

THE BANKING CODES AND STANDARDS BOARD OF INDIA

NEWSLETTER



CUSTOMER MATTERS

Issue : 1

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BCSBI News

The 3rd Annual General Meeting of the Banking Codes and Standards Board of India (BCSBI) was held on June 5, 2009. The meeting was attended by representatives of 63 member banks.

Following the opening up of membership of BCSBI to scheduled Urban Co-operative Banks (UCBs) and Regional Rural Banks (RRBs), 5 UCBs and 5 RRBs have become members raising the total number of members to 79.

BCSBI will be setting up a Credit Counselling Centre shortly as announced in the AGM.

The Code of Bank's Commitment to Customers has been reviewed in consultation with the RBI and the Indian Banks' Association and the revised Code is placed on the BCSBI website. The salient features of the revised Code are enumerated below.

REVISED CODE

Code of Bank's Commitment to Customers – August, 2009

The Code of Bank's Commitment to Customers - July, 2006 has been reviewed keeping in view the need to raise the standards of banking service in alignment the growing expectations of the consumers of banking services. Suggestions received from RBI, member banks, Banking Ombudsmen, associations representing interests of bank customers, general public and issues emanating from complaints received have been considered during the process of revision of the Code.

The revised Code promises greater transparency, enhanced level of customer service and a more efficient grievance redressal system at the banks. The enhanced services to which the member banks are committed will also fall within the ambit of the Banking Ombudsman Scheme, leading to more accountability on the part of member banks.

How will the banking customer become more enlightened following the review of the Code?

Member banks have now committed to increased transparency in their dealings with customers by committing to:

- Display customer centric policies on cheque collection, compensation, grievance redressal and security repossession by banks on their website.
- Display services offered.
- Display list of services for which information is available in the form of booklets and that customers can ask to peruse these booklets.
- Disclose full information on interest rates, including the reference rates to which floating rates of interest are linked, minimum interest rate, interest rate reset clause, if any, etc. Reference rate will be uniform for the loan contracted at all points of time.
- Provide Most Important Terms and Conditions (MITC) to customers who have applied/availed of credit facilities by way of loan or credit card.
- Display names and details of Recovery agents on website.
- Update immediately on the website changes in terms and conditions of the products and services offered.

How will the services rendered by banks improve with the revised Code?

Enhanced standards of service will be offered by member banks as they are now committed to:

- Advise change in the minimum balance to be maintained in Savings / Current accounts 30 days in advance during which period, no charges will be levied for non-maintenance of the higher minimum balance prescribed.
- Provide for option for nomination facility as part of the account opening form. Acknowledge receipt of nomination details and record the fact of nomination in the passbook/FD receipt. On request from depositor, the

name of the nominee will also be indicated on the passbook/FD receipt

- Acknowledge receipt of loan applications.
- Convey in writing the reasons for rejection of loan, irrespective of the amount. (Member banks were earlier committed to convey reasons for rejection of a loan up to Rs.2 lakh).
- Issue sanction letter detailing the terms and conditions for every credit facility sanctioned.
- Provide an amortization schedule to the borrower.
- Close savings bank/current account in 3 days instead of 5 days.
- Return all documents/securities/title deeds to mortgaged property to the borrower/guarantor within 15 days from the full repayment of the dues, without waiting for a request from the borrower/ guarantor.
- Make available a copy of credit information obtained from Credit Reference Agency to a loan applicant on request and on payment of prescribed fee.

How does the revised Code help in improved management of customer grievances by banks ?

In terms of the revised Code member banks are now committed to:

- Dispose complaints in 30 days instead of six weeks.
- Compensate the customer for delayed collection of cheques without waiting for a request from customer.
- Reimburse erroneous debits arising out of failed ATM transactions within 12 days of receipt of a complaint.
- Compensate delays in return of documents/securities to the borrower/guarantor, without waiting for a demand from the customer.
- Investigate complaints of unfair practices of recovery agents and not those of selling agents alone.
- Display names of the officer to be contacted at the branch as also contact details of the Zonal/Regional Manager at the branch.

Does the revised Code extend additional protection to the customer?

The revised Code provides additional protection to customers as banks are now committed to:

- Explain the provisions of IT Act applicable to interest income and obtain Form 15G/15H at the time of opening deposit account, wherever applicable.

- Notify the joint holder/s, if any, in addition to the first holder of an account, before classifying an account as dormant/Inoperative, No charges will be levied for activation of a dormant/inoperative account.
- Ensure that agents and third parties selling bank's products comply with the Code.
- Not insist that insurance cover for securities lodged with it should be obtained from a particular provider.
- Disburse any pre-sanctioned credit facilities offered and accepted over telephone only after written consent from the customer. In case a credit facility/credit card is issued without customer's consent and charges levied for the same, the same would be reversed and compensation amounting to twice the value of charges levied would be paid to the customer.
- Convey any reduction in the limit sanctioned on a credit card immediately by SMS/e-mail followed by confirmation in writing.
- Provide online alerts to the Credit Card holder for all "card not present" transactions of the value of Rs.5,000 and above.
- Introduce a system of checks before referring a loan to a Collection Agent to ensure against lapses/errors at the bank's end.
- Obtain customer's written consent before selling insurance products.

Urban Financial Inclusion – Dharavi Story

This is a true story of two inhabitants of Dharavi, till recently Asia's largest slum located in the heart of Mumbai.

Individual:

Murugan came to Mumbai from Tamil Nadu in 2001 for earning his livelihood. He managed to get a job and a room to stay in Dharavi on rental basis with seven others. He found that no bank branch near his place of work was willing to open a savings account without identity and residential proof. He would remit a part of his salary to his family in Tirunelveli by money order or demand draft which involved expenses on commission and postage, not to speak of the delay in delivery. He could not keep the remaining cash in his room as there was no guarantee of its safety. This went on for over five years when, one evening in September, 2006, a messiah crossed his path.

“Excuse me! Can I speak to you for a minute?” asked the gentleman walking down the bye-lane in Dharavi. The gentleman introduced himself as an officer from a nationalised bank and asked Murugan if he had a savings account with any bank and if not, whether he would like to open one. Murugan, who had knocked at the doors of quite a few banks for this purpose without success, was understandably sceptical and explained to the gentleman that he didn't have the documents which banks usually ask for. The gentleman asked whether Murugan had a ration card or a voter ID issued at his native place and that this was enough to open a simple savings account with minimum facilities but including an ATM card. **Murugan submitted a copy of the ration card issued to his family at Tirunelveli, photograph of himself and a self declaration about his place of residence. The gentleman not only helped him in filling the account opening form for opening a no-frills savings account but also explained how the ATM card should be used and the precautions to be taken to keep the PIN confidential.**

Since that evening of September, 2006, life has not been the same for Murugan. He is not only able to remit funds from his account instantaneously and economically but is also able to live without fear of his money being robbed as he can keep minimum cash on his person and use the ATMs across Mumbai whenever necessary.

Micro Enterprise:

Saleem, another resident of Dharavi is a small time businessman engaged in manufacture of leather goods and operating from a small rented shed in Dharavi. Saleem knew that there was potential to expand his business but could make no progress as no bank around Dharavi was willing to extend bank credit as he was unable to provide collateral security for the loan. His fortunes changed in the year 2007 with the opening of a branch of a nationalised bank in Dharavi. He approached the Branch Manager, who made the usual enquiries and asked him to come after 3 days. When Saleem visited the branch again, to his utter surprise the **Branch Manager sanctioned him a modest working capital limit of Rs.2.00 lakh without asking for any collateral security. He also counselled Saleem on the need for maintaining proper books of accounts of his business, regular submission of stock statements to the branch, etc.**

The bank loan helped Saleem to increase his turnover to Rs.10 lakh in the very first year. His credit limit was enhanced to Rs.5.00 lakh which enabled him to progress from making leather wallets to leather footwear and increase the turnover

further to over Rs.30.00 lakh in 2008-09. Now Saleem has been sanctioned a term loan for setting up his own gala for a shoe manufacturing unit.

Branch Profile:

The bank concerned is “Indian Bank”. The branch was opened in February, 2007, and in less than 30 months, over 25000 savings bank accounts have been opened with aggregate deposits of over Rs.10.00 crore. Interestingly, 92% of the bank's total savings bank accounts were opened as no-frills accounts and presently only 60% of these accounts remain as no-frills accounts. Commercial advances of the branch are presently confined to Micro Enterprises and most of these enterprises did not have credit facilities from any bank in the past. It is noteworthy that **all** sanctions below Rs. 5 lakh are collateral free. **The NPA level of this branch is ZERO.** Its profitability is on the rise and the branch is expected to be more than self-sustaining.

And the credits for this success story go to:

1. Deputy Governor, RBI, Smt. Usha Thorat for galvanizing action towards urban financial inclusion way back in 2006.
2. Deputy Governor, RBI, Dr. K. C. Chakrabarty, then Chairman, Indian Bank for taking the bold initiative to set up the **first branch of any commercial bank** in a slum and for the top-down thrust given by him.
3. Shri Veeraraghavan, Branch Manager, Indian Bank for literally walking the talk; for his willingness to forego the comforts of having up-market clientele and most importantly for trusting his clientele (who in turn have not betrayed his trust).



Smt. Usha Thorat, Deputy Governor, cuts the ribbon at the inauguration of the Dharavi branch of Indian Bank while Dr. K. C. Chakrabarty, then CMD, Indian Bank and Shri Veeraraghavan, Branch Manager look on.

Murugan and Saleem are not just names. They represent common men who, in their own different ways, are handicapped in their day-to-day activities due to lack of adequate banking services and access to bank credit. Like Dharavi, there are many other slums and the people there are waiting for a bank to offer its services. The above story clearly shows that:

- ◆ **total financial inclusion is achievable, and that the KYC bogey put forth by banks does not have any merit.**
- ◆ **it requires a bank Chairman who can give the necessary top-down thrust and**
- ◆ **a Branch Manager who, as a true banker, is enquiring, trusting and not confined to his cabin. What really makes a difference between a branch manager in an urban slum and elsewhere is his willingness to forego comforts and rewards of working for upmarket clientele.**

Regulatory initiatives

Some important initiatives taken by the RBI since April, 2009 for the benefit of bank customers are enumerated below.

- ◆ Names of the remitter and beneficiary are to be provided in the pass book / account statement in case of RTGS remittances.
- ◆ Banks have been advised to put in place following policies for the MSE sector
 - i. Loan policy governing extension of credit facilities
 - ii. Restructuring / rehabilitation policy for revival of potentially viable sick units / enterprises
 - iii. Non-discretionary One Time Settlement Scheme for recovery of non-performing loans.
- ◆ It is mandatory for banks to reimburse customers, the amount wrongfully debited on account of failed ATM transactions, within a maximum period of 12 working days from the date of receipt of the customer complaint and pay a compensation of Rs.100/- per day for any delay.
- ◆ Credit information obtained from a credit information company is to be made available, on request, to any person who applies for grant or sanction of credit facility

from any credit institution, subject to payment of a fee of not more than Rs.50/- for this purpose.

- ◆ At commercial establishments where debit cards issued in India are accepted, a customer can withdraw cash up to Rs.1000 per day against such debit card.
- ◆ Banks should not obtain collateral security for loans up to Rs.5 lakh sanctioned to Micro & Small manufacturing or service Enterprises.

(For further details please visit RBI website www.rbi.org.in)

Reader's Voice

❓ One of my friends was a guarantor in a loan amount of say 'X' in year 1998. Around two or more years later the borrower increased their loan to 'Y'. The guarantor was not informed about the loan increase nor did he sign it for loan extension as a guarantor. Now the borrowers are unable to pay and the bank is approaching the guarantor for the payment of new amount 'Y'.

Could you let me know what is the liability of the guarantor in this case - old amount 'X' or new amount 'Y'? - **Umang Nahata**

📖 In terms of para 8.12 of the Code of Bank's Commitment to Customers – July, 2006 the guarantor is to be informed of his liability, the amount of liability he will be committing to as also whether his liabilities are limited to a specific quantum or are unlimited. Therefore, the liability of the guarantor would depend on the terms and conditions of the guarantee agreed to which have to be informed to him on his becoming a guarantor.

❓ I am planning to set up a mineral water manufacturing plant at my place. I have approached several banks for financial assistance to set up the plant but they refused to accept my proposal saying they need collateral. -**Arun Kumar**

📖 Every bank has its own credit policy in terms of which a loan application is processed and sanctioned or rejected. It is a question of their commercial judgement. However, in terms of RBI instructions and the Code of Bank's Commitment to Micro and Small Enterprises, if banks sanction any loans up to Rs.5.00 lakh these have to be sanctioned without obtaining any collateral.

Would you like to share any information/experience connected with customer service? If so, please feel free to write to us.