

OPERATIONAL ASPECTS OF DEPOSIT ACCOUNTS

PPB CHAPTER – 5 MODULE A BY ASHISH SIR



Part-3

Prohibitions & Exemptions

Prohibitions

Banks are restricted from engaging in the following practices related to deposit-taking:

1. Remuneration/Commission/Incentives:

- Banks cannot pay remuneration, fees, commission, brokerage, or incentives on deposits to any individual or entity, except:

- Commission to agents for collecting door-to-door deposits under a special scheme.

- Direct Selling Agents (DSAs) or Direct Marketing Agents (DMAs) as part of an outsourcing arrangement.

- Business Facilitators (BFs) or Business Correspondents (BCs).

BC/BR
DSA/DMA
Agent

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2. Prize or Lottery-Based Offers:

- Banks **cannot offer prizes**, lotteries, free trips, or any similar initiatives involving chance for deposit mobilization.
- However, inexpensive gifts costing **up to ₹250** can be given at the time of accepting deposits.

3. Unethical Deposit Mobilization:

- Banks are prohibited from raising deposits through unethical practices, such as:
 - Using intermediaries/ agents to meet credit needs of borrowers or grant loans based on deposit mobilization.

4. Misleading Advertisements:

- Banks **cannot issue advertisements** highlighting only the **compounded yield** on term deposits without disclosing the **actual simple interest rate** for the period.

5. Interest-Free Deposits: Interest-free deposits are not allowed except for **current accounts**.

- Banks **cannot pay indirect compensation** on deposits.

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6. **Deposits Linked to Private Financiers:** Banks **cannot accept deposits** from or at the instance of private financiers or unincorporated bodies where receipts are issued favouring clients of such financiers.
7. **Advances Against Other Bank Deposits:** Advances against **term deposits maintained with other banks** are prohibited.
8. **Charitable Funds:** Banks **cannot create charitable funds** in consultation with depositors to be utilized for charitable purposes.



Exemptions



1. Deposits Received by the Bank:

- From **institutions permitted to participate** in the Call/Notice/Term Money Market as both lenders and borrowers.
- Against which the bank has issued a **participation certificate**.
- Under the **Capital Gains Accounts Scheme, 1988**.
- Under the **Certificate of Deposit Scheme**.

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Cheque

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2. **Delayed Collection of Instruments:** Payment of interest on **delayed collection** of outstation instruments such as cheques, drafts, bills, telegraphic/mail transfers, etc.

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Inoperative Accounts & Unclaimed Deposits

Inoperative accounts (savings or current) and unclaimed deposits (fixed deposits after maturity) **pose risks of misuse for fraudulent activities**. Banks must take proactive steps to handle such accounts responsibly.

Proactive Action by Banks

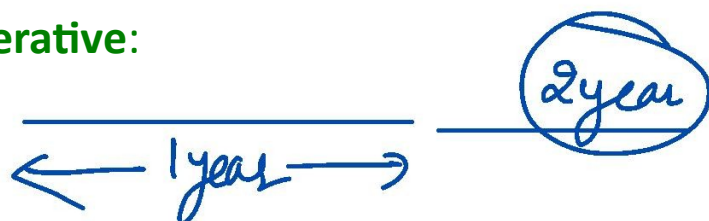
1. Annual Review:

- Conduct an **annual review** of Savings Bank (SB) and Current Accounts (CA) with **no transactions for over a year** (excluding interest credit or service charge debits).

2. Customer Communication:

- Contact customers **in writing** to inquire about inactivity and encourage resumption of operations.

3. Classification as Inoperative:



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- Accounts are classified as **inoperative/dormant** if there are **no customer-induced transactions** for over **two years**.

Customer-induced transactions include both debit and credit initiated by the customer or a third party.

4. Interest on Term Deposits (TDs):

- Accounts where interest from TDs is credited to SB as per the customer's mandate are **considered operative**.
- **Such accounts are treated as inoperative only after two years from the last interest credit.**

Relocation of Customer

If a customer permanently shifts residence:

- Request the customer to **transfer the account** to a branch near their new location.
- Alternatively, advise the customer to **close the account** and provide details for transferring the balance to their new bank account.

No Response from Customer

1. Unreachable Customers:

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- If letters are **returned undelivered**, banks should make efforts to trace the customer using:

- Registered **phone numbers** or **email**.
- **Third-party contacts**, such as the introducer, employer, or nominee.

2. Deceased Customers:

- If the customer is suspected or known to be deceased, contact their **legal heirs**.



When Customer Response is Received

1. Response with Reasons:

- If the account holder explains the inactivity, classify the account as **operative** for one more year.
- If unused within this period, classify it as **inoperative**.

2. Withdrawals and Account Revival:

- Permit **full balance withdrawal** upon proper identification.
- For partial withdrawals with an intent to revive, classify the account as **operative**.

- #### 3. No Customer Inconvenience:
- Ensure the customer faces no inconvenience due to the account being inactive.

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4. **Due Diligence:** Allow operations after verifying the **risk category, signature, and identity** of the customer.
5. **No Charges for Activation:** Banks cannot levy charges for reactivating inoperative accounts.

EXCEPTIONAL CASES

Some accounts should **not be classified as inoperative**, even if dormant:

1. Accounts under **Garnishee Orders** or other **Court Orders**.
2. Accounts with a nature permitting **periodical transactions only**.
3. Accounts under **lien or charge** for advances in another account.
4. Accounts with a **debit balance**.

Displaying List of Inoperative Accounts/ Unclaimed Deposits

1. **Website Display:** Banks must display a **list of accounts inactive for 10 years or more** on their website.
2. **Displayed Information:**
 - Only include the **account holder's name and address**.

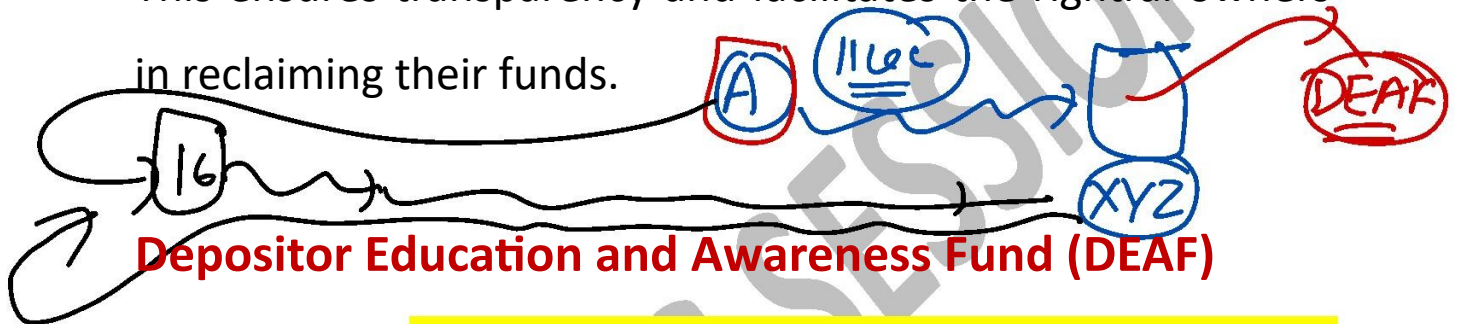
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- For entities, include the names of **authorized individuals**.

3. Process for Claiming Deposits: Banks must provide details on how to claim unclaimed deposits or reactivate inoperative accounts, along with necessary forms and documents.

This ensures transparency and facilitates the rightful owners in reclaiming their funds.



Depositor Education and Awareness Fund (DEAF)

In **2014**, the **RBI** established the **Depositor Education and Awareness Fund (DEAF)** under the **Banking Regulation Act**.

Banks must transfer the balances in accounts or deposits that remain **unclaimed/inoperative for 10 years or more** to this fund.

Types of Accounts Transferred to DEAF

1. **Savings Bank Deposit Accounts**
2. **Fixed or Term Deposit Accounts**
3. **Cumulative/ Recurring Deposit Accounts**
4. **Current Deposit Accounts**

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5. **Other Deposit Accounts** (of any form/name)
6. **Cash Credit Accounts**
7. **Loan Accounts** (after appropriation by the bank)
8. **Margin Money** (against Letters of Credit/Guarantees, or security deposits)
9. **Outstanding Balances:**
 - Telegraphic Transfers, Mail Transfers, Demand Drafts, Pay Orders, Banker's Cheques, Sundry Deposits, Vostro Accounts, etc.
 - Unadjusted NEFT credit balances, unreconciled ATM transaction credit balances.
10. **Prepaid Cards:** Undrawn balances in prepaid cards issued by banks.
 - **Excludes** outstanding amounts in traveller's cheques or similar instruments without maturity.
11. **Rupee Proceeds of Foreign Currency Deposits** (converted to INR per foreign exchange rules).
12. **Other Amounts** as specified by the RBI.

Salient Features of DEAF Scheme

1. Transfer to DEAF:

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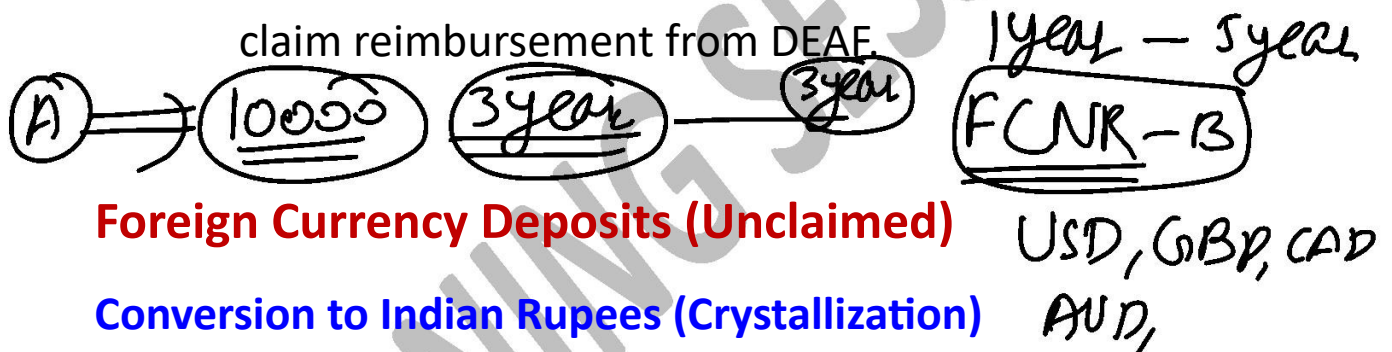
- Amounts must be transferred to the Fund within **three months** of the expiry of 10 years.

2. Utilization of the Fund:

- The Fund is used for **promotion of depositors' interest**, as specified by the RBI.

3. Depositor Claims:

- Depositors can still claim their deposits or operate the account even after the funds are transferred to DEAF.
- Banks will **refund the amount** to the depositor and claim reimbursement from DEAF.



1. Fixed Maturity Deposits:

- Deposits inoperative for **three years from maturity** are converted to INR at the **prevailing exchange rate** at the end of the third year.

2. No Fixed Maturity Deposits:

- After **three years of inactivity**, banks must give a **three-month notice** to the depositor's last known address.

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- Conversion is done at the **prevailing exchange rate** at the end of the notice period.



Provisions for Claiming Funds

- 1. Claim Options:** Depositors can claim the amount in **Indian Rupees** or the **foreign currency equivalent** (at the exchange rate on the payment date).
- 2. Refund Process:** If the amount was transferred to DEAF, banks will repay the depositor (with applicable interest) and claim the equivalent amount from the Fund.
- 3. Interest on Claims:** **Interest is paid** on claims from the date the balance was transferred to DEAF until the payment date.
- 4. Rate of Interest:** **3.0% simple interest per annum**, effective from **11th May 2021**.
- 5. Refunds to Banks:** Refunds from the Fund to banks are made only in **Indian Rupees**.

Weeding Out Unremunerative/ Undesirable Accounts

Unremunerative Accounts: Accounts with balances often falling **below the minimum balance** prescribed by the bank.

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- **Accounts maintained with meager balances** primarily to avail facilities like purchasing demand drafts (DDs) or other bank services.

Undesirable Accounts: Accounts where cheques are frequently issued **without sufficient balance**, resulting in cheque returns due to insufficient funds.

- These accounts cause operational inefficiencies and reputational risks for the bank.

Actions to Be Taken by Banks

1. Notices to Customers:

- Send written **notices** to customers maintaining such accounts, informing them of the bank's intention to close the account.

2. Stop Issuing Cheque Books:

- Do not issue new cheque books to customers with undesirable accounts.

3. Closing the Account:

- At the time of closing:
 - Ensure the **collection of unused cheque leaves/books** from the customer.

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4. Vigilance on Undesirable Accounts:

- Maintain **constant monitoring** of such accounts.
- Ensure that no cheque is inadvertently passed if there are **insufficient funds** in the account.