third party Harassment :

Where sexual harassment occurs as a result of an act or omission by any third party or outsider, the employer and person in charge will take all steps necessary and reasonable to assist the affected person in terms of support and prevention action.

(xi) The Central/State Governments are requested to consider adopting suitable measures including legislation to ensure that the guidelines laid down by this order are also observed by the employers in Private Sector.

(xii) These guidelines will not prejudice any rights available under the Protection of Human Rights Act, 1993.

22.49 Deposit of the amount of compensation awarded by the Claims tribunal and its withdrawal by the claimants – Guidelines laid down by the Supreme Court

- (i) The Andhra Pradesh High Court while disposing of the appeal against the award of Motor Accidents Claims Tribunal (CMA No. 470 of 1990 – B. Shobha and others Vs. Andhra Pradesh State Road Transport Corporation) issued certain directions. As directed by the Hon'ble Court, a copy of the judgement of the Supreme Court in the case of Lilaben U. Gohel Vs. Oriental Insurance Co. Ltd. was circulated among all banks by RBI which is reproduced in the Annexure. An extract of the Supreme Court's observations in the Lilaben's case is given below :

“We would like to make it absolutely clear that in all cases in which compensation is awarded for injury caused in a motor accident, whether by way of adjudication or agreement between the parties, the Court/Tribunal must apply these guidelines (laid down in Muljibhai's case (1982(23)/Guj.LR 756) reproduced in paragraph 7 of the judgement). We must add one further guideline to the effect that when the amount is invested in a Fixed Deposit, the bank should invariably be directed to affix a note on the Fixed Deposit Receipt that no loan or advance should be granted on the strength of the said FDR without the express permission of the Court/Tribunal which ordered to deposit. This will eliminate the practice of taking loans which may be upto 80% of the amount invested and thereby defeating the very purpose of the order. We do hope that the Courts/Tribunals in the country will not succumb to the temptation of permitting huge withdrawals in the hope of disposing of the claims. We are sure that the Courts/Tribunals will realise their duty towards the victims of the accident so that a large part of the compensation amount is not lost to them. The very purpose of laying down the guidelines was to ensure the safety of the amount so that the claimants do not become victims of unscrupulous persons and unethical agreements or arrangements. We do hope our anxiety to protect the claimants for exploitation by such elements will be equally shared by the Courts/Tribunals”.

- (ii) Banks should comply with the guidelines laid down by the Supreme Court judgement in the Lilaben's case. Similar cases should also be dealt with as directed by the Hon'ble Court.

Annexure
[Paragraph 22.49(i)]

Lilaben U. Gohel Vs. Oriental Insurance Co. Ltd.

AIR 1996 SUPREME COURT 1605.

From Gujarat

A. M. AHMADI, C.J.I. AND NP SINGH J.

Civil Appeal Nos. 4466-67 with 4468, 4469, 4470, 4471 and 4472-73 of 1996 (arising out of SLP(C) Nos. 16530-31 with 14022, 14096, 14784, 14785 and 14160-61 of 1993) with Writ Petn. (Civil) No. 716 of 1993) with C.A. No. 4474 of 1996 (arising out of SLP (C) No. 15273 of 1993) D/15/3/96.

Lilaben Udesing Gohel, Appellant V. Oriental Insurance Company Ltd. and others, Respondents.

WITH

Shyamala Shashidharan Nayyar and others, Appellants V. Hemraj Loduram Rajpur and another, Respondents.

WITH

Pramilaben Narendra Bhai Patel and others, Appellants V. Nandubhai Ambalal Thakkar and others, Respondents.

WITH

Ramabhai Shankarbhai Chavda, Appellant V. Ganibhai Ambabhai Vora and another, Respondents.

WITH

Lilaben and others, Appellants V. Kaji Gulam Nabi Sheikh and others, Respondents.

WITH

Kantaben Anil Kumar Patel and others, Appellants V. Gujarat State Road Transport Corpn. and others, Respondents.

WITH

Motor Vahan Durghatana Sangathan, Nadiad and others, Petitioners V. State of Gujarat and others, Respondents.

WITH

Sharadaben Chandubhai Patel and Others, Appellants v. Bachusha Dadusha and others, Respondents.

Motor Vehicles Act (1939) S. 110-B Compensation- Payment to claimants – Guidelines to be followed.

The guidelines laid down by the Gujarat High Court in the case of Muljibhai (1982(23) I Guj. LR 756) and by the Supreme Court in the Union Carbide Case (AIR 1992 SC 248) are to be followed while making compensation to the claimants under the Motor Vehicles Act (1939). In the case of Jayantilal (1994 (35) 2 Guj LR 1308) the five Judge Bench of the Gujarat High Court held that the guidelines laid down by the three Judge Bench of that High Court in the case of Kamalaben (AIR 1993 Guj 171) are in conflict with the guidelines laid down by the Supreme Court, the judgement was rendered per incuriam, and thus the five Judge Bench in Jayantilal case restored earlier position. The Supreme Court in appeal against the decision in Kamalaben case (AIR 1993 Guj 171) held that the scheme laid down by Gujarat High Court in Kamalaben's case may throw up many operational difficulties. The Supreme Court further observed that even though the guidelines laid down in Muljibhai's case ((1982)(23) I Guj LR 756) have been approved and applied by Supreme court, many Motor Accident Claims Tribunals and even some of the High Courts in other parts of country do not follow them. In claims that are settled in or outside the Court or Tribunal including Lok-Adalats or Lok Nyayalays, these guidelines are overlooked. The Supreme Court made it absolutely clear that in all cases in which compensation is awarded for injury caused in the motor accident, whether by way of adjudication or agreement between the parties, the Court/Tribunal must apply these guidelines. Further, when the amount is invested in a fixed deposit, the bank should invariably be directed to affix a note on the Fixed Deposit Receipt that no loan or advance should be granted on the strength of the said FDR without the express permission of the Court/Tribunal which ordered the deposit. This will eliminate the practice of taking loans which may be up to 80% of the amount invested and thereby defeating the very purpose of the order. The Courts/Tribunals should realise their duty towards the victims of the accident so that a large part of the compensation amount is not lost to them. The very purpose of laying down the guidelines was to ensure the safety of the amount so that the claimants do not become victims of unscrupulous persons and unethical agreements or arrangements. The claimants should be protected from exploitation by such elements.

(Paras 14, 15, 16)

Cases Referred : Chronological Paras

1994 AIR SCW 1356: (1994)2SSC176 : AIR 1994 SC 1631 12, 13 (1994) (35 (2) Guj LR 1308 (FB) 12, 13 AIR 1992 SC 248 : (1991) 4 SSC 584 7, 10, 12, 13 (1983) First Appeal No. 851 of 1977D/-26-7-1983 (Guj) Oriental fire and General Insurance co. V. Hussenhbai Abdulbhai Sheikh. (1982) 23 (I) Guj LR 756 : 1983 ACC CJ 57 2A, 3, 7, 10, 12, 13, 15, AIR 1979 SC 1862.

Ahmadi C.J.I. : Special leave Granted

2. The principal judgement that has been impugned in the 8 matters grouped together is the one dated 26-4-93 in the case of New India Assurance Co. Ltd. V. Kamalaben Sultansinh Hakumsing Jadav In First Appeal No. 61 of 1979 of the High Court of Gujarat 1993 (I) Gujarat Law Reporter 779 : Air (1993 Guj 171) - The Full Bench,

in that case was called upon to decide the following questions referred by the Division Bench:

- “(I) What would be the extent of liability of the insurer under Section 95(2) [of the Motor Vehicles Act, 1939] in respect of death or bodily injury to the passengers carried for hire or reward in a truck?
- (ii) Which clause amongst (a), (b) or (c) will apply?
- (iii) Whether the judgement of the Division Bench in Oriental Fire and General Insurance Co. Ltd. Hussenbhai Abdulbhai Sheikh, First Appellant of 851 of 1997, decided on 26th July, 1983 is correctly decided and is correctly followed in some of the cases?”

The Full Bench reframed the questions and at the end of the adjudication of these points the court posed to itself the following question

“Whether compensation amount should be paid in lump sum or by periodical instalments.”

The High Court took note of the contention that where lost earnings are still to be anticipated or where the action is brought by dependents of someone killed in an accident, a large part of the award is for future loss of earnings, and it is hard to see how it is appropriate to compensate these by a lump sum payment. A lump sum could be invested, according to this contention, to provide an income or used to purchase an annuity. Another important factor to be considered was that the recipient of the lump sum compensation could be quite inexperienced in the handling of large sums of money, and they may dissipate the money, or fall a prey to confidence tricksters or invest in reckless and hopeless enterprises. The judgement then goes on refer to the Supreme Court decision in the case of Bishan Devi Vs. Sirbaksh Singh, AIR 1979 SC 1862 and quotes paragraph 21 of that judgement. which is as under :

“The insurance companies are now nationalised and the necessity for awarding lump sum payment to secure the interest of the dependants is no longer there. Regular monthly payments could be made through one of the nationalised banks nearest to the place of residence of the dependents. Payment of monthly instalments and avoidance of lump sum payment would reduce substantially a burden on the insurer and consequently of the insured. Ordinarily in arriving at the lump sum payable, the Court takes the figure at about 12 years payment. Thus, in the case of monthly compensation of Rs. 250 payable, the lump sum arrived at would be between 30,000 and 35,000. Regular monthly payment of Rs. 250 can be made from the interest of the lump sum alone and the payment will be restricted only for the period of dependency of the several dependants. In most cases it is seen that a lump sum payment is not to the advantage of the dependants as large part of it is frittered away during litigation and by payment to persons assisting in the litigation. It may also be provided that if the dependants are not satisfied with the minimum compensation payable they will be at liberty to pursue their remedies before the Motor Accidents Claims Tribunal. (Emphasis supplied)”

- 2A. The High Court then proceeds to refer to its own judgement in the case of Muljibhai V. United India Insurance Co.Ltd. (1982) 23(I)Guj LR 756, and places reliance on the following part of that judgement:

“We are distressed to note that Claims Tribunals do not realise that it is not sufficient to award compensation to the victim of the accident or his legal representatives, as the case may be, but it is also its duty to ensure that the amount awarded is not frittered away. It must be remembered that lump sum compensation is paid to the claimants who are either the victims of the accident or their legal representatives by applying an appropriate multiplier with a view to providing for his or their future. In other words, instead of spreading out the amount of compensation over a number of years having regard to the estimated future life span, as a measure of convenience, lump sum payment is ordered. If the whole or substantial part of the compensation money is paid to claimants who have never handled such huge amounts in their lives there is the danger of their frittering away the amount for want of fiscal discipline. If the amount is squandered away, which in all probability may happen, the socio-economic objective intended to be achieved by the award of compensation will be wholly defeated. We are, therefore, of the opinion that in such cases it is imperative on the Claims Tribunal to protect such claimants, no matter they are adults, by directing the investment of lump sum compensation awarded to them.”

3. The impugned judgement goes on to say that the Court in Muljibhai's case (1982(23)) I Guj LR 756) (supra) had indicated broad guidelines which the Claims Tribunal should follow while disposing of the claim applications arising under the Motor Vehicles Act, 1939 to scotch complaints of misapplication of compensation money and that as per those guidelines the compensation money should be invested in a nationalised bank as a fixed deposit and the interest thereon should be paid directly to the claimant or his guardian as the case may be. The Court observed that despite the compensation amount being deposited in banks unscrupulous persons by various means could get the money released from the bank thereby frustrating the intention of the Court to protect the interest of the accident victim or the heirs of a deceased in case of a fatal accident. The High Court pointed out that it was necessary to see :

- (i) that the major part of the compensation amount reaches the victims or their dependents ;
- (ii) large part of the compensation amount is not frittered away.
- (iii) Victims or their dependents are not again left at the mercy of the Society; and
- (iv) the amount, which is paid by the nationalised Insurance Companies, serves its purpose and the socio-economic object of the legislation is not defeated.

4. In the concluding paragraph of the judgement the Court gave the following general directions.

- (i) Normally, the Claims Tribunal should direct the Insurance Company to pay the amount of compensation periodically by quarterly instalments by

calculating interest at the rate of 15% per annum on the total amount of compensation determined by it and to pay the principal amount at the end of 10 to 20 years having regard to the facts of each case.

- (ii) A further provision be made in case where the compensation amount is large or in case the claimants are illiterate and/or poor to pay the corpus after the prescribed period by 2 or 3 instalments depending upon the circumstances in each case.
 - (iia) It would be open to the Insurance Company to make the necessary arrangement through the General Insurance Corporation of India for making payment of annuity or periodical instalments as per direction of the Motor Accident Claims Tribunal.
- (iii) If the concerned Insurance Company or the General Insurance Corporation of India is not ready and willing to pay the amount in the aforesaid manner, it may be directed to deposit the amount of compensation with the Life Insurance Corporation of India. The Life Insurance Corporation of India may be directed, on receiving the said deposit, to provide for payment by an appropriate annuity to the claimants. Learned advocate Mr. B. R. Shah, after obtaining instructions from the concerned authority has stated that the Life Insurance Corporation of India is having a large net-work and would pay the amount with interest by appropriate scheme of annuity.
- (iv) In the case of Minor claimants, the Tribunal shall order that the amount of compensation shall be kept with the Insurance Company till the minor attains the age of 21 years but in any case not before expiry of 10 years from the date of the award.
- (v) In personal injury cases if treatment is necessary the Claims Tribunal on being satisfied about the same may after recording reasons for such satisfaction direct the Insurance Company to pay such amount to the claimant as is necessary for incurring the expenses for such treatment. This permission should be granted strictly after verifying the necessity of medical expenses.
- (vi) These directions would also apply in case of liability arising under, Section 92 of the Act or under Section 140 of the Motor Vehicles Act. 1988 - that is to say in case of 'no fault liability'

The High Court added by way of clarification.

“These guidelines for keeping the amount with the Insurance Companies or depositing it with the Life Insurance Corporation of India are not exhaustive”

At the end of the judgement the learned judges directed to circulate the judgement to all the Claims Tribunals so that the amount of compensation is disbursed as stated above.

5. All the appeals challenge the judgement in Kamalaben's case (AIR 1993 Guj 171) as in the respective cases of the appellants orders were passed by the High Court or

some Motor Accident Claims Tribunal on the basis of the guidelines laid down regarding the mode of disbursement of the compensation awarded. The writ petition No. 716/93 seeking a writ of certiorari for quashing the judgement is filed by way of a public interest litigation for the benefit of the victims of the accidents.

6. Notices were issued to the Chairman, General Insurance Corporation, in view of the statement having been made on its behalf before the Full Bench of the High Court. Notice was also issued to the Supreme Court Legal Aid Committee. A stay against the impugned judgement was declined. However a limited stay was granted by order dated 1-10-93 to the effect that the impugned order will not defer payment to which the victim/legal heir of the victim becomes entitled under the statutory provisions of no-fault liability.

7. Before proceeding to enumerate the various grounds on which the impugned judgement is challenged, it would be proper to have a look at the guidelines laid down in the case of *Muljibhai (1982) (23) I Guj LR 756* (supra). The following part of that judgement needs to be quoted for the purpose.

“6. Having regard to the fact that day in and day out thousands of rupees are paid by way of compensation to various categories of claimants, we think that before we part, we may indicate a few broad guidelines which the Claims Tribunals may follow while disposing of claims applications arising under the Motor Vehicles Act, 1939, to scotch complaints of misapplication of compensation money. :

- (i) The Claims Tribunal should, in the case of minors, invariably order the amount of compensation awarded to the minor invested in long term fixed deposits at least till the date of minor attaining majority. The expenses incurred by the guardian or next friend may however be allowed to be withdrawn;
- (ii) In the case of illiterate claimants also the Claims Tribunal should follow the procedure set out in (i) above, but if lump sum payment is required for effecting purchases of any movable or immovable property, such as agricultural implements, rickshaw etc. to earn a living, the Tribunal may consider such a request after making sure that the amount is actually spent for the purpose and the demand is not ruse to withdraw money;
- (iii) In the case of semi-literate persons the Tribunal should ordinarily resort the procedures set out at (i) above unless it is satisfied, for reasons to be stated in writing, that the whole or part of the amount is required for expanding existing business or for purchasing some property as mentioned in (ii) above for earning his livelihood, in which case the Tribunal will ensure that the amount is invested for the purpose for which it is demanded and paid.
- (iv) In case of literate persons also the Tribunal may resort to the procedure indicated in (i) above, subject to the relaxation set out in (ii) and (iii) above, if having regard to the age, fiscal background and strata of society to which the claimant belongs and such other considerations, the Tribunal in the larger interest of the claimant and with a view to ensuring the safety of the compensation awarded to him thinks it necessary to do order.
- (v) In the case of widows the Claims Tribunal should invariably follow the procedure set out in (i) above

- (vi) In personal injury cases if further treatment is necessary the Claims Tribunal on being satisfied about the same, which shall be recorded in writing, permit withdrawal of such amount as is necessary for incurring the expenses for such treatment;
- (vii) In all cases in which investment in long terms fixed deposits is made it should be on condition that the bank will not permit any loan or advance on the fixed deposit and interest on the amount invested is paid monthly directly to the claimant or his guardian, as the case may be.
- (viii) In all cases Tribunal should grant to the claimants liberty to apply for withdrawal in case of emergency. To meet with such a contingency, if the amount awarded is substantial, the Claims Tribunal may invest it in more than one fixed deposit so that if need be one such F.D.R. can be liquidated."

This Court in the case of *Union Carbide Corporation v. Union of India* (1991)4SCC584(686) : (AIR 1992 SC 248 at p 311) referred to the guidelines laid down in *Muljibhai's* case in laying down guidelines for disbursement of compensation to the gas victims of the well known Bhopal disaster. The guidelines laid down in *Union Carbide's* case were in spirit quite similar to those laid down in *Muljibhai's* case. The Court, however, did not include the clause regarding literate person's compensation also to be given the same treatment in case the Court found it necessary to do so to protect the compensation awarded to them.

8. One can easily notice the major shift in ideas in the impugned judgment. The thrust in the impugned judgement is on the concept of annuity so as to ensure periodic payment of a fixed amount and to prevent the awarded sum in lump sum falling into the hands of the claimants as long as possible. In order to ensure the periodic payment, which according to the judgement should be quarterly interest calculated at the rate of 15% on the total compensation amount in insurance company itself has been made liable to make the necessary investment either in its own business or in the business of the General Insurance Corporation or that of the Life Insurance Corporation. The impugned judgment has shown further caution for minor's who should wait till they are at least 21 and in any case for 10 years from the date of the award. It can be seen that the periodic payment is insisted upon for all claimants irrespective of their capacity to take care of large sums of money. Further, the arrangement described above was insisted upon also for payment of the small amount that is generally available on no-fault liability primarily to meet the immediate needs of the victims/heirs.
9. The minimum waiting period for 10 years before the claimant could be entitled to receive the compensation money awarded has been challenged as having the effect of depriving the claimant of his right to compensation. Such a procedure is said to be arbitrary and unreasonable and hence violative of fundamental rights under Article 14 and right to property under Article 300A of the Constitution. Entrusting the capital amount to the insurance company had also been opposed. In the first place insurance companies having already contested the claim petition tooth and nail are likely to have lost the confidence of the claimants. In the second place, the nationalised status of the insurance company may or may not continue in future when it may become difficult to assume that the corpus can be safely left with them. The inflexibility of the rule, it is said, is likely to cause hardships in individual cases particularly when the claimant would be needing the amount for reimbursement of

the medical expenses as well as other expenses incidental thereto. It is further said that those who are literate and wise should be given the charge of the compensation amount at the very outset because they may invest the amount in a more profitable way than what is suggested by the Court. The payment of lump sum is also favoured by the appellants as the amount may help the victim/injured or the heir of the deceased in making arrangement for a self-employing establishment which may be a better arrangement than receiving a fixed annuity periodically. So far as the minors are concerned detaining the payment till the claimant reaches the age of 21 years or at least for a minimum period of 10 years would amount, in particular cases, to detain the money till the claimant reaches the age of nearly 30 years. This again is challenged as unreasonable. Further they say that compensation amount is calculated on the basis of the multiplier method in which one-third of the expected loss of estate is deducted and therefore unless the compensation so awarded is paid in lump-sum the interest alone will be illusory. Further according to them the amount of time lost in litigation will never be compensated if the victims are to receive only the interest amount.

10. The claimants have further said that the guidelines laid down in Muljibhai's case (1982 (23) I Guj LR 756) (supra) having been approved by the Supreme Court in the Union Carbide case (AIR 1992 SC 248) (supra), there was no necessity to lay down the directives in the impugned judgement and further that the questions referred to the Full Bench by the Division Bench of the High Court did not include the question of disbursement of the awarded amount and hence the determination of the guidelines itself is beyond the jurisdiction of the High Court.
11. Over and above the general challenges to the impugned judgement, each appellant has attempted to show why in his/her individual case the guidelines operate in a harsh and unjust manner.
12. Sometime after the arguments in the matters were closed a Division Bench of the Gujarat High Court took note of the conflict between the guidelines laid down in Muljibhai's case (1982 (23) I Guj LR 756) (supra) as approved by this Court in Union Carbide case (AIR 1992 SC 248) (supra) and referred the question to a five-Judge Bench. The five Judge Bench also took note of the observation of this Court in the case of General Manager, Kerala State Road Transport Corporation v. Susamma Thomas reported in 1994 ACJ I : (1994) 2 SCC 176 : (1994 AIR ACW 1356) in which its guidelines in the Union Carbide case were reiterated. The five-Judge Bench in Jayantilal Ambalal Parmar V. Gujarat State Road Transport Corporation (1994) 35 (2) Gujarat Law Reporter 1308, observed that the reference was to resolve the following questions :

“(1) Is there conflict between the guidelines laid down by the Hon'ble Supreme Court in relation to disbursement and investment of the amount of compensation awarded in motor accident claim cases in the case of General Manager, Kerala State Road Transport Corporation v. Susamma Thomas reported in 1994 ACJ I : (1994 AIR SCW 1356) (decided on January 6, 1993) and the guidelines laid down by a Full Bench consisting of three Hon'ble Judges of this High Court in the case of New India Assurance Co. Ltd. V. Kamalaben reported in 1993(I) Guj LR 779 : (AIR 1993 GUJ 171)

(2) If there is conflict, is it reconcilable? If not reconcilable, which guidelines are required to be followed by the High Court and the Motor accident Claims Tribunals in the State?"

13. The five-Judge Bench came to the conclusion that the decision of this Court in Union Carbide case (AIR 1992 SC 248) (supra) wherein the guidelines laid down in Muljibhai's case (1982 (23) I Guj LR 756) were approved had not been brought to the notice of the three-Judge Bench which passed the impugned judgement i.e. the one in Kamalabens's case (AIR 1993 GUJ 171). It is also noticed that the fact that the same guidelines had been reiterated in the Kerala State Road Transport Corporation case (1994 AIR SCW 1356) had also not been brought to the notice of the three-Judge Bench. The five-Judge Bench of the High Court concluded that there was a conflict in the guidelines laid down by this Court and those laid down by the three-Judge Bench. It observed :

- "21. In the guidelines laid down by Hon'ble Supreme Court and the guidelines laid down by the Full Bench of this Court, there is conflict. It is not possible to reconcile the same. As per the guidelines laid down by the Full Bench of this Court the Insurance Company which may have become liable to pay the amount of compensation is required to retain the amount with it. It is obliged to pay the same to the claimants periodically with interest at the rate of 15%. This is not the case in the guidelines laid down by the Hon'ble Supreme Court. The guidelines laid down by the Hon'ble Supreme Court requires that the amount of compensation should be deposited in the Tribunal. Thereafter, it is for the Tribunal to regulate disbursement and investment of the amount. Moreover, the guidelines, laid down by the Hon'ble Supreme Court take care of all types of cases, wherein even the insurance company may not have been held liable to make the payment of the compensation; while, in the case of the guidelines laid down by Full Bench of this Court, the guidelines are silent in cases where the Insurance Company is not made liable to make payment of the amount of compensation and only the owner of the vehicle or the driver is made liable to pay the compensation.
22. The guidelines issued by the Hon'ble Supreme Court take care of the provisions of Section 168 (3) of the Motor Vehicle Act, 1988 while as indicated hereinabove, attention of the Full-Bench has not been drawn to the provisions of Section 168(3) of the Act, which requires a person liable to make payment of the amount of compensation to deposit the amount of compensation with the Tribunal within thirty days from the date of announcement of the award.
23. In the guidelines laid down by the Hon'ble Supreme Court emphasis is to protect the interest of minor claimants and the interest of illiterate and semi-literate, as well as poor claimants. The guidelines laid down by the Hon'ble Supreme Court also apply to literate and other claimants. But in such cases discretion is left with the Tribunal, indicating the circumstances and the manner in which the discretion may be exercised. While the guidelines laid down by the Full-Bench, it is difficult to read that any such discretion is left with the Tribunal. For the aforesaid reasons there is conflict between the guidelines laid down by the Hon'ble Supreme Court in the case of Union Carbide Corporation (supra) and again in the case of General Manager, Kerala State Road Transport Corporation (supra). Moreover, this conflict is

irreconcilable in as much as it would be impossible to implement both the guidelines simultaneously”

(See Jayantilal Ambalal Parmar v. Gujarat State Road Transport Corporation (1994) 35 (2) Gujarat Law Reporter 1308)

14. The five-Judge Bench concluded saying that the guidelines laid down by the Hon'ble Supreme Court as indicated above have to be followed by all the Motor Accident Claims Tribunals. Thus, the position in law as it stood before the decision rendered by the three-Judge Bench of the High Court stands restored.
15. It may also be mentioned that before us both the General Insurance Corporation and the Life Insurance Corporation expressed their inability to work out and operate the annuity scheme proposed by the three-Judge Bench of the High Court and further expressed their inability to grant the proposed interest rate as it may conflict with Reserve Bank of India directives that may ensue from time to time. They too, therefore, expressed their inability to operate the scheme. Counsel for the Life Insurance Corporation clarified that when its counsel gave the consent before the three-Judge Bench, it did not visualise the various operational difficulties likely to arise in the implementation of the scheme proposed by the three-Judge Bench of the High Court. Thus, both the General Insurance Corporation and the Life Insurance Corporation feel that the said scheme is unworkable and fraught with several insurmountable difficulties. We too are of the view that the scheme may throw up many operational difficulties. However, now that the larger bench of the High Court has restored the original position, nothing more is required to be done. If any loopholes appear in the implementation of the guidelines laid down in Muljibhai's case (1982 (23) I Guj LR 756), they can always be plugged consistently with the guidelines.
16. Before we can part we must observe that even though the guidelines laid down in Muljibhai's (1982 (23) I Guj LR 756) have been approved and applied by this Court in the aforementioned two cases, many Motor Accidents Claims Tribunals and even some of the High Courts in other parts of the country do not follow them. We are also told that in claims that are settled in or outside the Court or Tribunal including Lok-Adalats or Lok Nyayalays, these guidelines are overlooked. We would like to make it absolutely clear that in all cases in which compensation is awarded for injury caused in a motor accident, whether by way of adjudication or agreement between the parties the Court/Tribunal must apply these guidelines. We must add one further guideline to the effect that when the amount is invested in a fixed deposit, the bank should invariably be directed to affix a note on the Fixed Deposit Receipt that no loan or advance should be granted on the strength of the said FDR without the express permission of the Court/Tribunal which ordered the deposit. This will eliminate the practice of taking loans which may be upto 80% of the amount invested and thereby defeating the very purpose of the order. We do hope that the Courts/Tribunals in the country will not succumb to the temptation of permitting huge withdrawals in the hope of disposing of the claims. We are sure that the Courts/tribunals will realise their duty towards the victims of the accident so that the large part of the compensation amount is not lost to them. The very purpose of laying down the guidelines was to ensure the safety of the amount so that the claimants do not become victims of unscrupulous persons and unethical agreements or arrangements. We do hope our anxiety to protect the claimants from exploitation by such elements will be equally shared by the Courts/Tribunals.

17. There is no need for any further discussion in the matter. The Writ Petition (Civil) No. 716/93 filed by the Motor Vahan Durghatana Sangathan, Nadiad and others has become infructuous and is, therefore, so disposed of. The appeals arising out of special leave petitions are allowed accordingly. Further orders regarding disbursement. etc. to be obtained from the concerned Tribunals/High Courts. No costs. Order accordingly.

22.50 Access to the computers of the banks being inspected by RBI.

The banks should provide the highest level of 'read only' access to the computers for Reserve Bank's Officers during their inspections of computerised offices and they should also arrange to provide a person with computer knowledge with the above mentioned access, from the branch under inspection, if the inspection term needed any assistance in this regard.

22.51 Risks and control in computer and Tele-Communication system

- (i) The Guidance Note comprising two sections viz. Section I – as “an introduction to computer and tele-communication risks” and Section II as the guide to banks on risks and control measures”, compiled for guidance of the banks on risk arising out of the computer and tele-communication network being adopted by banks in India and consequently the need for putting in place adequate control mechanism for effective oversight on the systems is given in the Annexure.
- (ii) The Guidance Note explains the basic principles which will be used by the management of banks to evaluate the adequacy of the controls while addressing the various risks associated with the computer and tele-communication system. These principles are presented as general framework but the responsibility of evaluating the risks inherent in the computer, etc. system and putting in place adequate control mechanism to address these risks will be of the bank Managements. The Guidance Note gives only set of minimum criteria which bank management should adopt and build on to meet the bank's specific requirements. The bank management will have to take into account the nature, scale and complexity of bank's operating environment when designing control procedures. The Guidance Note primarily is directed to the needs of management in running the business on prudent basis. While formulating the control systems, the management should also consider additional requirements of Reserve Bank of India inspection/supervisory system as well as that of the individual bank's internal/external auditors. The contents of the Guidance Note are applicable to both the banks incorporated under the laws of the India and to foreign bank branches operating in India in respect of the business of those branches.

ANNEXURE
[Paragraph 22.51(i)]

RISKS AND CONTROLS
IN COMPUTER AND
TELECOMMUNICATION SYSTEM

GUIDANCE NOTE FOR BANKS

Department of Banking Supervision
Central Office
Mumbai
February, 1998

SECTION - 1

AN INTRODUCTION TO COMPUTER AND TELECOMMUNICATION RISKS

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SECTION - 1

AN INTRODUCTION TO COMPUTER AND TELECOMMUNICATION RISKS

Introduction

Indian banking is becoming increasingly computerised and this is likely to continue for some years to come. Unlike in many countries where there has been a gradual increase in the scope and the role of technology in banks, Indian banks have gone and will continue to go from manual to highly computerised processes in a very short period of time. Computerisation can reduce the cost of and improve the effectiveness of banking operations. It can also facilitate easier access to new geographical markets, products and services. However, it also leads to a change in emphasis on the risks which need to be addressed by the management of banks. Furthermore the types of controls required to manage the risks effectively are different to those for manual systems.

Purpose of guide

The purpose of this guide is to help banks identify the key risks arising from the increased use of computerisation and automation in their banking processes, and to suggest controls to mitigate against those risks. The guide can therefore be used by bank management as an aid to identifying the key risks that threaten ongoing banking operations, and developing or designing adequate internal control policies and procedures to mitigate against the risks.

This guide is set out in two parts .Section I introduces the relevant risks and Section 2 describes the controls to address the key risks .This guide is not intended to be an exhaustive guide to risks and controls. This would be inappropriate as the nature and size of each bank is different and therefore subject to a wide range of different risks and controls.

Characteristics of computer and telecommunication banking environments

The existence of computer and telecommunication environments within a bank may not change fundamentally the types of risks which exist. They will however change the scale of those risks and the potential losses and consequences which may arise if control procedures are not effective in containing the risks to acceptable levels. The key characteristics that influence the risk environment include:

- **Volume** - Computerisation in a bank normally facilitates greater efficiency and enables a significantly larger number of transactions to be handled. This increase in volume often leads to management relying increasingly upon exception reporting and other high level monitoring controls to control the business.

- **Visibility-** Over time an increasing proportion of transactions are processed in electronic format .As the level of human intervention with transactions falls and procedures become increasingly automated, adherence to procedures becomes more difficult to establish post the event using visible evidence. In addition changes made to transaction in an electronic medium are essentially invisible and as a result the bank's management have to rely on automated audit trails to track amendments made to transactions.
- **Timing-** Potentially, transactions can be authorised and processed and funds transferred around the world's banking systems almost instantaneously. This allows a bank's management less time to ensure that adequate control procedures have been performed on the transaction or to stop an unauthorised transaction. As a result management have to ensure that adequate preventive controls are in place ensuring that all data is complete, accurate and valid at the point of initiation . Detective controls may be too late to control effectively certain types of systems.
- **Complexity-** Computerisation allows increasingly complex transaction to be processed quickly and cost effectively, with the result that a bank's management information systems have to keep pace with the risks arising from these transactions. Consequently the bank's management and the supervisory authorities have to understand the business better including the risks associated with more complex transactions.
- **Audit trail-** When transactions are captured via a computer with less manual intervention, audit trails can become less visible, with data located centrally or distributed across the organisation. It therefore becomes important for management to ensure that sufficient audit trails are designed into systems and that there are security procedures around those audit trails so they cannot be altered.
- **Networks -** A Computerised bank's data will normally be transferred between its locations using an electronic data network. While there are many advantages of being able to send data quickly around a bank using the network, its use presents a number of risks. These risks include the possibility of unauthorised viewing, alteration of data being transferred over the network, weak security in a remote, less sensitive part of the network allowing access to be gained to a more sensitive part, the possibility of data corruption occurring during transfer of data from one part of the network to another insufficient contingency designed into the network and insufficient monitoring of the net work leading to it being overloaded.
- **Strategy -** A bank's competitive advantage is increasingly influenced by the success of its computer systems in helping management to control and monitor the business as well as providing added value in terms of services to the bank's customer base. The implementation of a computer system typically represents a significant investment for the bank and once

the bank has implemented a major system it can prove difficult or expensive to change it rapidly .It is thus of crucial importance that system is designed properly to meet current and future requirements and the strategic objectives of the bank.

- **Reliance on systems-** As a bank becomes increasingly reliant upon computer systems, there is an increase in the risks associated with an interruption, be it intentional or otherwise, to the service provided by the computer systems. As a result management has to ensure that there are adequate procedures in place to ensure that the integrity of data is maintained during a business interruption (such as fire or flood),through such means as business continuity planning back-up procedures and the use of “hot” or “cold” sites as alternative processing centres.
- **Validity -** If transactions are recorded directly in electronic format, with no underlying paper source records, the validity of transactions will largely depend upon ensuring that only authorised staff can access the computer to either input or alter transactions. Consequently, management must ensure that adequate security procedures, such as the use of passwords and data encryption are in place.

Nature of computer and telecommunications risks

This guide describes computer and telecommunication risks under following main headings :IT environment risks, IT operations risks and product risks.

IT Environment risks

This category represents the inherent risks that arise due to the commercial and business environment within which the computer and telecommunication systems are operating .They are described briefly below:

Regulatory risk

Banks must operate within a set regulatory frame work : The design and operation of a bank's computer systems must reflect and comply with the regulatory frame work in place .The greater the extent of computerisation at a bank, the greater the possibility that changes in banking regulations will affect computer systems. Regulatory breaches can result in diminished reputation, increased cost of capital, limited business opportunities and ultimately loss of a banking license. The lack of a legal framework covering electronic transactions can increase the likelihood of disputes arising relating to such transactions.

Strategic risk

Strategic planning in a bank sets out corporate or departmental objectives which help to ensure an effective and efficient organisation now and in the future. The IT department particularly requires strategic objectives, for without them IT management may not be able to produce an effective IT strategy and deliver IT to meet the business' needs.

If a bank is without an IT strategy, the user management's requirement may not be adequately communicated to IT Management. As a result the bank's IT resources may not be deployed appropriately to meet its overall business strategy.

When a bank adopts inappropriate IT strategies, this may place undue pressure on bank's IT resources and systems to adapt to new business environments, as new products and services come on-line. A risk exists that short term fixes may be made to the detriment of longer term objectives and projects. In addition, business pressure may result in system changes being implemented too quickly and before they have been adequately tested. The failure of IT strategies to take into account the changing needs of the bank may lead to the current systems becoming obsolete over time, with competitors gaining a competitive advantage through the utilisation of new more advanced and cost effective technologies ahead of the bank concerned.

A particular strategic risk that will be present in the next few years is the risk that the banks IT systems will not cope with the effect of the year 2000.

organisation risk

The organisational structure of a bank can determine the effectiveness of the bank's use of IT. Where the organisational structure fails to provide and define reporting lines and responsibilities for the IT functions, this can lead to misunderstandings of responsibility and a poor distribution of human and financial resources. In addition, poor segregation of duties can increase the risk of error and fraud within a computer and telecommunication environment.

Location risk

As banks become computerised, they depend increasingly upon their technology resources to achieve the business' objectives. The technology resources are susceptible to the risks of unforeseen and sometimes naturally occurring events. Depending on the location of a bank's data processing equipment it can be susceptible to natural events such as floods and earthquakes or storms, and other events such as riots or sabotage.

Outsourcing risk

It is increasingly common for banks to outsource some or all of their data processing and IT. While all the other types of risk still need to be addressed when outsourcing takes place there are some additional risks which need to be considered. Without proper management control and documentation, the responsibilities and liabilities of supplier and customer may not be clear. Over reliance on a single supplier increases the risks from supplier failure and may lead to unacceptably high costs.

IT Operations risk

Operations risk relates to those risks arising from a day to day transaction processing on computer systems. The various components of IT operations risk can be classified under the following headings.

Error risk

Errors in a computerised environment may arise from a number of sources, including errors made during the development and amendment of computer programs, simple errors in data entry by terminal operators, and misuse of system housekeeping tools and sensitive facilities. These errors may affect the completeness and accuracy of transactions, balances and management information.

Bank computer programs are often highly complex, containing typically thousands of lines of computer coding, any number of which may contain error. Whilst these programs may have been well tested, a risk still exists that errors can remain inactive and dormant for a number of years, only to appear when a certain set of circumstances occurs.

Standard software packages are also not immune from the introduction of errors. These may occur when the packages are “customised” by the vendor and adapted to the particular bank.

Computer fraud risk

A computerised environment provides a number of new opportunities for fraudsters. This is primarily due to the ease with which fraudsters can hide their actions on computer systems and the speed with which fraudulent activity can take place.

Most banking systems contain control facilities and produce reports designed to assist in the prevention or detection of fraud. These too however may be highly vulnerable to personnel with powerful privileges who can manipulate access to computer terminals or files.

It is imperative that a bank is aware of the vulnerable points within its system, and guards against new opportunities for fraud which may materialise, especially during times of business and systems change.

Particular risks are also associated with the implementation of new systems and all the security requirements of a new system should be considered prior to a system being specified or designed. If this exercise does not take place, the bank is at risk of the new systems being unreliable and difficult to secure against unauthorised access or activity.

Disclosure risk

Information held on bank's computer and passed around its computer network includes very sensitive financial and other data about the bank's customers. Accidental or intentional disclosure of this information can have a negative reputational impact on a bank, increasing the risk of fraud against its customers or leaving the bank open to legal charges.

Interruption risk

As banks become increasingly computerised, their ability to be able to operate for any significant length of time without their computer and telecommunications systems falls. The bank is ultimately reliant upon a number of different components which together make up the bank's technical infrastructure any one of which may bring the system down in the event of an unexpected or planned event occurring. A particular example will be the ability of IT systems to cope with the year 2000.

The impact of a discontinuity of computer operations can be dramatic. Processing backlogs may build up which can take hours or even days to process, and where ATMs are being used, the impact on the customer will be almost immediate.

If computer facilities and related infrastructures are not adequately protected and secured the result may be a major impact upon the continuity and even going concern of banking operations. Inadequate continuity arrangement may result in a loss of business, damaged reputations and loss of assets.

Product/service risks

Banks may implement technology-based products to improve operational efficiency and effectiveness. Whilst the operational risks associated with these products remain fundamentally unchanged, the way in which management design and implement a control framework to mitigate against those risks is different. Examples of areas which may require additional and specific control procedures in place include the following:

- Automated Teller Machines (ATMS)
- Money transmission and settlements
- Computer based dealing activities
- Derivatives trading

RISKS AND CONTROLS IN COMPUTER AND TELECOMMUNICATION SYSTEMS

GUIDANCE NOTE FOR BANKS

SECTION 2 : RISKS AND CONTROLS

RISKS AND CONTROLS IN COMPUTER AND TELECOMMUNICATION SYSTEMS

Section 2:

Contents	Part
IT Environment risks and controls	A
IT operations risks and controls	B

Note to reader :

This document is section 2 of a guidance note on risks and controls in computer and telecommunication environments . This section takes each of the risks identified in section I and provides a high level guide to the controls that would be expected to cover the risks at a bank. The exact controls in place will vary with the size and nature of the bank and therefore this guide should not be considered an exhaustive list.

Part A: IT Environment risks		
Risk	Suggested controls to address risks	
Regulatory risks Violations or non-compliance with regulation exposes the bank to significant impairment of reputation and loss of banking license. Information systems fail to provide management with timely, accurate and informative information for monitoring and controlling compliance with regulation. A lack of training or the provision of internal control guidance can lead to inadvertent or deliberate breaking of regulations. Lack of a legal framework over electronic transactions could give rise to significant disputes concerning the validity of such transactions, particularly when processing problems, errors or frauds arise.	The bank should have or there should be: • a fully staffed compliance department charged with managing the bank's compliance with financial and business regulations; • a systems. Development methodology which ensures regulatory requirements are taken into account; • compliance staff involved in the systems development process; • regulations and laws regarding compliance incorporated into operating procedures within the underlying IT systems and responsibilities and accountabilities approved by the board; • requirements for IT management to submit a return regularly stating their understanding of the compliance policy; • a programme in place to train staff on compliance matters; • sufficient contractual arrangements in place to overcome the legal deficiencies that may arise where an adequate legal framework does not exist.	

Strategic risks Without an understanding of the institution's strategic objectives, IT management may not produce an effective IT strategy and deliver IT to meet the business needs. Without an IT strategy, IT staff may fail to meet the bank's overall strategy. Without IT planning, resourcing and budgeting the objectives of IT may not be achieved or excessive time and costs may be spent on non productive IT areas. Failure to monitor IT at an overall level can lead to systems being built that meet the IT department's requirements but not the users.	The bank should have or there should be: • a clear statement of the institution's strategic objectives; • an up-to-date business strategy which sets out a clear direction for IT and is in accordance with the institution's objectives; • a Head of IT who is a member of senior management and is involved in the formulation of the business strategy ; • management policies on preparation and approval of IT strategies covering IT planning, resourcing and budgeting; • an up-to date IT strategy which regularly is reviewed and updated as the business strategy alters covering: a) IT organisation and resources (including out-sourcing); b) Architecture and capacity planning appropriate to future business developments; c) Future applications; d) Cost and time scales; • Assessment and approval of IT strategies by senior management; • Operational plans and budgets that specifically identify the IT component; • formal adoption of all plans and budgets by IT management;	

	• procedures which specifically monitor and identify performance targets for IT and the extent to which IT is meeting the business requirements should be in place; • policies regularly reviewed to ensure they are appropriate; • procedures in place to ensure user needs for system changes are adequately identified, considered and prioritised; • project management and quality assurance steps implemented to ensure systems are delivered on time to cost and with the necessary level of functionality; • processes in place for capacity planning; • a fully resourced and monitored project to assess and address the impact of year 2000, with explicit senior management commitment.	

Organisation risks An unclear organisation structure can lead to misunderstandings of responsibility. Lack of organisation can lead to poor distribution of human resources. Poor segregation of duties can lead to fraud and error. The organisation fails to ensure that dedicated personnel are recruited to provide technical development and maintenance expertise on an ongoing basis. Without a clear understanding of the skills of their staff, IT management could misallocate staff to areas where staff are sufficiently skilled to provide adequate support. Poorly allocated staff are demotivated, work less effectively and reduce the quality of output. Insufficient numbers of staff can lead to risks of conflicting duties.	The bank should have or there should be: • a recruitment policy and procedures for IT staff; • a formal organisation chart and job descriptions adequately defined • duties of staff segregated to ensure no incompatible functions (for example, development programs and management of their live operation). • regular review of the organisation chart and job description to ensure that they adequately cover the roles and responsibilities of IT staff and the segregation of duties continues to be sufficient; • regular review of current and future skill requirements; • supervision of new and less experienced staff.	

Location risks A poor location for the institution's IT resources can lead to risks of interruption from events such as earthquakes or floods.	The bank should have or there should be: • a regular review of the location of IT resources to ensure that their location is appropriate with escalation procedures in place to resolve emergency situations in a timely manner; • the necessary operational procedures in place to cater for total systems shutdown, including resorting to manual procedures; • adequate insurance maintained to cover the costs of replacing IT resources in the event of a disaster; • reporting of all disruptions to appropriate management in both user and IT Departments.

Outsourcing risks Inadequate direction on outsourcing standards can lead to the bank being effectively locked in to supplier's or suppliers adopting "soft" performance standards. Poor management of the contract can increase the risk of disputes between supplier and bank. Inadequate contract terms could lead to problems over aspects such as : - access to records; - access by auditors; - arrangements to deal with supplier difficulties; Insufficient service levels can lead to the bank leaving inadequate IT capacity to maintain an adequate level of service.	The banks should have or there should be: • Controls over strategic directions on outsourcing; • responsibility for setting standards to which the suppliers must conform; • vested authority for overall service to one lead supplier where more than one supplier is involved; • a contract which is set up in such a way that avoids lock in to a single supplier; • a person in the bank appointed to be responsible for managing the outsourcing contract with experience and skills in this area; • the right to conduct EDP audits at the supplier's premises; • procedures to ensure the controls in place at the supplier over the completeness, accuracy and integrity of processing and the security of IT systems meet the bank's standards; • regular monitoring of service delivery against targets; • the right to veto key supplier staff and ensure the bank's staff security vetting requirements are met; • adequate contingency arrangements for supplier difficulty covering software ownership, hardware, buildings, staff etc. • clear escalation procedures in the contract including levels of authority and time scales for monitoring disputes and problems.	

Part B: IT Operations Risk		
Risk	Suggested controls to address the risk	
Error risk Information systems fail to provide complete and accurate information on a timely basis. Data errors are not being deleted or corrected on a timely basis with resultant unreliability of banking and accounting information. Wrong versions of files or programs used lead to major processing errors. Processing errors damage customer service and operational performance before they are deleted.	Procedures should be in place to ensure: • all transactions are entered and accepted once and only once in to the computer system; • data is accurately entered into the computer system; • standing data changes are authorised accurately entered; • all transactions are accurately updated to the general ledger and the computer system's database or files; • the continuing integrity of the general ledger and computer system's database files; • development projects have clear sponsorship at senior management level; • all new systems and changes to current systems are adequately specified, programmed (or selected if a packaged system), tested (including options set and parameters selected if a packaged system) and documented prior to being transferred into the live computer environment; • effective controls over the data conversion process are established and checked prior to and during data conversion when new systems are implemented; • sufficient training is provided on new/amended computer systems for users and IT staff;	

	• basic application level access controls are in place to prevent well meaning, but misguided access attempts; • computer operations procedures are in place covering operator duties and batch processes; • frequent backups of programs and data are made; • Where recovery from operational failures is necessary, procedures are in place to identify this is done on a timely basis and ensure it is achieved without the introduction of errors. • The use of end user computing facilities is appropriate to business needs.

Fraud risk (Due to the rapidly increasing diversity and complexity of frauds perpetrated, these risks and controls should be continuously monitored to ensure they are kept up to date with new information that comes to light. This document does not specifically cover the risks and controls over frauds committed outside the computer system but where the computer is used to process fraudulent transactions.) Unauthorised transactions are entered into the computer system. Unauthorised additions, alterations or deletions are made to data on a bank's computer system or while the data is being transmitted over the computer network. Unauthorised changes are made to computer programs at anytime during the program's life cycle (eg. Development, maintenance, or live running) Unauthorised computer programs are run on the bank's computer system.	Procedures and controls should be in place to ensure: • All security requirements are defined with identification of data owners and a formal risk analysis; • responsibility for security administration is defined; • users and IT staff are educated to keep passwords secret and follow good IT security procedures; • all staff have unique user-ids; • all program change requests are authorised; • all program changes are tested sufficiently to ensure they function as intended; • all programs are held in secured libraries (including after the completion of program testing, but before being transferred to live running); • all new systems developments are reviewed to ensure adequate control procedures including exception reports are built into new systems before being implemented. This includes controls over known weaknesses in the security of the underlying operating system; • adequate reconciliation and checking procedures during any data conversion process are carried out when new systems are being introduced;	

	• users and IT staff are granted access to computer systems and data that is commensurate with their job. Care should be taken to ensure adequate segregation of duties when granting access to the following computer environments; (a) live (b) test (c) development; • overall balancing of computer transactions and databases to financial accounts and other external sources; encryption and integrity checks (including sequence and authentication checks) are used where high risk data is transmitted (eg. Payment details) over the computer network and could be altered in the process of transmission; • access to particular functions within computer applications (eg. Approving payments) are appropriately restricted using user ids and passwords to ensure segregation duties and prevent unauthorised activity; • sensitive or high value transactions entered into the computer systems are forced by the system to have separate staff input and authorise them; • restricted from access to assets; • the duties of all persons who have authorised access to assets or to control functions are reviewed regularly to ensure adequate segregation of duties; • access to the computer systems is monitored;	

	• staff with access to sensitive IT facilities or use of sensitive facilities, such as master passwords, powerful utilities and system manager facilities are restricted; • access to external network connections is approved; • physical access to computer equipment is restricted to a needs basis; • all departures from scheduled batch processes are identified, explained and approved; • all back up data is held securely; • all IT staff are suitably vetted and appropriate job references obtained; • user and IT staff in sensitive positions are closely supervised; • IT staff who give notice to leave are moved to non-sensitive work areas; • IT staff who are dismissed are removed from the premises immediately; • adequate insurance is held to cover against computer related fraud risks;	

Disclosure risk Confidential data is accessed on the computer or computer network by unauthorised personnel through hacking into the computer system or by 'listening' to traffic over the net work. Inadequate disposal techniques are used for old data storage devices (hard or floppy disks, CD-ROMs etc) allowing them to be read once they have left the bank's care. Confidential data is inadvertently 'broadcast' across the bank's computer network.	The bank should ensure: • all confidential information, including personal information processed by computer systems is identified and the potential consequences of unauthorised disclosure assessed; • only those individuals who need access to information in order to perform their duties have access to it; • access to confidential information is restricted to authorised persons by effective password or similar systems and password or similar controls apply to IT staff as well as users; • the use of powerful systems utilities to access data independently of normal processing is carefully controlled; • storage media (such as tapes, disks, diskettes and microfilm) containing confidential information is stored in a securely locked area and issued only on production of valid authorisation; • information of a highly confidential nature that is transmitted over telecommunication networks or stored on computer files is encrypted and; a) the encryption algorithm recognised as secure by national or international standards organisations; b) access to the keywords used for encryption restricted to authorised persons by password or physical means; c) stored keywords are encrypted to reduce the risks of unauthorised access (particularly through program dumps);

	• printed reports containing highly confidential information are shredded by authorised staff as soon as they are no longer required; • procedures prevent persons attempting unauthorised removal of storage media (including magnetic tapes, disks, diskettes and microfilm) or reports from the premises; • disks, diskettes and tapes which may have contained confidential data are completely erased or physically destroyed before disposal; • procedures exist for ensuring that confidential data cannot accidentally be sent out of the bank. For example by always using new disks, diskettes and tapes (or ones that have been completely erased) for recording data which are to be sent out of the bank; • procedures prevent persons attempting unauthorised removal or storage media (including magnetic tapes, disks, diskettes and microfilm) or reports from the premises; • disks, diskettes and tapes which may have contained confidential data cannot accidentally be sent out of the bank. For example by always using new disks, diskettes and tapes (or ones that have been completely erased) for recording data which are to be sent out of the bank; • during system development, where current or ex live data is used for testing purposes, scrambling of sensitive data is used to avoid disclosure to testing teams or vendors.	

Interruption risk Management fails to recognise that significant breakdowns and damage can occur to computer equipment that may lead to permanent cessation of the business. Unrestricted access to the computer site and buildings provides insufficient protection against unauthorised, malicious or terrorist activities. Systems and data are deliberately or accidentally corrupted in a way that causes systems breakdown and an inability to continue banking operations. Small fires and floods are not contained quickly enough to prevent major disaster. Back up routines and procedures fail to allow banking operations to be recovered following fire, flood or sabotage. Computer equipment develops faults which result in protracted interruption to banking operations. Viruses may propagate on the network performing erroneous functions and erasing or modifying programs or critical data.	The bank should ensure: • single points of failure are avoided by contingent resources being available; • there is management monitoring of: (a) system availability/down time (b) operational failures (c) IT service levels; • procedures are in place to deal with crisis situations and escalation to crisis level is understood. These should include specific procedures to deal with problems arising from the year 2000; • contingency plans are tested on a regular basis; • succession plans exist for key appointment; • Physical access to computer facilities and data is appropriately restricted with adequate measures to protect against fire and floodings; • database integrity checking used to prevent the corruption of databases; • back-up procedures in operation for data and programs are tested on a regular basis; • back-ups are stored in a secure location away from the main computer facility; • maintenance contracts, with reasonable call out times, are in place for all important computer and telecommunications equipment; • virus protection policies are developed and communicated to all end-users and IT staff and virus detection software is installed.

22.52 Advent of year 2000 (Y2K) - Compliance

- (i) The year 2000 problem has arisen because many computer systems in operation were not designed to deal with dates beyond December 31, 1999. Memory constraints associated computer hardware necessitated programmers to resort to the practice of using two digits to represent the year in the date field (YYMMDD). This practice was widespread till as recently as the late 1980s. The problem associated with the two-digit representation of the year is that the year 2000 will be interpreted in computer system to mean 1900 and not 2000. Consequently at the turn of the century a large number of computer systems, software programs and equipment/devices with embedded chips may give erroneous results or cease to function altogether. Although many of the newer applications are compliant, these often interact with or dependent on non compliant systems and hence prone to erratic functioning.
- (ii) Banks were advised to put in place appropriate time bound strategies to assess, convert and validate all systems and applications so as to achieve fully compliant systems well before September 30, 1998. Banks were required to keep their Board of Directors suitably apprised of the matter on bi-monthly basis.
- (iii) While bank may adopt their own norms for Y2K compliance, certain minimum qualitative and technical standards for Y2K compliant systems are expected. In this connection the definition prepared by the British Standards Institute Technical Committee could serve as a benchmark for Y2K compliant systems. According to the definition “Year 2000 conformity shall mean that neither performance nor functionality is affected by dates prior to, during and after the year 2000. In particular:
 - Rule 1. No value for current date will cause any interruption in operations.
 - Rule 2. Date-based functionality must behave consistently for dates prior to, during and after 2000.
 - Rule 3. In all interfaces and data storage, the century in any date must be specified either explicitly or by unambiguous algorithms or inferencing rules.
 - Rule 4. Year 2000 must be recognised as a leap year.
- (iv) A broad remediation framework based on the pattern suggested by the Bank for International Settlements has been recommended for adoption by banks and institutions. The essential components of this framework include:

- (a) Developing a strategic approach.
 - (b) Creating organisational awareness
 - (c) Assessing actions and developing detailed plans
 - (d) Renovating/replacing systems, applications and equipment
 - (e) Validating renovated systems through testing
 - (f) Implementing compliant systems
 - (g) Developing appropriate contingency plans.
- (v) Commencing from October 1, 1998 banks are expected to continuously validate their renovated systems through testing and identifying alternate approaches if the renovations are not successful. Detailed test schedules may have to be developed and co-ordinated with customers and correspondents for validating external linkages/interfaces. Testing may be done with reference to the following minimum mandatory and operational dates:

01/01/1999,		01/12/1999
09/09/1999	to	10/09/1999
29/12/1999	to	06/01/2000
14/01/2000,		28/01/2000
28/02/2000	to	01/03/2000
31/03/2000,		10/10/2000
27/02/2004	to	01/03/2004

- (vi) Banks should maintain proper records of the test documentation for post facto verification/audits.
- (vii) Y2K problem is more than a technical issue and needs the attention of the top management. The top management of banks should keep a close watch on the steps taken in their banks for conversion/replacement of applications and their testing and the Board of Directors apprised suitably. The progress made by the banks should be advised to the Y2K Project, RBI, DBS, CO at monthly intervals beginning September 01, 1998.
- (viii) Contingency planning:
- (a) Apart from normal business continuity and disaster recovery plans, there is a need for banks and financial institutions to develop contingency plans as an integral part of the institution's Year 2000 programme. The Board Of Directors and Senior Management should attach high priority to the development, validation and implementation of Year 2000 contingency plans. Each institution should evaluate the risks associated with the failure of core system and business processes and adopt cost effective alternatives.
 - (b) A good contingency plan should identify a range of Year 2000 scenarios, prioritise them in terms of probability of occurrence and impact potential for business and lay down cost effective

approaches to mitigate associated risks. Generic Year 2000 scenarios could possibly include combinations of the following:

- Disruption of technology bases systems both within the institution as well as external interfaces and networks.
 - Failure of financial telecommunication networks and infrastructure.
 - Failure of utilities and power.
 - Breakdown of Clearing and Settlement Systems.
 - High Demand for cash and liquidity.
 - Telecommunications breakdown (local as well as international)
 - Failure of counter parties/borrowers and clients.
- (c) The contingency plans need to be tested and constantly updated to address different Year 2000 scenarios that may be envisaged through analysis.

22.53 Record Maintenance

- (i) Board of Directors and the management of each bank should ensure maintenance of adequate records of accounting and other information. The Board and Management (which is hereinafter collectively referred to as the “Management”) should assess and judge what is adequate in the context of their banks. The bank should be required, if necessary, to explain their decision and underline the reasoning and rationale in relation to the policy procedure adopted for their bank, to the supervisors or inspectors of the Reserve Bank of India (the Bank) who may give direction to amend the record maintenance procedure if they deemed to be appropriate in relation to a particular bank.
- (ii) The Guidance Note in relation to basic principles which should be used to judge the adequacy of the record maintenance procedures adopted and installed by the management is given in the Annexure.
- (iii) The Guidelines are general but are intended to be flexible enough to apply to all banking institutions. These Guidelines should be viewed as a set of minimum criteria which the management should adopt with appropriate modifications thereto, as may be necessary to ensure the objective of record maintenance as stipulated therein. The management should take into account the nature, scale and complexity of their banks’ operations while designing suitable record maintenance procedure in terms of the Guidelines.

- (iv) Unless the context dictates otherwise, the contents of the Guidance Note will apply both to banks incorporated under the laws of India and also to branches of foreign banks operating in India in respect of the business of those branches.

ANNEXURE
[Paragraph 22.53(ii)]

Reserve Bank of India
Guidance Note on Record Maintenance

Department of Banking Supervision
Central Office
Mumbai
January, 1998

Guideline Note on record maintenance

Paragraphs

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I scope

- 1 For the purposes of this circular record maintenance has been divided into three components, each being dealt with in a separate section of the circular :

record keeping

record retention

record media.
- 2 In addition, a separate section deals with record location and lays down requirements to be met before a bank operating in India (whether domestic or foreign-owned) can maintain or process in an offshore location data relating to activities conducted in India.
- 3 Stipulation made vide this circular or similar circulars, which may be issued from time to time, in relation to record maintenance shall be in addition to, and not, in derogation of such requirements which are required to be complied with by banking companies, as per law in force for the time being. The management of the banks shall be responsible to ensure and secure compliance of statutory provisions in particular those as stipulated in:

Banking Regulation Act, 1949

Companies Act, 1956

Income-tax Act

The Indian Evidence Act, 1872

The Banking Companies (Period of Preservation of Records) Rules 1985

The Bankers Book Evidence Act 1891

The RBI Act 1934
- 4 Save as hereinafter expressly provided the contents of this circular shall apply equally, to paper-based and electronic records.
5. The circular does not directly address the systems that management put in place to process the records discussed herein, nor does it address record maintenance in relation to the prevention and detection of money laundering activities. Nonetheless, the RBI expects management to take account of these matters as part of their responsibilities.

II Record maintenance

- 6 Maintenance of records will be reviewed for adequacy against the following criteria:
- | | | |
|---------------|---|--|
| Content | - | what data is retained |
| Frequency | - | intervals between updates |
| Security | - | protection from unauthorised access |
| Durability | - | safekeeping/protection from deterioration |
| Accessibility | - | ready availability to authorised individuals |
| Lag | - | delay between initiating and recording |
| Accuracy | - | reliability and freedom from error |
| Verification | - | ability to check accuracy. |
- 7 A record keeping framework can be defined at differing levels within an operating environment. This circular identifies three levels;
- a) General principles
 - b) Management information
 - c) Transactional data.
- 8 The detailed guidance that follows indicates the minimum level of record keeping which the RBI expects to be met for various of the criteria at each of the three different levels. Due reference must also be made to the additional specific requirements set out in the appendix to this circular .
- 9 Record retention, record media and record location are primarily particular aspects of the accessibility and durability criteria.

III Record keeping

General principles

- 10 Management are responsible for implementing such record keeping procedures, which, given the nature, scale and complexity of the business, ensure that:

a) Content

management have sufficient data to monitor, assess and control the risks incurred by and the performance of the bank;

the nature and purpose of each transaction is explained;

the bank can comply with all of its statutory and regulatory obligations;

b) Frequency

management can make timely decisions based on current information;

c) Security

access to confidential data is restricted to authorised individuals;

customer confidentiality is maintained;

d) Durability

back up arrangements are in place for all records held in electronic form or any other records subject to high risk of loss;

c) Accessibility

data is available to authorised individuals (including RBI inspectors and internal and external auditors) on a timely basis;

data is available in a format suitable for the purpose for which it is required;

f) Lag

initial recording of all transactions is as soon as they take place;

g) Accuracy

all records are complete and accurate;

h) Verification

a full audit trail (not necessarily paper-based) exists as data is aggregated, summarised or otherwise manipulated in the day-to-day process.

Management information

11. Management are responsible for implementing, such record keeping procedures which, given the nature, scale and complexity of the business, ensure that management receive information which discloses;

a) Content

periodic financial statements (profit and loss account and balance sheet);

analysis of significant asset, liability, income, expense and off balance sheet items;

Valuation of significant assets/liabilities and off balance sheet items;

financial trends and variance against budgets and prior periods;

measurement of risk positions and comparison of positions against limits;

exception reports of limit breaches;

maturity analyses;

risk concentrations;

sensitivity analyses reflecting the effect of changes in interest rates or exchange rates;

age analyses of unsettled transactions/suspense account items/reconciliation items;

b) Frequency

summary financial data at least monthly;

results of active dealing/trading activities at least daily;

data on risk positions with a frequency which reflects volatility of the risk and which permits management to take corrective action on a timely basis.

Transactional data

- 12 Management are responsible for implementing such record keeping procedures which, given the nature, scale and complexity of the business and to ensure that the data captured for each transaction reflects;

a) Content

transaction type;

purpose;

originator;

authoriser;

counterparties;

amount/currency;

relevant dates (transaction date, trade date, settlement date, value date etc);

interest/exchange rates

fees/commissions;

collateral taken/given;

subordination/guarantees;

any other transaction specific characteristics.

b) Accessibility

ease of access determined by frequency of use;

c) Lag

recording of all known transaction details as soon as commitment/contract is entered into and adds other details as soon as they become available.

IV Record retention

13 Management should set record retention periods for all categories of record. These periods will frequently be based on management's analysis of the cost of retention compared against the benefit derived from the availability of the data. However, the RBI will also expect the following overriding matters to be taken into account when setting retention periods;

a) compliance with statutory and regulatory requirements;

b) satisfaction of the needs of RBI inspectors to have access to certain records; and

- c) satisfaction of the needs of internal and external auditors to have access to certain records.
- 14 (b) and (c) will principally depend on the frequency of the work cycle of the relevant parties.
- 15 The onus is on management to demonstrate that they met the requirements of (a) and (c). Regarding (b), the RBI will require record retention periods to be the subject of a formal policy statement which itself will be subject to RBI approval - see section VIII.
- 16 The RBI expects management to have in place appropriate controls over the destruction of records upon expiry of the period set out in the policy statement. Such controls will include;

authorisation and approval prior to destruction; and

a register giving details of the documents destroyed, the date and means of destruction;

V Record media

- 17 Subject to the condition that the procedure adopted by the management in terms of these guidelines do not result in violation or contravention of any statutory and regulatory requirements, decisions regarding the medium to be used for record keeping are a matter for management. Most records are likely to be held either in paper form or as electronic data. However other formats including micro film and micro fiche may be used.
- 18 In determining the media to be used, the RBI expects management to take account of :
 - a) compliance with statutory and regulatory requirements;
 - b) the need to ensure that the medium chosen does not conflict with the accessibility required of the relevant records and
 - c) the physical conditions under which the records will be stored.
- 19 Where records are converted from paper to non-paper form, the RBI expects management to have in place appropriate controls over the conversion process.
- 20 Where the underlying paper documents are subsequently destroyed and the converted format becomes the prime record, a certificate of authenticity should be produced at the time of conversion and be signed by the official responsible for overseeing the conversion process.

VI Record location

- 21 The overriding principle concerning location of records is that records continue to be available to management on a timely basis.
- 22 Banks are permitted to maintain records in offshore locations only with the prior approval of the RBI. Before granting such approval the RBI will need to be satisfied that;
- a) the records and data are available to management in India on a timely and reasonable basis;
 - b) adequate back up facilities are available for electronically stored data;
 - c) security is maintained during cross-border transfers;
 - d) RBI inspectors (and external auditors) will be permitted to visit and carry out examinations at the offshore location;
 - e) where the offshore service provider is a regulated entity, the relevant offshore regulator will not obstruct the arrangement nor object to RBI inspection visits;
 - f) if data processing at the offshore location is outsourced to a service provider which is not a regulated entity, the controllers, directors and managers of the service provider are fit and proper people to be providing such services to a bank in India;
 - g) the availability of record to management and the RBI will withstand the liquidation of either the offshore custodian or the bank in India;
 - h) the regulatory authority of the offshore location does not have access to the data relating to Indian operations of the bank simply on the ground that the processing is being undertaken there (not applicable if off shore processing is done in the home country of the bank);
 - i) secrecy and confidentiality of data is maintained;
 - j) the jurisdiction of the courts in the offshore location where data is maintained does not extend to the operations of the bank in India on the strength of the fact that the data is being processed there even though the actual transactions are undertaken in India; and
 - k) all original records will continue to be maintained in India.
- 23 Once RBI approval is received certain details of the arrangements to maintain records offshore must be included in the bank's policy statement on record retention-see section VII.

VII Policy statement on record retention

- 24 The RBI requires each bank to prepare a statement of its policy in relation to:
- record retention
- record location.
- 25 The policy statement must be approved by the bank's Board of Directors. It is also subject to approval by the RBI, who will take into account the needs of the RBI inspectors before granting such approval. Proposed changes to the policy must also receive approval from the RBI.
- 26 Testing adherence to the policy statement may be included in the work undertaken during a RBI inspection visit.
- 27 The format of the policy statement is not fixed and can be adapted to the needs of the bank. However, as a minimum the statement should include the following;
- a) the name (or reference) of each principal type of record used in the bank;
 - b) for each item in (a) :
 - a brief description of its content (if this is not obvious from its name)
 - its minimum retention period; and
 - its location in general terms (e.g. at branch(es), at head office, in offshore centre, in data warehouse, etc).
- If any items are held offshore the following must also be provided;
- c) the maximum time needed to retrieve records;
 - d) the terms and conditions under which records are maintained offshore (demonstrating that management and auditors have full and free access to the records) - as noted in section VI these terms and conditions will have already been subject to RBI approval;
 - e) a statement (supported by independent legal opinion) that the availability of the records will withstand the liquidation of either the offshore custodian or the bank in India; and
 - f) a statement that RBI inspectors are guaranteed reasonable and timely access to the records held in the overseas location.
- 28 In all cases the policy statement should be signed and dated on behalf of the Board of Directors.

22.54 Preservation of bank's records

- (i) Government of India has prescribed the period for which the banks should preserve their different records. The list of records which should be preserved for a period of five years and for a period of eight years is furnished in part 'A' and Part 'B' of the Annexure.
- (ii) In the case of foreign branches of banks incorporated in India, they are allowed to destroy the records of such branches after preserving the records for a period of eight years, as required by Sub-section 4(A) of Section 209 of the Companies Act, 1956.
- (iii) As decided by Government of India, the banks may on demand return paid cheques to their constituents after obtaining a formal undertaking from them to the effect that they shall preserve the returned paid cheques for a period of 8 years and produce the cheques before the Income Tax authorities whenever called upon to do so. The form of the aforesaid undertaking will be as under :

**“In consideration of the Bank of _____
returning to us paid cheques drawn on our account
No. _____ with that Bank, we hereby
undertake to preserve the said paid cheques for a period of eight
years and produce them before the Income-tax authorities
whenever called upon to do so.**

Signature of the Customer”

- (iv) The foreign branches of banks incorporated in India may return the paid cheques to their constituents wherever it is customary to do so, without obtaining any undertaking on the lines mentioned above.
- (v) **The banks may, on demand, return the paid cheques without obtaining any undertaking in the case of the following parties:**
 - (a) Central and State Governments;
 - (b) Autonomous Corporations set up by the Central and State Governments;
 - (c) Life Insurance Corporation of India;
 - (d) Offices of Foreign Governments situated in India; and
 - (e) Agencies of the United Nations functioning in India

ANNEXURE

[Paragraph 22.54(i)]

A List of records to be preserved for five (5) years

Ledgers and Registers

1. Cheque Book Registers
2. Delivery Order Registers
3. Demand Liability Registers
4. Demand Remittances Despatched Registers
5. Demand Remittances Received Registers
6. Vault Registers

Records other than Registers

1. Telegraphic Transfer Confirmations
2. Telegrams and Telegram Confirmations

B List of records to be preserved for eight (8) years

Ledgers & Registers

1. All personal ledgers
2. Loans and/or advance registers/ledgers
3. Call, short or fixed deposit registers/ledgers
4. F. D. Interest registers
5. Draft, T.T. and Mail transfer Registers
6. Remittance Registers
7. Bills Registers
8. Clearing Registers
9. Demand Loan Liability Registers
10. Draft and Mail Transfer Advices Despatched Registers
11. Draft and Mail Transfer Advices Received Registers
12. Drafts payable registers
13. Drawing Power Registers
14. Stock registers of goods pledged
15. Stocks and Share registers
16. Government securities Registers/Ledgers
17. Registers showing collection of dividends and interest on securities on behalf of constituents
18. Registers/Ledgers of Bank's own investments
19. Branch Ledgers

20. Overdrafts/Loan Registers
21. Safe Custody Registers
22. Equitable Mortgage Registers
23. Trust Registers
24. Clean Cash Books

Records other than registers

1. Bank Cash Scrolls
2. Bank Transfer Scrolls
3. Remittance Schedules
4. Paid cheques
5. Paying-in-slips
6. Vouchers relating to D.Ds, T.Ts, M.Ts, F.Deposits, Call Deposits, Cash Credits and Other Deposit and Loan Accounts
7. Account opening forms
8. Standing Instructions regarding current accounts
9. Applications for T.Ts, D.Ds, M.Ts. and other Remittances
10. Applications for overdraft/loans/advances
11. Press copy books.

CHAPTER - 23

USE OF HINDI

CHAPTER - 23

USE OF HINDI IN BANKS

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USE OF HINDI IN BANKS

23A Use of Hindi in Public Sector Banks

23A.1 Introductory

Use of Hindi in Public Sector Banks is governed by the Official languages Act (OLA), 1963 (as amended in 1967) and the official Language Rules (OLR), 1976 (framed under the Act by the Ministry of Home Affairs, Department of Official language (DOL), Government of India (GOI). As provided under the Act and Rules, GOI, Ministry of Home Affairs, DOL prepares the broad guidelines and also the annual programme for progressive use of Hindi. Monitoring the progress in use of Hindi in Public Sector Banks is done by the Department of Banking Operations and Development (DBOD), Central Office, Reserve Bank of India. At the instance of GOI, Ministry of Finance (Banking Division), an official Language Implementation Committee (OLIC) of Public Sector Banks, with the Chief General Manager of DBOD as its ex-officio Chairman and Senior Executives of the rank of General Managers of Public Sector Banks as members, has been constituted in 1976; it reviews the progress in implementation of the Official Language Policy (OLP) through the quarterly meetings.

Based on the guidelines/instructions received from GOI, as also the decisions taken at the quarterly meetings of OLIC, DBOD issues the guidelines/instructions to Public Sector Banks to fulfill the requirements and achieve the targets set by GOI. The instructions/guidelines issued by DBOD in this regard are furnished in the following paragraphs. (Incidentally, the Official Language Policy is not applicable to banks other than Public Sector Banks. As such, in the following paragraphs Public Sector Banks have been referred to as "banks" only).

23A.2 Correspondence in Hindi

- a) i) All communications, received in Hindi from the Central Government Offices* and the State Governments* and the members of the public

* The term Central Government Offices in this section of the Manual also covers the offices of the Public Sector Banks.

* For the purpose of Official Language Policy, the various States/Union Territories have been divided into three Regions as Under :

(i) **Region 'A' (Hindi speaking areas)**

The States of Himachal Pradesh, Haryana, Rajasthan, Madhya Pradesh, Bihar and Uttar Pradesh and the Union Territories of Delhi and Andaman and Nicobar Islands.

(ii) **Region 'B'**

The States of Maharashtra, Gujarat and Punjab and the Union Territory of Chandigarh.

(iii) **Region 'C'**

All other remaining States of Union Territories.

in Hindi should be entertained and invariably be replied to in Hindi irrespective of the region in which the bank or its office/branch is located.

- (ii) All communications received in Hindi should be disposed of expeditiously
 - (iii) Simple Hindi should be used in official correspondence freely drawing upon Urdu or English words, as also English technical and designational terms, in Devanagari script. English equivalents of difficult Hindi technical terms may be given in brackets in Devanagari script.
- b) Letters received in Hindi should not be sent to the Hindi Officers/Hindi Section for English translation as a matter of routine.
 - c) Hindi may be used for writing addresses on the envelopes etc. sent by banks' offices to Hindi speaking areas. [This decision has been extended to region 'B' also (vide O.M. No. 12024/4/90-OL(B-2) dated 16th May 1990 of GOI, Ministry of Home affairs, DOL)]

23A.3 Acceptance of cheques drawn and signed in Hindi

- a)
 - (i) The offices of banks situated in Hindi speaking areas should display prominently in their Banking Halls sign boards in Hindi and English indicating that the bank accepts cheques drawn/signed in Hindi.
 - (ii) Cheques drawn, endorsed and signed in Hindi should be accepted for payment without observance of any additional formality.
 - (iii) The drawing officers of the Government offices whose specimen signatures are lodged with the offices of the banks, should be permitted to use only one language, i.e. either Hindi or English, for the purpose of the signing cheques.
- b) As decided in 58th meeting of OLIC held on 18th January 1994, all banks should accept cheques drawn/signed in Hindi without any additional formality.

23A.4 Signature in Hindi on official documents

- a) Official documents drawn up in English can be signed in Hindi. However, name of the signatory may be typed in English below the signature. Documents of financial nature (including pay bills) can also be signed in Hindi; the officer, should, however, record his signature in one script only on such documents in order to obviate chances of confusion or fraud.

- b) The term “Official Documents” will include all notes, drafts/fair copies of letters, sanctions/registers etc. wherein a person signs in his official capacity instead of his personal/individual capacity.
- c) The official documents/correspondence could be signed in any language as the signature of a particular person is merely a symbol and it can be in any language.

23A.5 Implementation of the Section 3(3) of Official Languages Act, 1963

- i) In terms of Section 3(3) of OLA, 1963, the following documents should invariably be issued in Hindi and English simultaneously:
 - a) Resolutions, General Orders* and Press Communiques/releases / Notes
 - b) Notices,**
 - c) Rules, administrative and other reports etc. which may be required to be laid before either of the Houses of the Parliament.
 - d) Notifications etc. to be published in the Gazette of India, and
 - e) All types of contracts and agreements executed by the banks.
- ii) Banks should furnish data/information as per the revised definitions/clarifications (issued in October 1991) in the Quarterly Progress Reports required to be submitted by them.

23A.6 Bilingual issue of advertisements.

- a) Advertisement, Press Communiqués/Releases etc. meant for all-India coverage and for Hindi speaking areas, should be issued in Hindi and English simultaneously (Hindi advertisement in Hindi newspapers and English advertisements in English newspapers).

* The term General Order includes :

- (i) all orders, decisions or instructions intended for departmental use and which are of standing nature.
 - (ii) all orders, instructions, letters, memoranda, notices etc.
 - (a) relating to or intended for group of individuals whether in Government service or members of public,
 - (b) relating to an individual and copies of which are forwarded to several authorities, and
 - (iii) all circulars whether intended for departmental use or for members of staff or members of public.
- [Extract from Government of India Letter No. E. 11015/(I,Hindi-72 dated 3.3.1972]

** include advertisements.

- b) Notices issued by/on behalf of the Central Government or a Corporation or a Company owned or controlled by Central Government or any other office of such corporation or company should be both in Hindi and English languages.

23A.7 Bilingualisation of Annual Reports

Annual reports should be simultaneously brought out in Hindi and English. This report should contain a separate chapter or section regarding the progress made in the use of Hindi during the year under report.

23A.8 Hindi version of the term ‘A Government of India Undertaking’

Banks should use the term “Bharat Sarkar ka Upkram” in Hindi as Hindi version of the English term “A Govt. of India Undertaking”.

23A.9 Bilingualisation of stationery items

- a) (i) As per Rule 11(3) of the Official Language Rules, 1976, all registers, file covers etc. should be bilingualised and Hindi version should precede the English version;
- (ii) Letter-heads etc. should be printed in both Hindi and English and Hindi version should precede the English version therein. The entire matter including the emblem in the letter-heads, and not only the names of the banks, should be printed bilingually;
- (iii) Envelopes being used by the banks should carry their names and addresses in bilingual form, Hindi version preceding the English version;
- (iv) Seals and rubber stamps may be prepared in bilingual form. Although the clearing house stamps may be prepared in bilingual form, if all the member banks unanimously agree, they may be prepared only in Hindi in Region ‘A’;
- (v) Diaries, wall-calendars, desk-calendars etc., should be printed bilingually. It is desirable that not only the legends but also the description, if any, may be printed bilingually thereon.
- b) (i) The banks should, as per the language policy, get their stationery items printed bilingually in Hindi and English and, if necessary, trilingually, i.e., in Hindi, English and a regional language.
- (ii) As regards the use of regional language in correspondence with the public, Government had explained that Hindi has been declared as the Official Language of the Union under Article 343(1) of the

Constitution and OLA, 1963 and has been passed by the Parliament (after an ordinance has been promulgated by the President in 1960) and the same has been amended by the Parliament in 1967. It is clear from the Constitutional and Statutory provisions that use of Hindi and English, but not of any regional language, has been authorised for the official work of the Union. Further, Article 345 of the Constitution authorises use of regional languages for the official work of the States.

23A.10 Display of name-boards, designation boards, counter boards, sign boards etc.

- a) All sign boards, counter boards, name boards of the bank and other boards, placards etc. should be displayed in Hindi, besides English in Hindi speaking areas.
- b) Banks may prominently display notice boards at branches in Hindi speaking areas to the effect that forms etc. filled in Hindi are entertained by them.
- c) The name/designation boards of the offices/officials of the banks, as also the name of boards of the Departments/Divisions, etc. may be displayed bilingually for the present in the offices in Regions 'A' and 'B'

23A.11 Use of Hindi for Internal Circulars, Office Orders, Invitation Cards etc.

- i) General Orders, circulars, standing instructions, etc. relating to the staff in banks' offices in Regions 'A' and 'B', should be issued bilingually.
- ii) To begin with, bilingual issue of show cause notices and charge sheets to the staff of the banks should be restricted to Region 'A' only.
- iii) The invitation cards, etc. for official function should be issued both in Hindi and English. Such invitation cards may be printed in trilingual form, including the regional language concerned, wherever required. In trilingual form of such cards, the order of the language should be i) Regional Language, ii) Hindi and iii) English.

23A.12 Issue of bilingual agenda notes and proceedings of all-India conferences

The agenda notes and proceedings may be issued both in Hindi and English simultaneously in respect of the conferences attended, inter-alia, by ministers and non-officials from Hindi speaking States and conferences convened to

discuss matters relating to Hindi to which non-officials are also invited. The agenda notes and proceedings of all-India conferences of public interest which are, inter-alia, attended by ministers and non-officials from Region 'A' may also be issued bilingually.

23A.13 Setting up of Hindi Depts./ Sections/ Cells etc.

- a) Hindi Cells/Sections/Departments with requisite numbers of Hindi Officers, Translators, clerical staff, Hindi Typist, Hindi Stenographers etc. should be set up in the offices of the banks. These Cells etc. should be provided with sufficient number of Hindi typewriters.
- b) As desired by the Committee of Parliament on Official Language the banks should create the Official Language cadre and implement the staffing pattern given by the Banking Division, Ministry of Finance, Govt. of India and also fill the vacant posts.

23A.14 Duties of Hindi Officers

Hindi Officers should take more interest to ensure compliance of the provisions of the Official Languages Act and the Official Language Rules. The work to be attended to by the Hindi Officer would be as follows:

- i) Vetting the translation work and supervising the translation arrangements;
- ii) Ensuring the use of Hindi for obligatory purposes as required by OLA;
- iii) Implementation of the instructions received regarding the progressive use of Hindi for various official purposes;
- iv) Effective working of the Departmental OLIC;
- v) Looking after the research, reference and co-ordination work for increasing the use of Hindi in the official work by preparing reference literature, arranging workshops, training and giving necessary help and guidance to the officers/staff for learning Hindi and using it in the official work.

23A.15 Re-designation of Hindi Cells/Sections/Departments and Hindi Officers

Hindi Cells/ Sections / Departments and Hindi Officers of the banks may be redesignated as O.L. Cells / Sections / Departments and O.L. Officers.

23A.16 Submission of quarterly progress reports and other reports

- a) Region-wise quarterly reports regarding the progressive use of Hindi should be submitted to the Reserve Bank of India, Dept. of Banking Operations and Development, Central Office in the proforma given in volume II of the Manual (item no. 60). However, the report pertaining to the Head Office of the bank should be sent to the Banking Division, Ministry of Finance, Govt. of India and a copy thereof may be sent to the DBOD, Central Office. The quarterly progress reports for the quarters ending March, June, September and December should be sent within six weeks following the quarter to which the reports relate. However, the annual report may be submitted to the Banking Divisions, Ministry of Finance, Govt. of India within a month after the completion of the year to which it relates.
- b) The banks should incorporate the data relating to Head/Central Office in the report for the region in which it may be situated. Further the data, which is required to be furnished annually, should be incorporated in the reports for January-March quarter only.
- c) Banks should exclude the letters sent in regional languages (i.e. other than Hindi and English) from the total number of letters sent by their offices/branches while reporting the same in Quarterly Progress Reports to be sent to the Reserve Bank .

23A.17 Official Languages Implementation Committees

- a) i) The Official Languages implementation Committees should be set up at the Headquarters of each bank and at its all offices/branches.
- ii) The Officer-in-charge of the office/branch may be ex-officio Chairman of the Committee. The Hindi Officer or , in his absence, any officer nominated by the bank, should be the Member-Secretary of the Committee. Other members of the Committee should be drawn from different departments. The total number of the members should not be too large.
- iii) The Committee will be responsible for effective and expeditious implementation of the Government's Official Language Policy/ Programmes and instructions issued from time to time in relation thereto. It should formulate time-bound phased programmes for this purpose, where necessary.
- iv) The Committee should meet at least once in a quarter to review:
 - a) the compliance with the provisions of the Official Languages Act, 1963 as amended ;

- b) use of Hindi for official purposes;
 - c) periodical reports;
 - d) progress of in-service training in Hindi Language/typewriting and stenography; and
 - e) progress of Hindi translation of statutory/non-statutory documents, procedural literature etc. A copy of the minutes (bilingual) of the meetings of the Official Languages Implementation Committee at Head Office is required to be sent to the Central Office of DBOD as soon as they are prepared.
- b) The banks may ensure that OLIC meetings convened by the Reserve Bank are attended by officers at sufficiently high level/Chairman of OLIC in respective banks, along with the officer-in-charge of Official Language Department/Section / Cell.

23A.18 Setting up of Hindi Libraries

- a) To enable the staff members to sustain and improve their knowledge of Hindi, libraries with Hindi books of general interest may be set up.
- b) Hindi newspapers and magazines should be supplied to the officers so as to increase their interest in Hindi.
- c) The banks should ensure and confirm that the budgetary allocation made is fully utilised for purchase of Hindi books for promotion of use of Hindi among the staff of banks. The banks are required (as per recommendation of the Committee of Parliament on Official language) to allocate at least 25 percent of the amount of the library budget for the books in Hindi.

23A.19 Publication of periodicals in Hindi

All publications/booklets of the banks intended for the members of the public should be issued both in Hindi and English, in case of smaller publications, the feasibility of publishing the material in diglot form, i.e. one side in Hindi and other side in English, may be examined. Various periodicals and ad-hoc publications may be brought out in Hindi also.

23A.20 Adding of Hindi Sections in House Magazines

- a) Hindi Sections should be included in the house magazines published by banks. The Hindi section in the house journals of the banks should precede the English one.
- b) The banks should ensure not only to increase the number of pages in Hindi sections in the house journals/publications but also to ensure that they precede English sections.
- c) More and more material on banking subjects may be included and the articles etc. should be presented in more fluid language to increase the acceptability and readership.

23A.21 Hindi Teaching Schemes

- a) With a view to encouraging learning of Hindi by the staff of banks, the banks may formulate their own Hindi Teaching Schemes, to depute their staff to the Hindi Adhyayan Mandals (Classes) organised under the Hindi Teaching Scheme of the Government of India or to advise them to take up the correspondence courses conducted by the Central Hindi Directorate, Ministry of Education and Social Welfare, West Block-VII, R. K. Puram, New Delhi 110 022. Further, the banks should make entries in the Service records of the staff on their passing Prabodh, Praveen, Pragya and other recognised Hindi examinations.
- b) In the meeting of OLIC of the Banking Division held on 2nd September 1983, the banks had been permitted on experimental basis to print the text books for the benefit of their employees for a period of three years. In this regard, the banks are required to substitute the words “printed by Manager, Government of India Printing Press, Faridabad and published by the Controller, Publication Department, Delhi”, “with the Chairman and Managing Director, printed for the Hindi training of the bank’s employees by the Head Office.” The banks should provide the Ministry of Home Affairs with the following information.
 - (i) The number of books printed for each course.
 - (ii) The number of books distributed amongst various offices.
- c) The attention of the Chairmen of all banks is invited to the report submitted by the Committee set up in the Reserve Bank to study various aspects of Hindi training being imparted to bank employees. The banks should implement the region-wise recommendations made in the report for making Hindi training more effective with a view to meeting the future requirements of staff trained in Hindi.

- d) For overcoming the reluctance on the part of some offices/branches of banks to depute their officers/employees for Hindi classes being conducted under the Hindi Teaching Scheme of the Government, banks should note that it is obligatory that eligible bank employees are deputed for such training either imparted in their own bank or, at such centres where the facility is not available, to the classes conducted under the scheme of the Government.
- e) The banks were advised to provide the working knowledge of Hindi to all the staff-members by the end of 1997 in Regions 'A' and 'B' and by the end of the year 2000 in Region 'C'. Therefore, those banks who could not achieve the targets in Regions A and B, should expedite the process of such training.
- f) The issue as to what action could be taken against such of the employees who do not take interest in acquiring knowledge of new systems, procedures, Hindi language, etc. was discussed in the 39th Meeting of OLIC held in Delhi on 16th December 1988. The Secretary, Indian Banks' Association (IBA), informed the participants that IBA had taken a decision in terms of which action would be taken by banks against such employees who did not take interest in learning Hindi or in attending the Hindi classes, as well as taking Hindi examinations, according to tripartite settlement. In keeping with this decision, henceforth an employee would render himself liable for disciplinary action if he refused to attend Hindi training or, did not evince sufficient interest in the training for which he was deputed as it would be construed as a deliberate disregard to the management's lawful and proper orders. However, in genuine cases, if even after taking sufficient interest an employee fails to acquire proficiency in Hindi or is not able to pass the Hindi examination, no action should be taken against him.

23A.22 Banking training through Hindi medium

- a) The following recommendations made by the Central OLIC in the meeting held on 11th September 1987 regarding use of Hindi in training institutes should be made effective for the training;
 - (i) Irrespective of the location or training institute, teaching material should be in bilingual form i.e. Hindi and English.
 - (ii) In case of any examinations conducted by banks, the question papers may be bilingual with option to participants to answer either in Hindi or in English.
 - (iii) Where participants in a training programme are from regions 'A' and 'B', the training may be imparted in Hindi. But if the majority of the participants desires to have it in English, arrangements may be made accordingly.

- (iv) The training for the trainees exclusively from region 'C' or for those from all the regions may be imparted in English. But if adequate number of trainees wished to have it in Hindi, necessary arrangements may be made to meet the demand.
 - (v) In the mixed group of trainees, lecturers conversant with Hindi and English may be deputed/invited so that trainees are able to ask questions in any language of their choice.
 - (vi) For such of the instructors at training institutes not possessing the working knowledge of both Hindi and English languages, arrangements may be made for running short duration intensive training courses for them.
 - (vii) In the event of non-availability of qualified instructors for imparting training in Hindi in an institute where training is required to be imparted in Hindi, as a via-media, training may be imparted with mixture of Hindi and English.
- b) As per decision based on the discussions which the Evidence and Records Sub-Committee of the Committee of Parliament on Official Languages had with the then Governor, Reserve Bank and Chairmen of banks, the banks are required to make arrangements for imparting training through Hindi medium in their training institutions.
 - c) The banks may depute the officers in required number for the banking training programmes through Hindi medium conducted by the Training Colleges of Reserve Bank of India.
 - d) Banks may conduct the training programmes on innovative banking through Hindi medium.

23A.23 Learning of Hindi Typewriting / Stenography by Typists and Stenographers of banks

- a) Based on the instructions contained in O.M. No. E. 12033/2972-H.T. dated 12th April 1973, issued by Ministry of Home Affairs regarding grant of lump-sum rewards for passing Hindi typewriting / stenography examinations and Reserve Bank's Scheme for providing incentive to the typists for learning Hindi typewriting, the banks are required to evolve suitable scheme for the purpose.
- b) The banks are also required to take note of the decision of IBA that banks may grant lump-sum reward to their stenographers/typists who work both in Hindi and English, as well as regional languages. Such reward should be paid to only those employees who agree in writing to do stenography/typing in Hindi and/or in the regional language as the case may be in addition to English.

- c) The banks should purchase Electronic Typewriters in bilingual (Devnagari and Roman) form only.

23A.24 Hindi Workshops

- a) With a view to imparting training in making noting and drafting of letters, etc. in Hindi to the employees having working knowledge of Hindi, banks should organise Hindi workshops and all the staff having working knowledge of Hindi should be trained in Hindi workshops and the help material should be provided to the participants.
- b) As per the Office memorandum No. 14013/1,85 OL(D) dated 27th March 1986, the Government employees who had passed the Matriculation or an equivalent examination with Hindi as a subject from non-Hindi speaking States but the marks secured by them in Hindi are less than 50% should not be treated as exempted from obligatory requirements of training in Hindi. The employees who had passed Matriculation or equivalent examination with Hindi, securing less than 50% marks in Hindi but possessed knowledge of doing their official work in Hindi, may be exempted from the obligatory requirement of training in Hindi if they make a declaration, in writing that they have working knowledge of Hindi even though they have secured less than 50% marks in Hindi in the aforementioned examinations.

23A.25 Printing of forms and translation of Codes, Manuals etc.

- a) All forms meant for the members of the public in their dealings with banks should be printed bilingually, in Hindi and English, for use in the offices in Hindi speaking areas and, if the banks considered it necessary, in English and the respective regional languages for use in the offices in non-Hindi speaking areas. In case the forms are lengthy, they may be printed separately in different languages.
- b) Banks should complete the translation of codes, manuals, forms, rubber stamps, seals, sign boards etc. in Hindi as early as possible and prepare a phased programme for completing the task.

23A.26 Notification under Rule 10(4) and specifying under Rule 8(4) of the Official Language Rules, 1976

- a) The banks may notify their Zonal/Regional Offices/ Branches as one unit under Rule 10(4) of the OLR, provided 80% staff members attached to that office have acquired the working knowledge of Hindi.

- b) All banks should forward to the Central Office, DBOD, two copies, in diglot form, of the list of branches/offices which may be notified by the Government under Rule 10(4) of the OLR, 1976.
- c) The banks should specify their offices under Rule 8(4) and instruct the staff having proficiency in Hindi to do specified work in Hindi.

23A.27 Making entries in Hindi in the ledgers and registers

The branches located in rural/semi urban areas in Region 'A' should make a beginning for making entries in Hindi in their ledgers and registers. The banks should make such entries in Region 'B' also.

23A.28 Miscellaneous instructions

- a) Banks should have the data/information regarding use of Hindi in banks computerised as per the pro-forma forwarded to them by the Reserve Bank so that, as and when required, it could be retrieved.
- b) Simple Hindi should be used in transacting official business. Officers/members of the staff should freely use English technical and designational terms in Devanagari script. For this purpose, it would be useful if the following points are kept in mind.
 - i) Simple Hindi may be used for noting, as well as for drafting letters, so that all could understand the same.
 - ii) More and more common words should be used in official work and there need not be any hesitation in using words those are commonly used in other languages.
 - iii) Wherever it is felt that the reader may find it difficult to understand the technical or designational terms in Hindi, it would be useful to write English version thereof within brackets.
 - iv) Instead of an artificial translation, the English names which are commonly used for modern machinery, various types of equipment and modern articles, should be written in Devnagari script.
 - v) While writing Hindi, efforts should be made to write only Hindi and not Sanskrit or English in Devnagari script, i.e. the syntax should be according to the nature of Hindi language. It may not be proper to load it with difficult Sanskrit words. It should not also be a mere verbatim translation of original English. Instead of translating the English drafts into Hindi, it would be better if they are prepared originally in Hindi itself, keeping in view the

nature of Hindi language. This will not only make the language natural and fluent, but will also make it intelligible in spite of new and unknown words being used in between.

- vi) Offices of the banks may purchase at least one copy of the Hindi Telephone Directory as it would provide a handy glossary of Hindi names of offices and designations of officers.
- c) Gift Cheques, Travellers Cheques, Cash Certificates etc. should be printed bilingually.
- d) Badges on uniforms and name plates on cars may be displayed bilingually in Regions 'A' and 'B'
- e) International form of numerals (1,2,3,4) only should be used in the application forms and other literature which are printed in Hindi.
- f) The standard forms of all numerals from 1 to 100 approved by the working group of Ministry of Law, Justice and Company Affairs and published by the Hindi Directorate, Ministry of Education and Culture, Government of India, were forwarded to banks. The banks should advise all their offices and branches to use, spellings of numerals while writing Hindi numerals in words to ensure uniformity in writing, typing and printing thereof.
- g) The Statistical Pocket Books and other statistical material brought out by banks may be published bilingually. In the case of bulky publications, their Hindi and English versions may be published separately.
- h) Banks should include Hindi as a subject in the courses of their Training Institutions.
- i) Banks may, with a view to encouraging the use of Hindi, have a scheme of holding competition among the Zonal/Regional offices and awarding a Shield to the winner. However, it is left to the individual banks to formulate their own schemes to suit their requirements.
- j) As decided in the 28th Meeting of OLIC, banks should introduce a Trophy to be awarded to the branch/es doing maximum work in Hindi.
- k) At least one function in a year may be organised for distribution of certificates to the employees of the banks who pass 'Prabodh', 'Praveen' and 'Pragya' examinations conducted under the Hindi Teaching Scheme of the Government of India.

- l) The Hindi Transliteration of the existing telegraphic addresses are being registered by the Post and Telegraph Department without any extra cost and, as such, banks may get the Hindi Transliteration of their telegraphic addresses duly registered.

23A.29 Submission of Inspection Reports forwarded by the officials of Rajbhasha Vibhag

- a) The points raised in the Inspection Reports submitted by the officials of Rajbhasha Vibhag after their inspection may be discussed by the banks in the meetings of their OLIC with a view to considering the ways and means to rectify the discrepancies pointed out in the Inspection Reports.
- b) In the case of internal inspections of bank-branches, the inspection Teams should also inter-alia, comment, in the inspection report, upon the progress made by the branch in the use of Hindi vis-à-vis the target fixed in the Annual Implementation Programme framed by the Government of India.

23A.30 Submission of reports on implementation of Official Language Policy to the Board of Directors

Banks should submit a report on the implementation of the Official Language Policy to their Board of Directors periodically, say, at an interval of six months and forward a copy thereof to the Central Office, DBOD, Reserve Bank of India.

23A.31 Capsule Course

Banks may chalk out suitable capsule courses for the non-Hindi speaking officers being posted in Hindi speaking areas.

23A.32 Induction courses of the banks

Banks may prepare some of their Induction Courses in Hindi for the beginners.

23A.33 Publication of balance sheets by banks bilingually

- a) The amended bilingual format of the balance sheet, as given by the Govt. of India should be used by all banks to ensure uniformity in various terminologies used therein. The banks should publish their balance sheets in bilingual form.
- b) The banks should use the bilingual format of Profit and Loss Accounts, as prescribed in the Banking Regulation Act, 1949.

23A.34 Granting of awards for essays originally written in Hindi on financial subjects

The banks should act according to the contents of two schemes formulated by the Govt. for granting of awards for essays originally written in Hindi on financial subjects.

23A.35 Participation in meetings of Town Official Languages Implementation Committees (TOLICs)

- a) The banks should participate in the Town Official Languages Implementation Committees. The Officer-in-Charge should attend the Committee's meetings and when due to unavoidable circumstances it is not possible for him to attend a meeting, he should depute the senior most officer. Further, when the Officer-in-charge or , in his absence, the senior most officer attends a meeting, Hindi Officers or officers associated with official languages work, may accompany him. It is indicated that deputation of Hindi officers only to such meetings is not considered desirable.
- b) In certain cities separate TOLICs have been constituted for the banks, wherein banks should ensure their participation as stated at (a) above.

23A.36 Naming of new bank subsidiaries/schemes in Hindi or other Indian languages

As advised by the Government of India (vide their letter O.M.No. 120021/4/83 O.L. (B-1) dated 24th December 1983) and reiterated in the 58th meeting of OLIC, banks may name in Hindi or in Indian languages the new subsidiaries/schemes that they may be set up/formulated. They should also render in Hindi (or other Indian languages) the English names of their subsidiaries/schemes in vogue.

23A.37 Inclusion in corporate plan

- i) The banks may prepare the action plan in respect of :
 - a) providing working knowledge of Hindi to the members of staff and arranging Hindi workshops for them.
 - b) arranging training in Hindi stenography and typing for stenographers and typists.
 - c) conducting banking training programme through Hindi medium, and
 - d) achieving the targets set by the Govt. of India.

- ii) They should also include the subject pertaining to use of Hindi in the corporate plans of the banks.

23A.38 Use of Hindi in customer service

Hindi and other Indian languages should be used in customer service.

23A.39 a) Providing statement of accounts to the account holders in Hindi by the computerised branches

As decided in 62nd meeting of OLIC of banks, held on 28th December 1994, the banks may take necessary steps to ensure that the computerised branches provide the statements of accounts to the account holders in Hindi also. The banks should also strive to get the banking software prepared for doing data processing in Hindi on their computers installed in the branches.

b) Provision of bilingual software

The banks are also required to provide the bilingual software on all personal computers and do maximum word processing work in Hindi on the PCs.

23A.40 Use of Hindi in the branches of Indian banks functioning in foreign countries

Banks may use Hindi and the local language, along with English, (if it is other than English) in the stationery items (e.g. letter heads, file covers, envelopes, seals, stamps, nameplates, signboards, etc.) They may also write the word “Swagatam” on the main gate of such foreign branches.

23.B Use of Hindi in Private Sector Banks

- i) Private Sector banks were advised in March 1972 that while reviewing the position relating to the use of Hindi in banks in the meetings of the Official Languages Implementation Committee of the Banking Division, Ministry of Finance, Government of India held on 12th July and 22nd December 1971, it was noted that the use of Hindi by banks was not satisfactory and that letters received in Hindi were generally replied to in English and verification of Hindi signatures was causing delay and avoidable inconvenience to bank's customers. In this regard, with a view to improving the situation and to ensuring progressive use of Hindi in banks, Government had, vide its office order No. 13016/1/Hindi 72 dated 9th February 1972, made the following suggestions:

- a) Banks should encourage use of Hindi in day to day business at the offices/branches, especially those operating in Hindi speaking areas.
 - b) Banks should arrange for printing in Hindi and making available their standard forms of application, cheque-books, pay-in-slips, etc. in all offices/branches, particularly those located in Hindi speaking areas.
 - c) Banks should issue advertisements bilingually in Hindi and English, especially in Hindi speaking areas.
 - d) The bank offices, particularly those functioning in Hindi speaking areas, should accept the signatures in Hindi without any additional formality of getting them countersigned in English.
- ii) Banks should take necessary steps to implement these suggestions, if they had not been implemented already. The banks should inform Reserve Bank, the position regarding implementation of the above suggestions, and the measures which it proposed to take in this regard.
- iii) At the 1st meeting of the Hindi Salahkar Samiti in the Ministry of Finance, Government of India, held on 28th June 1978, the position relating to the use of Hindi in Public Sector Banks was reviewed. It was desired that Private Sector Banks also may introduce Hindi, to the extent possible, in the interest of better customer service. For the purpose, the salient features of various steps taken by the PSBs for progressive use of Hindi in their institutions are given in the Annexure. Further, to enable Reserve bank to advise the Government of India of the progress made by each bank in the use of Hindi, they were requested to advise, the position obtaining in this regard and the measures which the bank proposed to take in the matter. It was added that a Hindi Section was functioning in the Department of Banking Operations and Development (DBOD), Reserve Bank of India and should any bank need any assistance in setting up a similar cell/section or required other assistance in promoting the progressive use of Hindi, it may get in touch with the Hindi-section of DBOD, Reserve Bank of India.

Annexure
[Ref. Paragraph No. 23.B(iii)]

**Salient features of the steps taken by the Public Sector banks
for the progressive use of Hindi**

- I. Acceptance of cheques drawn (fully) in Hindi for payment without observance of any additional formality.
- II. Display of sign boards in the offices of the banks with the legend "The bank accepts cheques signed in Hindi" particularly in such of the branches of the banks as are located in Hindi speaking area.
- III. Use of Hindi for writing addresses on all letters, etc. sent by the offices located in Hindi speaking area to addresses in such areas.
- IV. Bilingual printing of the banks' letter heads etc.
- V. Printing of envelopes with the banks' name and address in bilingual form.
- VI. Display of name boards, sign boards etc. in bilingual form in Hindi speaking areas and in trilingual form (i.e. Regional Language, Hindi and English in that order) in non-Hindi speaking areas.
- VII. Bilingual use of rubber stamps at points of contact with the public.
- VIII. Bilingual issue of advertisements by banks.
- IX. Bilingual issue of all circulars, letters etc. pertaining to the use of Hindi, by the Head of the banks.
- X. Bilingual issue of agenda notes and proceedings of All-India conferences of public interest convened by banks.
- XI. Hindi translation of statutory/non-statutory documents and procedural literature, etc.
- XII. Printing of cheque books, pay-in-slips, standard forms of applications, etc. in bilingual form and making them available at all offices of the banks, particularly those in Hindi speaking areas.
- XIII. Publication of annual reports etc. of the banks simultaneously in Hindi as well as English.
- XIV. Printing of diaries with descriptions in Hindi in addition to English.

- XV. Allowing optional use of Hindi for answering questions in the recruitment/departmental examinations of the banks especially in Hindi speaking areas.
- XVI. In-service Hindi training to the bank's employees, and
- XVII. Making available Hindi publications to the staff to promote use of Hindi for Official purposes.

CHAPTER - 24

**PERIODICAL RETURNS TO BE
FURNISHED BY BANKS TO DBOD/DBS/
IECD. (FORMATS GIVEN IN VOL. II)**

PERIODICAL RETURNS TO BE FURNISHED BY BANKS

- i) A consultant appointed by the RBI in February 1995 had reviewed the various Returns/Statements/Reviews required to be submitted by banks to DBOD and DBS (earlier DOS). Consequent upon the recommendations made by the Consultant, the banks were advised in February 1998 that they need not furnish as many as 16 Returns to DBOD.
- ii) The various Returns/Statements both Statutory and Non-Statutory required to be submitted at present to the DBOD, DBS and IECD with the proformae prescribed are given in Vol. II of the Manual. The list of Returns/Statements have been arranged in Vol. II in the order they have been referred to in the relevant Chapters in the Manual. Time limit for submission of the returns/statements is also indicated in Vol. II of the Manual.

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