

Banks Violating Prevention of Money-Laundering Act for Excluding the Excluded

Ashish Das

Department of Mathematics
Indian Institute of Technology Bombay
Mumbai-400076, India



Indian Institute of Technology Bombay
Powai, Mumbai-400 076, India



Table of Contents

Executive Summary	iii-x
Abstract and Acknowledgements	1-2
1. Introduction	3-6
2. The <i>Small Account</i>- Is the Plus Ticking?	7-10
3. A Designed Experiment	11-14
4. Questions of Significance	15-16
5. RBI's Role towards the <i>Small Accounts</i>	17-20
6. Is Documentation Adequate- Missing Sprit of the <i>Small Accounts</i>	21-26
7. Faith Based Banking and Welcoming Attitude in Banks	27-30
8. Prepaid Accounts and Redefining BC at Urban Locations	31-36
9. Recommendations and Potential Impact	37-42
References	43-46
Appendix	47-62



This work is dedicated to all those who may be deprived of the core knowledge on ‘*Small Accounts*’ in the Indian banking system and for those who do not have the resources and opportunities to open a bank account due to lack of satisfactory ID and/or address proof.



Executive Summary

1. India has about 400 million internal migrant population. This large section of the society needs to be socially included, especially in banking, for achieving real inclusive growth. Migrations create some sort of social divide among the local residents and the migrants. This divide, in many occasions, is not only in form of differences in position on the economic ladder but also in terms of their access to basic services, including banking, in absence of a proper ID and/or address proof. Type of migrants who do not have address of residence or proof of residence are many, e.g., construction workers who lives in or around the building under construction; other workers who do not have proper residence; blue collared or even white collared workers who rent an accommodation, but has no formal rental agreement or other proof of residence. The same may hold even for few of the rural poor.

2. **During the course of this study, it was overwhelming to learn that bankers at large (and thus practically every Indian to whom it matters more) do not know about the provision under legislation that a small savings bank deposit account can be opened in banks across India, without the requirement of any ID and/or address documentary proofs.** In case you are one of those Indians who are ignorant, you need to know (not only for yourself but also for all your near or dear ones) your lawful right, i.e., *“an individual who desires to open a small account in a banking company may be allowed to open such an account on production of a self-attested photograph and affixation of signature or thumb print, as the case may be, on the form for opening the account.”*.

3. Cobra Post exposé showcased the violation of Prevention of Money-Laundering (PML) Act by banks to facilitate money laundering. While this is a serious concern, the other end of the spectrum whereby banks are violating PML Act to deprive the poor and gullible, who do not have proper ID and/or address proofs, is equally serious a crime. Banks usually gain in this process since it is a win-win to the institution and the front end staff not to serve 100 poor and unwelcome clients as against one rich client who brings in business larger than all of them taken together.

4. Banks exploit such poor clients by pushing them towards business correspondents (BC) which exists at urban locations (though primarily envisaged and meant for serving rural area where there are issues of distance and there is sparse population to serve). The prime objective of the BC model was reaching out to the hinterlands; and to make banking a viable proposition, banking under the BC setup allowed service charges to be higher than those at bank branches. In the urban location where branch penetration is adequate, the poor and gullible (unwelcome as they are), are not served at branches and are being forced towards BCs. They embrace BC not by choice but by force. Why would



you and I want to go to an urban BC and not only pay more for a basic banking service but also get a relatively less quality service than what a bank branch potentially can provide or are required to provide (in terms of basic banking service)?

5. To facilitate banking for small clients, Reserve Bank of India (RBI), as early as 2005, introduced savings bank account not requiring maintenance of minimum balance in the account. For such accounts, the fee for non-maintenance of certain minimum balance was removed. These accounts were initially called basic banking 'no-frills' account and later rechristened as Basic Savings Bank Deposit Account (BSBDA). RBI during the same period also initiated the concept of Small Deposit Account wherein it introduced relaxed know your customer (KYC) norms. Later in 2010, the Government of India (GoI) brought in appropriate legislation to give more teeth to RBI's small deposit accounts. GoI called such accounts as '*Small Account*' and it was introduced under the PML Act 2002. The PML Third Amendment Rules, 2010, empowered every citizen to open a bank account and carry out financial transactions using the banking channel. **The novelty of such an account is that an individual desirous to have a bank account can simply walk into any bank branch with only a self-attested photograph and open such an account.** Thus, opening of such *Small Accounts*, in a bank branch, has been made as simple as walking into a Post Office for making a money order of, say, Rs. 3000.

6. Though the novelty of *Small Accounts* is a real boon to a sea of bonafide individuals, it was primarily meant to serve individuals of lower income group and individuals without immediate proofs of ID (officially valid documents) and address. In order to ensure international banking standards towards prevention of money laundering and financing of terrorism, such accounts were classified as low risk customer accounts through imposition of certain safeguards and restrictions. The significant restrictions on *Small Accounts* include:

- i. the aggregate of all credits in a financial year shall not exceed Rs. 1,00,000,
- ii. the aggregate of all withdrawals and transfers in a month shall not exceed Rs. 10,000,
- iii. the balance at any point of time shall not exceed Rs. 50,000,
- iv. the *Small Account* shall remain operational initially for a period of twelve months, and thereafter for a further period of twelve months if the holder of such an account provides evidence of having applied for any of the officially valid documents within twelve months of the opening of the said account, with the entire relaxation provisions to be reviewed in respect of the said account after twenty four months,
- v. foreign remittance shall not be allowed to be credited into a *Small Account* unless the identity of the client is fully established through the production of officially valid documents.

7. Despite well thought of initiatives of the government and RBI, foundations of which were laid more than 8 years back, and culminating in form of empowerment of millions of people in India (to facilitate social financial inclusion) through appropriate amendment of the PML Act as early as 2010, the present scenario is that there is an inherent repulsion



Banks Violating PML Act for Excluding the Excluded

by banks to cater to low net worth individuals in non-rural locations where the usage of banking service is more on natural demand basis unlike the rural model of a supply based induced structure.

8. The present study undertakes a designed survey experiment to investigate certain aspects of *Small Accounts* introduced by GoI and RBI. In particular, the following pointers are looked into:

- (i) bank branch officials' knowledge and capacity to understand *Small Accounts*,
- (ii) capacity (willingness and readiness) of banks to implement RBI guidelines,
- (iii) banks' understanding of RBI guidelines,
- (iv) presentation (drafting) of the guidelines by RBI,
- (v) banks' lack of eagerness to address the core issues not only in letter but also in spirit,
- (vi) business model for *Small Accounts* and avenues through prepaid accounts and urban BCs.

9. It is observed that there is absolute ignorance, lack of awareness, insensitivity to 'include the excluded' and inability to interpret the RBI rules on relaxed KYC norms. Furthermore, there are issues of capacity building and RBI's will to control wilful violation in implementation of the banking rules on *Small Accounts* and BSBDA.

10. Unlike the largest bank, State Bank of India (SBI), which has made all its savings bank deposit accounts with no minimum balance requirement, almost all other banks have their regular savings bank account with certain non-zero minimum balance requirement failing which a fee is imposed. RBI's imposition on banks to provide a BSBDA in which the minimum balance requirement with no fee is zero has some inherent conflict of interests with bank's own commercial considerations. Thus, banks usually do not showcase BSBDA alongside their other types of potential higher balance savings bank deposit accounts.

11. With a view to enhancing ease in financial inclusion one needs to arrive at a balance between banks' commercial interest and their social obligations. Alongside, RBI should have a relook at its own policy on interest rate restrictions and the no fee requirement for zero balance savings bank deposit accounts. Such restrictions are dissuading banks. Banks in turn are creating hurdles in implementation of an otherwise well thought of initiative towards financial inclusion. A path needs to be laid which can make banks facilitate opening of accounts for people who do not have the same resources and opportunities that are available to others. Based on the findings of the experiment conducted through this study and learning from interactions with management of banks and their front line staff, with non-banks providing banking services, with the migrants and underprivileged section of society and with RBI officials and top management, we give the following recommendations.



12. To address the current impasse where the legislation provides while bank denies thereby excluding the financially excluded, **it is recommended that RBI deregulate the savings bank deposit interest rate subject to two conditions:**

- **First, each bank will have to offer a uniform interest rate on savings bank deposits up to Rs. 10,000 (rather than the present limit of Rs. 1,00,000), irrespective of the amount in the account within this limit.**
- **Second, for savings bank deposits over Rs. 10,000, a bank may provide differential rates of interest, if it so chooses, subject to the condition that banks will not discriminate in the matter of interest paid on such deposits, between one deposit and another of similar amount, accepted on the same date, at any of its offices.**

13. This deregulation could be combined with removal of any fee on non-maintenance of any prescribed minimum balance in savings bank deposit accounts. Such a move would give more flexibility to banks for designing of more viable business models and for bringing in innovations in the savings product for all sections of society. In order to encourage people to move to higher brackets, products could be made where the higher rate applies to the full deposit amount on crossing the threshold. It may inculcate savings habit among the small depositors and encourage them to reach the threshold that can help them earn more interest on their deposits.

14. At present, banks are required to include all Savings Bank deposit liabilities for computation of Net Demand and Time Liabilities (NDTL) and for maintenance of CRR and SLR. In order to encourage *Small Accounts*, **it is recommended that RBI should look at the possibility of exempting savings bank deposits, under *Small Accounts*, from maintenance of CRR and SLR.** Such financial incentives to banks would help them to encourage the opening of *Small Accounts* by reducing their cost.

15. With regards BSBDA, though RBI has prohibited debits (with a fee) beyond 4 free debits per month, banks should be allowed to retain the name of BSBDA even if they allow debits beyond the 4 free debits and charge for them. The charges, if imposed, could also be in form of penalty. Furthermore, even though it is a zero balance account, in order to eliminate unwanted elements, the initial sum required for opening such an account should not be Rs. 0. **It is recommended that a minimum amount requirement to open the BSBDA be set at not exceeding Rs. 500.** This minimum amount requirement could be further scaled down appropriately for rural/semi-urban/urban locations, with it being Rs. 100 for rural.

16. As of now, even after 34 months of enactment of PML legislation for opening of *Small Accounts*, many banks have not put in place software systems to ensure implementation of checks pertaining to *Small Accounts*. Furthermore, within the PML Act, to facilitate people who desire to open *Small Accounts*, controls need to be placed so



that the system does not allow unintentional violation of the transaction limits set under *Small Accounts*. **It is recommended that RBI mandate banks to put in place controls so as to reduce hardships to *Small Account* holders in case of unintentional breach of threshold limits.** In view of the severe implications for the financially excluded and disadvantaged sections of society, **it is recommended that RBI should ensure that banks build in the checks in their CBS for *Small Accounts*, and considering the time already lost this should be done on priority within the next four months (latest by March 2014).**

17. **It is also recommended that RBI should ensure compliance of its own instructions on KYC/AML/CFT by banks so that no individual is turned away by a bank branch, for want of some documents, while attempting to open a simple bank account.** In other words, RBI should plug the current rampant non-compliance of legislation related to opening of Nil- or relaxed- KYC enabled *Small Accounts* and full-KYC enabled BSBDA. Also, in order to facilitate a *Small Account* (having a status where Valid ID has been shown) to be converted into a full-KYC enabled normal account, the bank branch opening such an account may get the address (as on the application) physically verified.

18. Bank branches located in metros and urban regions should be allowed and encouraged to use the services of quality BC for supporting its branch banking activities. Branches need such a support due to possible lack of sufficient staff/space/etc. at the branch. **It is recommended that any BC Agent within two km of any bank branch in Urban regions should be designated the status of an *Urban BC* and be considered as extended arms or facilitators of bank branches in urban location, analogous to an ATM.** This would automatically require removal of any possible differentials in service charges for the customer at *Urban BCs* outlet and at bank branches (atleast during the branch banking hours). However, independent of the service charge imposed on the customers at BC service point by the bank for viability of *Urban BCs* **it is recommended that such a move should not allow banks to disturb the existing reasonable commission (in absolute terms) that is being paid to the BCs by banks.**

19. As alternatives to BCs, Payment System Operators (non-bank) with authorisation from RBI that are offering prepaid products should also contribute in providing prepaid accounts to unbanked with system controls as laid down under *Small Account*. The fee structure for such prepaid accounts should be similar to BSBDA. For the prepaid cards to work in a holistic manner, **it is recommended that RBI re-look and re-work the possibility of allowing cash out at ATMs (open-loop) through independent membership of NFS for the prepaid service providers.** Furthermore, to facilitate bank branches, such prepaid accounts can be assisted, outsourced and promoted by banks.

20. Banking Codes and Standards Board of India (BCSBI) has not yet addressed the 'standards' aspects with respect to ground realities as dealt in this Report. The Board



should also, as its name suggests, work proactively towards identifying banking standards, for the good of the banking system and its users. **It is recommended that BCSBI develops and identifies good banking standards to enhance harmony and transparency in the banking practices.** BCSBI should be more sensitive and passionate in their endeavours to play an effective and proactive role.

21. In the interest of customer service, **it is recommended that Customer Service Department of RBI be expanded four folds and be mandated to carry out holistic research studies on customer service pertaining to payment systems, deposits, loans, awareness building by banks, financial education initiatives, etc.** Such a move should be independent of creation of separate authorities for enforcing fair market conduct and for protection of financial consumers. Thus the role of CSD would be expanded to include research wings dealing with continuous surveys of customers and bank branches culminating in monthly reporting. This would act as a means and catalyst for training banks and having them firmly committed to treating their customers fairly. CSD must include a division of handpicked, more sensitive and passionate officers who can go around branches in India and report state of affairs from the customer angle.

22. With the creation of the Depositor Education and Awareness Fund (DEAF) earmarked for promotion of depositors' interest and for such other purposes considered necessary for the promotion of depositors' interests, **it is recommended that the funds under DEAF, among other purposes, be utilised for including the excluded by running campaigns to educate them on (a) *Small Accounts*, (b) BSBDA, (c) money transfers (deposits) using Cash-NEFT and Cash-IMPS, (d) minimal KYC requirements for opening of normal savings account, etc.**

23. Usually, in a bank branch, there are explicit displays where details of the documents required are indicated for opening of savings bank deposit accounts. Just to undo the incorrect learning (with respect to *Small Accounts*) that has percolated over the years among bank staff and public at large, **it is recommended that for the next two years RBI make it mandatory for banks to display in branches that no documents are required for opening of *Small Accounts*.** Many banks attempt not to place BSBDA alongside accounts with potentially high balances. Bank branches are not disclosing the RBI mandated zero balance account while listing other categories of non-zero minimum balance savings bank account. Thus, **it is also recommended that RBI mandate banks to have proper disclosure norms (including verbal) at their branches pertaining to their offering basic banking facilities such as zero balance BSBDA, *Small Account*, Cash-NEFT and Cash-IMPS.**

24. Finally, **it is recommended that RBI should conduct focused campaigns on financial education through various modes (radio, TV, print media, posters and banners) and in simple clear terms, so that every household becomes aware of *Small Accounts* as they are aware of Money Order in Post Office.** For meeting its objective of



including the excluded, it is recommended that the advertisements be made of high standards at par with Pulse Polio or Aids awareness campaigns involving brand ambassador of high repute like Amitabh Bachchan or Vidya Balan or Amir Khan.

25. RBI's Annual Policy Statement for the year 2013-14 (May 3, 2013) proposed “to replace the existing FAQs on KYC/AML/CFT with a comprehensive set of questions and answers by end-June 2013” and, “to finalise the modalities for setting up of DEAF by end-September 2013”. Since depositors and prospective customers are the real stakeholders to the above proposals and since the same has not been finalised by RBI (even after more than 150 and 55 days, respectively, of passage of indicative target dates set by RBI), RBI remains answerable to the public. With a view to facilitating understanding of RBI policies and compliance thereof and to avoid miscommunication, **it is recommended that in its subsequent policies, RBI should strive to provide updates of all proposals made in earlier policies.**

26. To conclude, it is pertinent to mention the types of error done by banks (unintentional or otherwise) associated with the implementation of the PML Act. Error of Type I is committed when a bank deprives a poor client to open an account without address proof (that is a violation under PML Act), while Type II error is committed when bank facilitate opening of an account by money launderer (again a violation under PML Act), see Chart below.

Nature of client Bank's status of acceptance of customer as per PML Act	Poor (with correct name and address but no proof)	Money launderer or with terrorist links (without proper ID and address)
	Do not open bank account (deprive)	Type I error
Open bank account (facilitate)	Correct	Type II error

Chart: Type I and Type II errors

27. Given the extent of financial exclusion, Type I error is more serious and accordingly the PML Act sets reasonable safeguards/limits/controls to take care of such errors. The recommendations of this Report are directed towards *including the excluded* by allowing them to open a *Small Account* even in absence of a valid proof of identity or residence. This move, with all its checks in place will minimise Type I error and promote financial



Banks Violating PML Act for Excluding the Excluded

inclusion without significantly increasing Type II error (favouring money laundering / financing of terrorism).

28. Thus the regulator needs to take prompt corrective measures to check banks who, in the name of KYC, are committing a crime of excluding the excluded. The impact of this exclusion can be measured only in terms of how intensely it hurts the poor people more than relatively better off. The voice of millions of such poor people is not heard through the media. Therefore, the government and RBI should, in furthering their focus on aam aadmi, financial inclusion and inclusive growth, treat this matter with utmost priority.



Banks Violating Prevention of Money-Laundering Act for Excluding the Excluded*

Ashish Das[†]

Department of Mathematics, Indian Institute of Technology Bombay, Mumbai 400076

November 26, 2013

Abstract

To facilitate banking for small clients, Reserve Bank of India (RBI), as early as 2005, introduced savings bank account not requiring maintenance of minimum balance in the account. For such accounts, the fee for non-maintenance of certain minimum balance was removed. These accounts were initially called basic banking 'no-frills' account and later rechristened as Basic Savings Bank Deposit Account. RBI during the same period also initiated the concept of Small Deposit Account wherein it introduced relaxed know your customer (KYC) norms. Later in 2010, the Government of India (GoI) brought in appropriate legislation to give more teeth to RBI's small deposit accounts. GoI called such accounts as '*Small Account*' and it was introduced under the Prevention of Money-Laundering (PML) Act 2002. The PML Third Amendment Rules, 2010, empowered every citizen to open a bank account and carry out financial transactions using the banking channel. The novelty of such an account is that an individual desirous to have a bank account can simply walk into any bank branch with only a self-attested photograph and open such an account. Opening of such *Small Accounts*, in a bank branch, has been made as simple as walking into a Post Office for making a money order of, say, Rs. 3000.

Despite well thought of initiatives of the government and RBI, foundations of which were laid more than 8 years back, and culminating in form of empowerment of millions of people in India (to facilitate social financial inclusion) through appropriate amendment of the PML Act as early as 2010, the present scenario is that there is an inherent repulsion by banks to cater to low net worth individuals in non-rural locations where the usage of banking service is more on natural demand basis unlike the rural model of a supply based induced structure. During the course of this study, it was overwhelming to learn that bankers at large (and thus practically every Indian to whom it matters more) do not know about the provision under legislation that a small savings bank deposit account can be opened in banks across India, without the requirement of any ID and/or address documentary proofs.

This Report is based on a designed survey experiment, carried out involving more than 20 representative banks, to understand the state of access to basic banking facilities by the financially excluded. After assessing the demand and supply of basic banking facility and various aspects of the current impasse, the Report makes some recommendations to facilitate financial inclusion.

Keywords: Financial inclusion, Urban unbanked, PML Act, KYC norms, *Small Account*, BSBDA

* The views expressed are those of the author and not necessarily of the institution to which he belongs.

[†] Dr. Ashish Das is a Professor of Statistics with the Indian Institute of Technology Bombay. E-mail: ashish@math.iitb.ac.in



Acknowledgements

I am grateful to hundreds of members of the economically weaker and/or gullible class of the society (not necessarily having satisfactory documents to prove their identity and/or address), at locations like Pune, Mumbai and Delhi, while interacting and understanding their natural need and difficulties to open a bank account. I am thankful to Department of Financial Services, Ministry of Finance, in providing this opportunity under a related project on domestic remittances (Cash-NEFT). We would then like to thank the front end staff of branches of several banks for interacting and thus providing the ground realities in terms of branch staff ignorance on the requirement of ID and/or address proofs to open any bank account. I thank the banking operation officials, nodal officers and top managements of several banks for attempting to arrange satisfactory response to some critical questions at hand. Finally, I thank some officials from Indian Banks' Association, All India Bank Depositors' Association, RBI and BCSBI for some fruitful discussions. In the Report all possible care has been taken to project the correct picture using the data gathered. Deviations, if any, are inadvertent.

Author's note

1. In order to stimulate discussions and receive valued comments, the Report is being put in the public domain in form of a Technical Report.
2. Though the survey results presented here are based on our observations of the ground realities and the follow-up correspondence with banks and RBI, the readers of this Report are urged to make their own assessment of the same.
3. During early November 2013, a draft of this Report was circulated among heads of select institutions/organizations, select researchers/academicians/media people, and friends/acquaintances/officials (representing common man) with whom the author interacted during the study. Valued comments were sought for taking a little step towards the betterment of the banking system in India for those who do not have the same resources and opportunities that are available to others. For this, readers were requested to provide their suggestions/comments/views that they want to portray and point out factual inaccuracy, if any. Some responses were received and the author thanks the respondents for their formal and informal comments, few of which have been incorporated in the final Report.



I. Introduction

1.1 India has about 400 million internal migrant population (see reference [7]). This large section of the society needs to be socially included, especially in banking, for achieving real inclusive growth. Migrants usually move from their (i) rural to semi-urban or urban or metro locations, (ii) semi-urban to urban or metro locations, and (iii) urban to metro locations. Migrants also move within semi-urban, within urban and within metro locations. Such migrations create some sort of social divide among the local residents and the migrants. This divide, in many occasions, is not only in form of differences in position on the economic ladder but also in terms of their access to basic services, including banking, in absence of a proper ID and/or address proof. Type of migrants who do not have address of residence or proof of residence are many, e.g., construction workers who lives in or around the building under construction; other workers who do not have proper residence; blue collared or even white collared workers who rent an accommodation, but has no formal rental agreement or other proof of residence. The same may hold even for few of the rural poor.

1.2 During the course of this study, it was overwhelming to learn that bankers at large (and thus practically every Indian to whom it matters more) do not know about the provision under legislation that a small savings bank deposit account can be opened in banks across India, without the requirement of any ID and/or address documentary proofs.

1.3 Cobra Post exposé showcased the violation of Prevention of Money-Laundering (PML) Act by banks to facilitate money laundering. While this is a serious concern, the other end of the spectrum whereby banks are violating PML Act to deprive the poor and gullible, who do not have proper ID and/or address proofs, is equally serious a crime. Banks usually gain in this process since it is a win-win to the institution and the front end staff not to serve 100 poor and unwelcome clients as against one rich client who brings in business larger than all of them taken together.

1.4 Banks exploit such poor clients by pushing them towards the business correspondents (BC) which exists at urban locations (though primarily envisaged and meant for serving rural area where there are issues of distance and there is sparse population to serve). The prime objective of the BC model was reaching out to the hinterlands; and to make banking a viable proposition, banking under the BC setup allowed service charges to be higher than those at bank branches. In the urban location where branch penetration is adequate, the poor and gullible (unwelcome as they are), are not served at branches and are forced towards the BC. They embrace the BC not by choice but by force. Why would you and I want to go to an urban BC and not only pay more for a basic banking service but also get a relatively less quality service than what a bank branch potentially can provide or required to provide (in terms of basic banking service)?



1.5 To facilitate banking for small clients, Reserve Bank of India (RBI), as early as 2005, introduced savings bank account not requiring maintenance of minimum balance in the account. For such accounts, the fee for non-maintenance of certain minimum balance was removed. These accounts were initially called basic banking 'no-frills' account and later rechristened as Basic Savings Bank Deposit Account (BSBDA) (see references [28] and [13]). RBI during the same period also initiated the concept of Small Deposit Account wherein it introduced relaxed know your customer (KYC) norms (see reference [29]). Later in 2010, the Government of India (GoI) brought in appropriate legislation to give more teeth to RBI's small deposit accounts. GoI called such accounts as '*Small Account*' and it was introduced under the PML Act 2002. The PML Third Amendment Rules, 2010, empowered every citizen to open a bank account and carry out financial transactions using the banking channel. The novelty of such an account is that an individual desirous to have a bank account can simply walk into any bank branch with only a self-attested photograph and open such an account. Thus, opening of *Small Accounts*, in a bank branch, has been made as simple as walking into a Post Office for making a money order of, say, Rs. 3000.

1.6 However, the state of affairs is that, banks are misleading its branches (unintentional or otherwise) and thus misleading the public at large. Till date bonafide people (poor and gullible) are facing difficulty when they enter a bank branch to open a savings account (even a *Small Account*). They are denied the right to open an account by the branch by stating, for example... a minimum of Rs. 500 (actually ranges from Rs. 500 to Rs. 3,00,000 depending on the bank) is required to open account; a self signed cheque is necessary; PAN is a must; how can the branch open any account without an appropriate ID and/or address proof; it is the RBI rule on KYC/AML/CFT that they need to adhere to and thus necessarily need ID/address proof to open ANY bank account. Banks have all the reasons and means to dissuade the person from opening an account (without ID and/or address documentary proof) but not a single reason to say how they can facilitate/assist to open and allow usage of some (low risk) savings bank account which has few novel features and few restrictions (may not actually be a restrictions for many) such as:

- i. Even if you do not have an ID and/or address documentary proof, a savings bank account can be opened;
- ii. Only requirement is your photograph, your name, your address, and your physical presence in front of the branch manager/officer;
- iii. Need to self-attest the photograph and sign or thumb print on the account opening form in front of the manager/officer;
- iv. You just need to show some evidence, within the next 12 months, that you have applied for some valid ID;
- v. You just need to show in the next 24 months that you have got some valid ID;
- vi. As such, no address proof is required;



Banks Violating PML Act for Excluding the Excluded

- vii. Every month, you can withdraw (debit) a cumulative amount not exceeding Rs. 10,000;
- viii. Balance in the account could be as low as Rs. 0, but it cannot exceed Rs. 50,000;
- ix. Total deposits (credits) in one year should not exceed Rs. 1,00,000;
- x. Cannot have foreign remittance credit into the account (until the valid ID has been shown);
- xi. There is as such no service fee imposed (minimum services free of charge);
- xii. Whenever the full ID and address proof is provided, the account would get converted into a regular savings account not having any transactional restrictions.

1.7 The genesis of the present study dates back to when the author was involved in a bank related Cash-NEFT project (see reference [15]) initiated by the Department of Financial Services (DFS), Ministry of Finance. During the project on domestic remittances in the cities of Pune, Mumbai and Delhi, the author came across hundreds of members of the economically weaker class of the society (not necessarily having satisfactory documents to prove their identity and/or address). While interacting and understanding their natural banking needs, it was observed that artificial barriers, which were not required by law, were leading to unwarranted difficulties / uncalled-for denial to open bank accounts. Initial interactions provided learning, both in terms of supply and demand side of opening bank accounts. Subsequently, interactions of such unbanked people with the front end branch staff, engaged in providing the initial paperwork information for opening of bank accounts, were observed. What transpired there gave enough insight to carry out the present study involving a range of banks. Even after three years, the core property of a *Small Account* (under the low risk category) which can be opened in absence of an immediate ID and/or address proof has not got percolated into the minds of banks and thus to the public at large. The ground realities in terms of branch staff ignorance (or rather keeping them in that state through artificial barriers within bank's own internal system) on the requirement of ID and/or address proofs to open any bank account appears to be a major bottleneck. In fact the same ignorance also holds for banking operation officials, nodal officers and top managements of several banks.



None of these people standing in long queues, having regular banking needs, are aware of the fact that they have the right to open a bank account of their own in the city, even if one does not have satisfactory documents which any bank usually seeks to open a bank account.



1.8 During September 2013, a fresh round of interactions with small time workers and daily workers (mostly poor- skilled or unskilled labourers) in Mumbai and Delhi was initiated. The objective was to understand why some people who would like to have a bank account, are unable to get the same in a hassle free manner. We did not come across a single soul who was educated enough to say opening a bank account is as simple as making a money order (with respect to paperwork involved).

1.9 The present study undertakes a designed survey experiment to investigate certain aspects of *Small Accounts* introduced by GoI and RBI. In particular, the following pointers are looked into:

- (i) bank branch officials' knowledge and capacity to understand *Small Accounts*,
- (ii) capacity (willingness and readiness) of banks to implement RBI guidelines,
- (iii) banks' understanding of RBI guidelines,
- (iv) presentation (drafting) of the guidelines by RBI,
- (v) banks' lack of eagerness to address the core issues not only in letter but also in spirit,
- (vi) business model for *Small Accounts* and avenues through prepaid accounts and urban BCs.

1.10 Given the claim of RBI Governor Dr. Raghuram Rajan that "Too many poor people in so-called "over-banked" urban areas still do not have access to banking services" (see reference [0]), the prime objective in what follows is to further induce RBI's and the government's involvement to think and then correct any existing lacuna. The results of the survey are presented and certain recommendations are made highlighting potential impact for the betterment of the situation.

When I first heard (sometime in July 2012) that under some initiative of the DFS, Ministry of Finance, a camp was set-up in Delhi, where unbanked people were assisted opening of bank accounts (No-Frill / Small Account Type) with simply a photograph and signing in front of a bank manager sitting in the camp, I with my little knowledge then and based on what I had read (in KYC related circulars of RBI) said that introduction or some ID/address proof to the satisfaction of the bank is must. To that I was told by the DFS official that accounts were being opened with branch manager seeing the person and certifying the same.

I went back and read the 2012 Master Circular on KYC again and to put my point wrote back to the official (without mentioning his incorrectness and my presumed correctness) highlighting the relevant text (Sections 2.6 and 2.7) from the main body of the Master Circular.

In other words, even after having the information in front of me, I tried to teach something wrong to the official who otherwise had the correct information. Much later, when I happen to read the full Master Circular on KYC (including the annex), I realised my error. When I tried to analyse the reason for this lapse, I could find only one. This is highlighted in Section 6. Read on...



II. The *Small Account*- Is the Plus Ticking?

2.1 The novelty of *Small Accounts* is a real boon to a sea of bonafide individuals. It was primarily meant to serve individuals of lower income group and individuals without immediate proofs of ID (officially valid document) and address. In order to ensure international banking standards towards prevention of money laundering and financing of terrorism, such accounts were classified as low risk customer accounts through imposition of certain safeguards and restrictions. The significant restrictions on *Small Accounts* include:

- i. the aggregate of all credits in a financial year does not exceed Rs. 1,00,000,
- ii. the aggregate of all withdrawals and transfers in a month does not exceed Rs. 10,000,
- iii. the balance at any point of time does not exceed Rs. 50,000,
- iv. the *Small Account* shall remain operational initially for a period of twelve months, and thereafter for a further period of twelve months if the holder of such an account provides evidence of having applied for any of the officially valid documents within twelve months of the opening of the said account, with the entire relaxation provisions to be reviewed in respect of the said account after twenty four months,
- v. foreign remittance shall not be allowed to be credited into the *Small Account* unless the identity of the client is fully established through the production of officially valid documents.

2.2 Though the *Small Accounts* are designed to be a real boon to a sea of bonafide individuals, the state of affairs is that, till date there is hardly any beneficiary of the facility in absence of appropriate knowledge and appropriate implementation plan of RBI. Banks have all the reasons and means to dissuade persons from opening such an account (without ID and/or documentary proof of address) but not a single reason to facilitate opening of some savings bank account which may have few transactional restrictions (not having any consequence for many, and that the restrictions are removed the moment they provide an ID and address proof).

2.3 There were umpteen instances, where one can observe complete lack of knowledge on the above points at the branch level (even in metro cities). To cross check, any bank can send their tea-vendor or for that matter even a staff (without bank's ID) to enquire (in any of their 5 branches in Mumbai/Delhi) if he can open ANY savings bank account when he has (i) only a voter's ID from his village (in terms of a document), (ii) a Mumbai/Delhi address where he stays (but no documentary proof for the same), (iii) photograph of his, (iv) can sign / give thumb impression, and (v) Rs. 300 to deposit if the branch can help in opening his account right away. One needs to talk to the front desk staff who deals with opening such accounts. One can request politely, more than once, that you would be very grateful if the branch could help in opening any savings bank account with whatever he has, before finally leaving. The experiment could also be done



with no ID proof. It would be good to see banks share the true picture based on the above simple one day designed experiment.

2.4 RBI was apprised (see Appendix A) of the above situation during October 2012 (i.e., more than one year back) and surely RBI or/and Banking Codes and Standards Board of India (BCSBI) would have, by now, done their bit of ground level pulse testing. It would be interesting to observe their results too. Notwithstanding RBI's/BCSBI's experiments, if any, the nonchalant disposition of RBI in terms of its own actions (rather inactions) is noted in their response (see Appendix A). Issuing circulars *alone*, reiterating what has repeatedly been told to banks by RBI and by GoI, does not seem to be working. For instance GoI issued independent advisories in more than one occasion (see references [14] and [18]) where it writes...

“The Ministry of Finance, Department of Revenue and the Reserve Bank of India have issued instructions permitting opening of ‘*small accounts*’ with relaxed KYC, on self-certification basis. Though the banks were expected to aggressively utilize these provisions for opening of bank accounts particularly of the excluded sections of society, a perceptible reluctance has been observed on part of the banks in opening of accounts ‘on self-certification basis’. This has been viewed by the Government seriously and adversely.”

2.5 With government's focus on aam aadmi and inclusive growth, RBI's focus on financial inclusion as a means of inclusive growth, and availability of such a powerful product, the *Small Account*, to bring aam aadmi in the ambit of formal banking, there is a need for a concentrated effort to correct the existing inadequacies through proper training of bank staff, effective supervision, and a simultaneous focused drive on financial education that reaches out to the right group of people. It is observed that the Rural Planning and Credit Department (RPCD) of RBI that is involved in contributing towards financial literacy programs have not, till date, brought out any focussed document where it says that anyone who desires to open a bank account can open a *Small Account* with just a photograph and showing his presence in front of the bank manager for some signatures. The only literature found is a Financial Literacy Guide (see reference [10]), where it writes...

“What is Know Your Customer (KYC)?

Banks are required to know our particulars before opening of the accounts as per KYC regulations. Hence we need to submit necessary KYC documents, i.e., a photograph, proof of identity and proof of residence to the bank along with account opening form. The account can also be opened on the basis of the Aadhar Card. Persons not having above documents may open the account under relaxed KYC procedure based on MGNREGA job card or self certification. The accounts opened under relaxed procedure will be treated as small accounts and will be subject to certain limitations.”

One wonders how such an important piece of information has got hidden, rather than being clear and explicit, though unintentionally!



Banks Violating PML Act for Excluding the Excluded

2.6 Though it has been more than 34 months since *Small Account* has been introduced by the government and the RBI, it is still only a concept. It neither has body, nor soul and we conduct a designed experiment to see if its pulse is ticking.



Banks Violating PML Act for Excluding the Excluded



III. A Designed Experiment

3.1 Independent of RBI's and BCSBI's actions or conclusions (of a designed experiment), if any, during September 2013, a survey was designed at IIT-Bombay involving 8 public sector banks, 8 private banks, 3 foreign banks and one urban co-operative bank (UCB). The study was initiated through random calls to bank branches in Delhi/Pune/Mumbai and physical visits to bank branches in Mumbai/Pune. This was followed up with the bank's management with few initial questions like "*I am given to understand that even in a metro city, your bank branches are not aware of the facility of opening basic saving bank deposit account (small account) without an id proof and/or an address proof. I would request you to kindly see as to why this basic banking service is being denied by your bank branches for want of some documents.*". While carrying out this exercise, the Customer Service Department (CSD) of RBI was kept in the loop. The sequence of the experiment goes as follows.

3.2 The Stage I of the designed experiment involved walking into a bank branch and asking few standard questions in Hindi. The questions were sequenced as under:

- (i) Do you open bank accounts?
- (ii) I have Rs. 300 in my pocket. Will it be possible to open some savings bank account?
- (iii) I have brought two of my photographs and have an address where I stay but no documentary proof for the same, will that do?
- (iv) Furthermore, I have a photo ID (Voter Card) but I am not carrying it right now since it is kept in my home town (Patna) where I plan to visit in the next 6 to 9 months, and that I would try to get that ID then, is that okay?
- (v) I do not intend to keep much money, just little savings every month. Can you please help me with opening of some savings bank account?
- (vi) Please see if bade-shaab (someone senior) can help?
- (vii) I would be very grateful if you can help. Please open some small account, if possible.

OUTCOME: In almost all instances of the experiment, at question (ii) you are shown the door. At that point a revision is made to Rs. 300 to the satisfaction of the bank (i.e., more money could be kept in the bank). Then, at question (iii) again, majority showed the door. At question (iv), all branches said that they are helpless since it is RBI which debars them to open any account for a person like you who does not hold required proofs. By the time later questions are poised, the arrogance of the branch staff gets reflected and you are scolded to leave the branch.

3.3 The Stage II of the experiment involved following up with the bank's management with an e-mail comprising "*I am given to understand that even in a metro city, your bank branches are not aware of the facility of opening basic saving bank deposit account (small account) without an id proof and/or an address proof. I would request you to*



Banks Violating PML Act for Excluding the Excluded

kindly see as to why this basic banking service is being denied by your bank branches for want of some documents.”.

OUTCOME: Few banks are prompt to ask “please specify the branch”. One even asked “specify why you would want to open a bank account”. For some banks, repeated reminders are sent. Some try to respond in a generic fashion without attempting to address the query.

3.4 The Stage III of the experiment involved a more detailed e-mail questioning the bank’s preparedness. The OUTCOME has been covered in more detail in Sections 5 and 6. In Table 1 we summarise the results based on responses received from banks.

Table 1: Status of Select Banks on *Small Accounts*

SN	Bank Name	Type	Status
1	State Bank of Hyderabad	Public	May be on paper but surely not in spirit. Branches not aware of Nil-KYC concept
2	Canara Bank	Public	READY as claimed on Sept 30 (e-mail). Ground reality even after 6 weeks was negative
3	Bank of Baroda	Public	Management unable to interpret RBI guidelines on Small Accounts
4	Union Bank of India	Public	READY as claimed on Sept 30 (Letter). Ground reality even after 6 weeks was negative
5	United Bank of India	Public	Management unable to interpret RBI guidelines on Small Accounts
6	IDBI Bank	Public	Management unable to interpret RBI guidelines on Small Accounts
7	OBC	Public	READY as claimed on Oct 1 (e-mail). Ground reality even after 6 weeks was negative
8	UCO Bank	Public	Product not offered. Controls not in place
9	ING vysya	Private	Management unable to interpret RBI guidelines on Small Accounts
10	HDFC Bank	Private	Product not offered. Controls not in place
11	ICICI Bank	Private	Product not offered. Controls not in place
12	Axis bank	Private	May be on paper but surely not in spirit. Branches not aware of Nil-KYC concept
13	South Indian Bank	Private	Management unable to interpret RBI guidelines on Small Accounts
14	Dhanlaxmi Bank	Private	May be on paper but surely not in spirit. Branches not aware of Nil-KYC concept
15	Kotak	Private	READY as claimed on Sept 30 (e-mail). Ground reality even after 6 weeks was negative
16	IndusInd Bank	Private	READY as claimed on Oct 1 (e-mail). Ground reality even after 6 weeks was negative
17	Standard Chartered Bank	Foreign	READY as claimed on Sept 27 (e-mail). Ground reality even after 6 weeks was negative
18	Citibank	Foreign	May be on paper but surely not in spirit. Branches not aware of Nil-KYC concept
19	HSBC	Foreign	READY as claimed on Oct 3 (e-mail). Ground reality even after 6 weeks was negative
20	Saraswat Bank	UCB	Management unable to interpret RBI guidelines on Small Accounts

3.5 Other than the 20 banks highlighted in the Report, other bank branches where the survey was carried out include, SBI, Cosmos Bank, Bank of Maharashtra, Shamrao Vithal Co-op Bank, Mumbai District Central Co-operative Bank, State Bank of Bikaner and Jaipur, Bank of India, Gramin Bank of Aryavart, Yes Bank, Allahabad Bank, Federal Bank, Central Bank of India, Indian Bank, Dena Bank, Punjab National Bank. Here too, the branch level survey led to the same results as in Stage I of the experiment carried out for the 20 sample banks.

3.6 The survey showed near complete lack of awareness among bank branch staff. In general, KYC norms are incorrectly over emphasised by the branches, in the name of due diligence, even for small value transactions. This shows that some of the Sections of the PML Act have not got internalized by banks– possibly to suit its own convenience and interest.



3.7 Finally, it is pertinent to mention that very few banks (among those who were part of the sample experiment) during the course of two months did put in efforts to rectify their stance and have taken few steps in the direction of bringing in awareness among the front end staff of their branches. The author by no means wishes to receive credit for this, as this was possibly just an unintended outcome in our pursuit for understanding the nuances of the issue in hand. Banks did so only because there is an RBI guideline to that effect. However, we have touched only the tip of the iceberg. Banks other than those in the sample experiment have still not got an opportunity to rectify themselves.



Banks Violating PML Act for Excluding the Excluded



IV. Questions of Significance

4.1 If the results of the experiment hold for cities other than Mumbai, Delhi as well (which is not an unlikely assumption), the ignorance about availability of a powerful savings product, such as *Small Accounts*, prevail across the country. What can explain this lack of knowledge among common man about his right to open a savings bank account at a bank branch even without a proof of address? At bank branches, is the option of a *Small Account* with Nil-KYC documents provided to customers along with options for other accounts which require full-KYC?

4.2 For banks, is the product (*Small Account*) in place with all mandated safeguards? Are the system controls in place? If yes, is the branch staff trained? If they are trained, why is there a lack of minimum transparency about the product? Why does not the bank branch showcase this product to customers?

4.3 Independent of *Small Account*, it is observed that many banks (at least at the branch level) do not promote zero balance BSBDA. The front desk staff are not well versed with general zero balance accounts and thus are not pro-active in mentioning the same. There are even instances where it is mentioned that the range of savings accounts starts with a minimum balance of Rs. 500 (or more) and not zero and that one would need to deposit a self signed cheque to open such an account. Many banks attempt not to place BSBDA alongside accounts with potentially high balances. Are bank branches disclosing the RBI mandated zero balance account while listing other categories of non-zero minimum balance savings bank account?

4.4 Bank branches prefer not to disseminate knowledge on opening a bank account to a customer as against showing avenues of not opening a bank account for want of some documents and/or *substantial* money. The problem does not lie at the branch level but lies at the bank level that has the zero balance products (*Small Account* or otherwise) in letter but not in spirit and thus defeating the country's initiative towards financial inclusion. The problem also lies in bank's lack of appropriate grooming of the branch staff.

4.5 Such problems generally cannot be attributed solely to ignorance or error on banks' part— RBI too could be made equally liable, they being the guardian of public interests on banking services in the country. And here we are referring to a brick and mortar branch banking and not Urban BC banking. How best to address this?

4.6 What could be the possible regulatory restrictions, if any, which could be suitably modified to help come out of the current dilemma?



4.7 How can appropriate paths be laid which can make banks come out of their existing practices and behaviour of discouraging opening of accounts for people who do not have the same resources and opportunities that are available to others?

WHAT DOES THE PML ACT SAY ABOUT *SMALL ACCOUNT*?

“(fb) “small account” means a savings account in a banking company where-

- i. the aggregate of all credits in a financial year does not exceed rupees one lakh,
- ii. the aggregate of all withdrawals and transfers in a month does not exceed rupees ten thousand, and;
- iii. the balance at any point of time does not exceed rupees fifty thousand”.

(b) In rule 9, after sub-rule (2), the following sub-rule shall be inserted, namely:-

“(2A) Notwithstanding anything contained in sub-rule (2), an individual who desires to open a small account in a banking company may be allowed to open such an account on production of a self-attested photograph and affixation of signature or thumb print, as the case may be, on the form for opening the account.

Provided that –

- i. the designated officer of the banking company, while opening the small account, certifies under his signature that the person opening the account has affixed his signature or thumb print, as the case may be, in his presence;
- ii. a small account shall be opened only at Core Banking Solution linked banking company branches or in a branch where it is possible to manually monitor and ensure that foreign remittances are not credited to a small account and that the stipulated limits on monthly and annual aggregate of transactions and balance in such accounts are not breached, before a transaction is allowed to take place;
- iii. a small account shall remain operational initially for a period of twelve months, and thereafter for a further period of twelve months if the holder of such an account provides evidence before the banking company of having applied for any of the officially valid documents within twelve months of the opening of the said account, with the entire relaxation provisions to be reviewed in respect of the said account after twenty four months.
- iv. a small account shall be monitored and when there is suspicion of money laundering or financing of terrorism or other high risk scenarios, the identity of client shall be established through the production of officially valid documents, as referred to in sub rule (2) of rule 9”; and
- v. foreign remittance shall not be allowed to be credited into a small account unless the identity of the client is fully established through the production of officially valid documents, as referred to in sub-rule (2) of rule 9.”



V. RBI's Role towards the *Small Accounts*

5.1 RBI's circulars to banks on various issues provide guidelines/explanations on various aspects. Why is it that the RBI circulars, when it comes to *Small Accounts* for the urban financially deprived (or for that matter for any location or for any category of people), not understood by banks?

5.2 We are referring to the fact that the banking industry is encouraging financial exclusion and discouraging potential bank branch based financial transactions (even in a metro city) by not opening (rather refusing to open) a *Small Account* for want of some documents which are not required by law/RBI (even though it has been over 34 months of the enactment of the law).

5.3 Then there are banks (at least three, with UCO Bank, HDFC Bank and ICICI Bank, from our sample of size 20), who are **not** (as yet) in a position to allow opening of *Small Accounts* and write...

"... However, the current framework as stipulated by RBI for the accounts opened only with self-attested photograph and affixation of signature or thumb print, requires to be backed up with the monitoring and transaction level controls. The Bank has undertaken necessary system level developments which will facilitate it to roll-out such accounts."

5.4 Even after 34 months, we observe that RBI is having difficulty to ensure that banks have the controls in place when there is such a huge potential for the product in terms of enveloping many into the banking net, thereby leading to greater financial inclusion and potential bank-based financial transactions.

5.5 Furthermore, it is more astonishing when one gathers that even though banks had more than 8 years, some banks still do not have the system controls in place for small deposit accounts mandated by RBI through its directive RBI/2005-06/135 DBOD.NO.AML.BC.28 /14.01.001/2005-06 dated August 23, 2005 (which got withdrawn only in December 2012) wherein it said

"... it has been brought to our notice that a large number of persons, especially, those belonging to low income group both in urban and rural areas are not able to produce such documents to satisfy the bank about their identity and address. This would lead to their inability to access the banking services and result in their financial exclusion. Accordingly, it has been decided to further simplify the KYC procedure for opening accounts for those persons who intend to keep balances not exceeding Rs. 50,000/- in all their accounts taken together and the total credit in all the accounts taken together is not expected to exceed Rs. 1,00,000/- in a year. "

5.6 Such accounts were mandated by RBI to facilitate a person who wants to open an



Banks Violating PML Act for Excluding the Excluded

account without producing satisfactory documents as required under full-KYC. The IT based control requirements were set way back in 2005 (similar to today's requirement) which said,

"While opening accounts as described above, the customer should be made aware that if at any point of time, the balances in all his/her accounts with the bank (taken together) exceeds Rs. 50,000/- or total credit in the account exceeds Rs. 1,00,000/-, no further transactions will be permitted until the full KYC procedure is completed. In order not to inconvenience the customer, the bank must notify the customer when the balance reaches Rs. 40,000/- or the total credit in a year reaches Rs. 80,000/- that appropriate documents for conducting the KYC must be submitted otherwise the operations in the account will be stopped when the total balance in all the accounts taken together exceeds Rs. 50,000/- or the total credit in the accounts exceeds Rs. 1,00,000/- in a year."

5.7 Thus, though banks had more than sufficient time to put the mandated system level safeguards in place, they still do not have the will, capacity and readiness to execute the same. Based on the sample study, it is estimated that this applies to at least 20% of banks. The RBI's inactions to ensure compliance could have only led to possible setbacks for people who do not have the same resources and opportunities that are available to others. In other words, the RBI's action to seek compliance would have removed setbacks for such deprived people.

5.8 With millions of economically weak migrants in India, the learnings and opportunities that can be generated through this non-induced, demand based convenient banking (*Small Accounts*) would have far reaching consequence not only to the urban unbanked but also to rural unbanked. It would act as a catalyst to enhance financial education and financial inclusion. The current situation make banks fully liable for not showing due respect to follow the PML Act / RBI directives (until possibly now) and thus violating to safeguard the interests of the deprived ones. There appears to be apparently no valid contention from the bank's side even though some may try to argue *"...in the absence required framework, the Bank has not yet been able to offer such accounts, as absence of appropriate systems and controls as prescribed under regulations may expose it to fraud and money laundering risks"*. Else, it would amount to banks also justifying non-acceptance of cash over their counters as absence of appropriate systems and controls as prescribed under regulations (requirement of correct PAN for cash deposits of Rs. 50,000 or more), may expose it to fraud and money laundering risks. See Section 7 for more on this.

5.9 One needs to understand the seriousness of the situation since it has been more than 34 months of the enactment of the law, and that there could be possible gains for banks in violating the same. Moreover, this is at a significant cost to the unbanked (or remotely banked) people who are not having easy access to full KYC documentation. So, why should this not be considered a serious non-compliance of the PML Act?



5.10 Now, if not RBI, who is more competent to be there for the common man to officially address the grievance/inconvenience for such financially uneducated and financially excluded people (unless RBI can claim that no written complaint means no grievance)? Where is RBI's supervision for this laxity? What has the banks' standing committee on customer service done about it? The members in the committee are supposed to look after the interest of universal customers and other regulatory compliance that are having direct consequence to customers / perspective customers (but missed on this significant aspect).

5.11 Some further questions arise:

- (a) Is it designed intentionally by banks not to provide a basic banking facility (*Small Accounts*) to an Indian, for want of some documents in violation to extant RBI guidelines, since such accounts may not generate revenue for the bank?
- (b) Is it intentional violation of the PML Act and the RBI instructions on KYC/AML/CFT (from a different angle) so as to make quick gains in terms of not losing revenue in serving such account holders?
- (c) Is it that RBI has also played a subdued role in regulating and supervising on this front at the expense of urban / semi-urban financial inclusion? Or is it that the law in itself is defective/contradictory to run the banking business appropriately and thus RBI wishes to treat it in a lukewarm fashion at the expense of the unbanked?
- (d) How many *Small Accounts* have been opened by each of the banks at their branches in India at urban locations / semi-urban locations WITHOUT any of the introduction/address/ID documentary proofs or with incomplete KYC documentation (without an external institutional push through hand-holding drives)?
- (e) To what extent could we make ourselves or the bank or the RBI or the GoI responsible for the denial of a common man to get a banking service which is otherwise possible under controlled safeguards and perceived risks?
- (f) What is the trade-off in terms of degree of violation while “violating the PML Act by intentionally denying the right to open *Small Accounts* (for want of documents) for 1,00,000 people who do not have the same resources and opportunities that are available to others” as against “violating the PML Act by intentionally opening a regular high risk category bank account without proper documents for one person”?
- (g) What are the chances and net losses arising out of money laundering activities, if any, through *Small Accounts* and the corresponding gains or losses to banks? What is the trade-off?
- (h) What are the chances and net losses arising out of money laundering activities through regular high risk category accounts and the corresponding gains and losses to banks?



Banks Violating PML Act for Excluding the Excluded



VI. Is Documentation Adequate- Missing Sprit of the *Small Accounts*

6.1 It was just a simple query, as part of the designed experiment, to generate significant insight into the transparency aspects of *Small Accounts*. The query, as mentioned earlier, was “*I am given to understand that even in a metro city, your bank branches are not aware of the facility of opening basic saving bank deposit account (small account) without an id proof and/or an address proof. I would request you to kindly see as to why this basic banking service is being denied by your bank branches for want of some documents.*”. We now highlight examples of six banks (from Heads – Compliance & Money Laundering Reporting Office or related Departments of Banking Operations and Planning) which incorrectly make RBI responsible for its response thereby leading to encouraging financial exclusion even at urban locations.

ING Vysya Bank (September 11, 2013)

“Since, document based customer acceptance has become mandatory due to amendments in PML rules, introduction from the existing customer was withdrawn by RBI w.e.f 10.12.2012. This circular is also attached. Thus, even for small accounts, we need id and address proof. For this only, RBI said that NREGA cards issued by state government or Aadhaar letter issued by UIDAI can be accepted as proof of id and address if the address mentioned in AOF matches with these documents.”

Bank of Baroda (October 9, 2013)

“Refusal to open a basic saving bank deposit account (small account) by our Bank branches:
You will appreciate that, as per RBI guidelines, KYC documents are necessary for opening any type of Bank account.
Voter ID, Card is acceptable document for Identity Proof and permanent address for persons who usually reside at the given address in the Voter Id card.
If a person is usually residing at a place, other than his permanent address, he / she will be required to submit any one of address proof for his local stay viz utility bill, Ration Card or any other documents given in the indicative list of documents available with the branch and on Bank’s website.”

IDBI Bank (October 21, 2013)

“The BSBDA account may also be opened with complete KYC. The RBI guidelines further clearly specify that where a bank has relied exclusively on any of these two documents, viz. NREGA job card or Aadhaar letter, as complete KYC document for opening of an account, such accounts should be treated as “Small accounts” subject to the conditions stipulated. The same have also been incorporated in our KYC policy and disseminated to branches.”



Banks Violating PML Act for Excluding the Excluded

United Bank of India (October 29, 2013)

“The present guideline of the Bank on relaxed KYC is as follows:

Customers who wants to open an account and is unable to produce documents mentioned under full KYC can open the account subject to introduction from another account holder who has been subjected to full KYC procedure and the introducer’s account is at least six months old with satisfactory operation of the account.

Or

by producing any other evidence as to the identity and address of the customer to the satisfaction of the bank, such as, certificate mentioning the address of the intending depositor from a reputed customer acceptable to the bank or a letter from any recognized public authority or public servant verifying the identity and residence of the customer to the satisfaction of the Bank.

However, it may be noted that accounts opened with relaxed KYC is having following restrictions:

- a) The aggregate of all credits on a financial year should not exceed Rs.1.00 lac.*
- b) The aggregate of all withdrawals and transfers in a month will not exceed Rs.10, 000/- and*
- c) balance at any point of time does not exceed Rs.50, 000/-”*

South Indian Bank (October 30, 2013)

“We shall take up with RBI for clarification and let you know the outcome.”

Saraswat Bank (November 5, 2013)

“With reference to your trailing mail regarding opening of Small Accounts, we furnish following clarification:

- 1. KYC documents required for opening of Small accounts are self attested copies of Identity proof (i.e. Pan card/Aadhaar card/Election card, etc), address proof (Aadhaar card/Election card/Telephone Bill/Electricity Bill etc) and photograph. However in case the customer is unable to produce the documents, account can be opened on the basis of letter from introducer (subjected to full KYC procedure and having satisfactory banking relation for more than six months) certifying the identity and address of customer alongwith proof of origin and photograph.*
- 2. Therefore in case a prospective customer approaches the Bank with Voter’s ID (village address) and photograph to open Small Account, the same will be accepted along with a letter from an introducer as the customer does not have proof of Mumbai address.*
- 3. However we do not open accounts in case a prospective customer approaches the Bank with no identity or address proof as RBI has implemented the system of document based verification of identity and address. Also vide its circular No. RBI/2012-13/342 UBD.BPD (PCB) Cir. No. 28/14.01.062/2012-13 dated 19th Dec’ 2012, RBI has directed that accounts cannot be accepted purely on the basis of introduction.*
- 4. KYC enables to know/understand the customers and their financial dealings better which in turn helps to manage the risks prudently. The objective is to prevent banks from being used, intentionally or unintentionally, by criminal elements for money laundering or terrorist financing activities and not to deny the banking services to public on the basis of documentation.*
- 5. We would like to inform you that our Bank has KYC and Deposit Policy in place devised as per RBI guidelines and approved by our Board. The policies are also made available to branch staff for their reference.”*



6.2 It is estimated that more than 30% of banks in India are unable to interpret the core essence of the *Small Account* regulation. If the Top Management of banks can misinterpret the RBI circulars, one can imagine the plight of branches where they have to interpret their own bank's internal circular, on the topic, based on RBI circulars. Thus, it is felt that, to some extent, RBI is responsible for this situation by it being transparent but not quite so. For example, RBI had issued a circular **not highlighting** in the main body (rather only referring to the GoI notification) the heart of the circular, which is:

"...an individual who desires to open a small account in a banking company may be allowed to open such an account on production of a self-attested photograph and affixation of signature or thumb print, as the case may be, on the form for opening the account. Provided that – a small account shall remain operational initially for a period of twelve months, and thereafter for a further period of twelve months if the holder of such an account provides evidence before the banking company of having applied for any of the officially valid documents within twelve months of the opening of the said account, with the entire relaxation provisions to be reviewed in respect of the said account after twenty four months."

(See reference [24] for the initial RBI circular dated January 27, 2011)

What is written instead in the main body is

"Rule (2A) of the Notification lays down the detailed procedure for opening 'small accounts'. Banks are advised to ensure adherence to the procedure provided in the Rules for opening of small accounts."

Has it been drafted in this manner unintentionally? Either way, this has led to camouflaging of the gist of the Section. And this has had wide ranging implications.

6.3 The same problem exists in the RBI Master Circular – KYC norms / AML standards / CFT / Obligation of banks under PMLA, 2002 [see reference [5]], wherein the main thrust of Section 2.6 on '*Small Account*' is missing from the body of the Section and has been put only in the annex, thereby losing the gist, the emphasis and the spirit of the Section.

6.4 To make things worse, the corresponding RBI's Urban Banks Department (UBD) Master Circular of July 2013 (see reference [6]) makes a serious error of not omitting the 'Small Deposit Account' directions. In 2005, on advice of UBD of RBI (see reference [30]), such a 'small deposit account' was introduced by banks to allow opening of savings bank account (with relatively less transactional restrictions, unlike *Small Account* of today) subject to (a) introduction from another account holder who had been subjected to full KYC procedure **or** (b) any other evidence as to the identity and address of the customer to the satisfaction of the bank. The UBD Master Circular has retained the "Small Deposit Account" by deleting condition (a) but not (b), though UBD of RBI, in



Banks Violating PML Act for Excluding the Excluded

view of GoI's "*Small Accounts*", has in fact withdrawn the above mentioned 2005 advice in totality on December 19, 2012 (see reference [11]). Such errors can only confuse and mislead banks and thus the public at large. In fact, discussions with banks show that this indeed is confusing banks.

6.5 Even the RBI circular DBOD.AML.BC. No. 65 /14.01.001/2012-13 December 10, 2012 circular on 'KYC norms / AML Standards/ CFT / Obligation of banks under PMLA, 2002' (see reference [12]) indicate

...

"It has been brought to our notice that banks are not promoting opening of 'Small Accounts' for greater financial inclusion. Banks are, therefore, advised to open 'Small Accounts' for all persons who so desire."

...

but the circular could not be more explicit in highlighting the ease/novelty of opening such accounts over normal accounts.

6.6 Additionally, it is noted that though in RBI's Annual Policy Statement for the year 2013-14 (May 3, 2013, see reference [9]), Para 90 indicates – "*With a view to facilitating understanding of KYC/AML/CFT requirements and compliance thereof in a hassle-free manner by banks and the general public for promoting financial inclusion, it is proposed to replace the existing FAQs on KYC/AML/CFT with a comprehensive set of questions and answers by end-June 2013.*", **still till date** the same has not been uploaded on the RBI website (unless the proposal has been subsequently withdrawn). Since banks and their customers (prospective or otherwise) are the real stakeholders to the above proposal and since the same has not been uploaded on the RBI website even after more than 150 days of stipulated target date "i.e., end-June 2013" set by RBI, every day's delay can only make banks and their customers move away from being financially educated, at least on this aspect of the KYC/AML/CFT front.

6.7 We could however see the Sept 11, 2013 issued RBI's FAQ on BSBDA (see reference [2]), but here too it clouds the basic comfort of a *Small Account* over the normal account. Nevertheless, it is a pleasure to find in a recent speech (see reference [3]) on financial inclusion and financial literacy by Dr. K. C. Chakrabarty, Deputy Governor, RBI, where for the first time RBI directly tries to educate the banking system and its users by saying "*KYC requirements have been simplified to such an extent that small accounts can be opened with self certification in the presence of a bank officials*". But this education needs to be taken further.

6.8 Akin to Central Bank's communications, many banks have their own internal circular for the branch managers/officers/staff- again camouflaging the heart of the product called '*the Small Accounts*'. There is little scope for the branches to read and understand appropriately and then subsequently disseminate to the people of the country who are



potential takers of *Small Accounts*. Hardly any bank has appropriate information on *Small Accounts* on their bank's website.

6.9 Branch staff of banks have an inherent fear of opening a bank account with improper supporting documents related to ID and address proofs. In pursuance to provisions under PML Act on *Small Accounts* branch staff should now get induced to some fear on the consequences of denying opening a *Small Account* for want of ID and/or address documentary proofs.

6.10 In order to create a fair milieu in banking, it is essential that an effective consumer protection environment is created quickly. As seen across the globe, the regulators and supervisors are turning increasingly intolerant of unfair banking practices with large amounts of penalties levied on banks by the regulators mainly for failing to protect consumers' interests and for indulging in unfair practices. A Deputy Governor, RBI, also mentions that there is a growing feeling that the banking regulators/supervisors have proved ineffective in checking these unfair practices and failed in effectively protecting consumers. This has culminated in creation of separate authorities for enforcing fair market conduct and for protection of financial consumers. This transformation has happened in the Netherlands, South Africa, Australia, the UK and several other jurisdictions. Therefore, unless banks in the developing countries are firmly committed to treating their customers fairly and put in place appropriate systems and processes to ensure that, they would be well advised to refrain from riding the bandwagon of retail banking (see reference [1]).

6.11 Pursuant to the enactment of The Banking Laws (Amendment) Act, 2012, under Section 26A of the BR Act, 1949, RBI is empowered to establish a Depositor Education and Awareness Fund (DEAF), that will be credited with the balances from accounts that have not been operated upon / claimed for a period of ten years or more. DEAF will be earmarked for promotion of depositors' interest and for such other purposes considered necessary for the promotion of depositors' interests. Accordingly, the funds under DEAF, among other purposes, could be utilised for *including the excluded* by running campaigns to educate them on (a) *Small Accounts*, (b) BSBDA, (c) money transfers (deposits) using Cash-NEFT and Cash-IMPS , (d) minimal KYC requirements for opening of normal savings account, etc.

6.12 However, it is noted that though in RBI's Annual Policy Statement for the year 2013-14 (May 3, 2013, see reference [9]), Para 93 indicates – “*In view of the above, it is proposed to finalise the modalities for setting up of DEAF by end-September 2013.*”, **still till date** the same has not been finalised by RBI (unless the proposal has been subsequently withdrawn). Since depositors and prospective customers are the real stakeholders to the above proposal and since the same has not been finalised by RBI even after more than 55 days of stipulated target date "i.e., end-September 2013" set by RBI, every day's delay can only make banks and their customers (prospective or otherwise)



Banks Violating PML Act for Excluding the Excluded

move away from being financially educated of the minimum standards, minimum disclosure norms and general awareness of banking products.

6.13 BCSBI, since its inception in 2006, has brought out certain codes of bank's commitment, which sets minimum standards of banking practices for banks to follow when they are dealing with individual customers. However, it has not yet addressed the 'standards' aspects with respect to ground realities as dealt in this Report. The Board should also, as its name suggests, work proactively towards identifying banking standards, for the good of the banking system and its users. It is felt that BCSBI develops and identifies good banking standards to enhance harmony and transparency in the banking practices. BCSBI should be more sensitive and passionate in their endeavours to play an effective and proactive role. Though not on paper, it is not clear if there is any conflict of interest with banks primarily running BCSBI.



VII. Faith Based Banking and Welcoming Attitude in Banks

7.1 Banks on one hand find it reasonable to refuse opening of a bank account for want of documents (even for *Small Accounts*, say) while on the other hand we could not find reasonable response from bankers to the following:

“How trained are bank staff to check the genuineness of a high risk customer? A person X wants to do some banking transactions without disclosing his true identity on records. He budgets Rs. 50,000 to enable the same. Based on the range of banks available and being aware of the KYC guidelines of the country which tries to demarcate high risk customers from low risk customers, he finds it more meaningful to go for a bank account opened under a non- low risk category. A secondary/temporarily house is rented which has a valid address. A fake passport is procured with this address. Such a document need not have corresponding electronic information at the passport office (in other words, a fake passport not for the purpose of leaving the country- low grade fake). Photocopies of the passport are made and a PAN card is applied for and obtained against the name and address as in the passport. With the aid of fake passport and the original PAN card, bank accounts are opened. Banks are again of two types- one which communicates more often over the mailing address and the other which does not do so or does it minimally (to send debit card only). In such a situation if the banks are not able to detect the incorrect IDs, the whole exercise to catch the big customers (high risk) who may be involved in money laundering and financing of terrorism is a big showdown. Though there are RBI instructions to carry out further due diligence for high risk customers involving high value transactions, the overall system has not been tested to overcome the above scenario.”

7.2 In other words, banks do not presently have the capacity to verify the genuineness of an ID proof (except possibly the PAN card). The only way to substantiate the above statement (or otherwise) is possibly to carry out a more concentrated study on the same by the regulators.

7.3 A critical issue of concern here is faith-based banking. When there is an opportunity to open a bank account with certain limitations of a *Small Account* (which may not practically be a limitation for low income persons) and then follow it later by UIDAI's Aadhaar to make it a full-fledged normal account, what is the bottleneck? In fact, based on the above illustration, it appears that the e-KYC through Aadhaar could, in the future, be the only potential and reliable universal proof of ID for all bank accounts (see reference [4]).

7.4 Coming to ease of opening a *Small Account*, is it only lack of awareness among the branch staff and the general public, or is it banks' policy of not considering a person innocent (towards intentions of money laundering) unless proven otherwise? Even the



Banks Violating PML Act for Excluding the Excluded

PML Act considers a *Small Account* opened or a small value domestic remittance activity done by an individual to be viewed as being devoid of money laundering intentions unless the bank has substantial reasons/evidence to prove otherwise. Furthermore, the spirit of the Act is clear that the PML Act should not in any way lead to depriving a potential bonafide financial transaction of a small value by a common man for want of documents or for want of preventing hypothetical money laundering (see Appendix C highlighting these points from the RBI's Master Circular on KYC/AML/CFT).

7.5 Is it not the responsibility of RBI, among others, to bring in this awareness among citizens to seek inclusion as a matter of right when there are prima facie evidences that banks would not like to do so for commercial considerations? This initiative on financial literacy will lead to financial inclusion and will certainly go a long way in ensuring plurality in the banking system, both in letter and spirit.

7.6 You and I who are already banked may not have a direct feeling of the pain that an urban unbanked person on the road may have. However, if a poor worker is working under you and desires to open a bank account, and if you are knowledgeable enough to tell him that as a matter of right he may walk into any bank branch and open a *Small Account*, you would only be happy to assist your own worker with that knowledge. In other words... we need to first educate the haves and only then one can expect the knowledge to percolate down to have-nots.

7.7 Though this study showcases how you and I and those who matter (including bank branch officials and staff), as bonafide citizens, are not aware that as a matter of right an individual can open some savings bank deposit account just with a photograph and visiting the bank branch manager, based on informal interactions at the branch level it is felt that there is a critical issue of banks' unwillingness to open a zero balance account or *Small Accounts* (for the business reasons of net cost to benefit). This creates a feeling among potential bank customers, desirous to open such accounts, of being unwelcome. Worst is, there are banks (bank management) that may have got misled and thus are misleading the branches (on paper) and thus misleading the public at large on the existence of such a basic facility which the Act otherwise provides for. Prime reason, as is evident, is lack of a business model for the bank to open such a *Small Account*.

7.8 Though this brief is based on a concentrated sample study, it is in no way able to highlight the grimmer scenario involving attempts by banks to exclude the excluded. The survey involved over 20 banks with representation from Public/Private/Foreign/UCB. It highlights a complete lack of spirit to serve, or even acknowledge *Small Accounts*, though in letter some banks attempt to project compliance. Surely, our objective is to improve any existing lacuna, but for that we have to first acknowledge the lacuna. We want to see that opening a bank account (*Small Account*) is known to all and that it is as simple as making a money order of, say, Rs. 3000 from a post office. The BSBDA are subject to RBI instructions on KYC/AML/CFT for opening of bank accounts. If such an account is



opened on the basis of simplified KYC norms, the account is additionally treated as a 'Small Account'. What is the bank's gain in promoting BSBDA (this includes both full-KYC accounts and relaxed-KYC *Small Accounts*) other than simply giving a comfort of following a RBI mandate?

7.9 Furthermore, there is a question of the initial costs associated with opening such accounts even if later operational costs are covered by the small balances in the accounts. As a possible avenue to address this is that banks could be allowed to either levy a onetime maximum fee of Rs. 100 (say), or have a associated fixed deposit of Rs. 1000 for one year linking it to the savings account, at the time of opening such accounts to cover for the initial expenses for account opening- initial paperwork, issuing Debit Card, passbook, etc. and providing minimum free services as stipulated by RBI.

7.10 During the study, it was prominently observed that there is a general tendency of mixing up no-frill account (now called BSBDA) with 'Small Account' and 'small deposit account'. That they can also be independent has not got internalized among bankers. For example, Table 2 of Section 8 shows the number of BSBDA opened. However, it is not clear whether they have been opened under the 'small deposit account' category which required (until December 2012) ID and address proof to the satisfaction of the bank or an introduction. Banks claim that they have opened *Small Accounts* (in fact, in their lingo, no-frill accounts) but they have been mostly opened and still being opened only under the KYC norms associated with 'small deposit account'.

7.11 It is pertinent to mention here that though RBI has defined BSBDA in a certain way, prohibiting debits (with a fee) beyond 4 free debits per month, banks should be allowed to retain the name of BSBDA even if they allow debits beyond the 4 free debits and charge for them. The charges, if imposed, could also be in form of penalty. However, the requirement of complete ban to allow debits with a fee beyond 4 free debits per month is at a loss not only to banks but to customers alike. Furthermore, even though it is a zero balance account, in order to eliminate unwanted elements, the initial sum required for opening such an account should not be Rs. 0. A minimum amount requirement to open the account could be set at not exceeding Rs. 500. This minimum amount requirement could be further scaled down appropriately for rural/semi-urban/urban locations, with it being Rs. 100 for rural. It is re-emphasised that this requirement is only to open a bank account and that the minimum balance requirement continues to be Rs. 0. Also, to encourage use of debit cards at merchant establishments (thereby issuer bank generating revenue in from of interchange), it is expected that banks would be allowing unlimited free debits for purchase of goods and services.

7.12 There is this other issue of financial inclusion in rural areas. The issue is prompted from the sheer example of supply based accounts opening (mostly in rural areas) under the name of financial inclusion drives, where there was minimal initial demand, leading to majority of such accounts remaining inoperative (since there was no demand or the



supply chain of the banking operations ceased due to there being no business model). It is believed that the dormancy of accounts is an issue (particularly relevant to BSBDA) which has been reported in few studies (see references [8], [17], [19], [27]). Perhaps a separate study in itself can also be done to investigate the issue of dormancy, and understand the underlying causes, so that measures can be suggested on how to address this issue and educate small savers on the usefulness of keeping their accounts active. However, it is expected that at urban locations (with accounts being opened more on natural demand) the dormancy cases would be predominantly less.

7.13 It is time that proper systems are in place with certain minimum disclosure norms at bank branches. These include, banking facilities like BSBDA, *Small Account*, Cash-NEFT and Cash-IMPS.

7.14 Finally, in the interest of customer service, it is felt that CSD of RBI be expanded four folds and be mandated to carry out holistic research studies on customer service pertaining to payment systems, deposits, loans, awareness building by banks, financial education initiatives, etc. Such a move should be independent of creation of separate authorities for enforcing fair market conduct and for protection of financial consumers. Thus the role of CSD would be expanded to include research wings dealing with continuous surveys of customers and bank branches culminating in monthly reporting. This would act as a means and catalyst for training banks and having them firmly committed to treating their customers fairly. CSD must include a division of handpicked, more sensitive and passionate officers who can go around branches in India and report state of affairs from the customer angle.



VIII. Prepaid Accounts and Redefining BC at Urban Locations

8.1 A significant step in moving ahead on the country's financial inclusion plan was the RBI guideline in January 2006 for engagement of Business Correspondents (BC) by banks for providing banking and financial services. Since then, the regulatory framework for the BC model has been progressively honed to ensure that consumer protection is not compromised while facilitating enhanced outreach of banking services (see reference [25]). Keeping in mind the services that the BCs are expected to render at hinterlands (where it is difficult to take a brick-and-mortar bank branch), banks have been permitted to collect *reasonable service charges*, at the BC service point, from the customers in a transparent manner. Over time, the BC agents have become bank facilitators and they gradually moved into the high density bank branch locations in metros and urban areas. Here they are mostly into the business of remittance services.

8.2 Yes Bank is among the first to have innovated a commendable product called "Yes Money". This is Yes Bank's BC based NEFT/IMPS and requires no identity and address proof for Cash-NEFT/IMPS up to Rs. 5000 (with cumulative sum per month not exceeding Rs 25,000). However one is required to register a phone number for which there is a fee of Rs. 25. The fee for Yes Money service is at least 1.5% of the remittance amount (with a minimum of Rs. 25 and maximum of Rs. 250). As against this, Yes Bank provides Cash-NEFT facility at their branches for only Rs. 6 or even less. However, there is a catch - apart from a phone number, the bank, for carrying out Cash-NEFT in the branch, insists on full KYC documentation (even for remitting Rs. 100). This again highlights a discriminatory policy for the poor migrant. This discourages and distances the poor from branch banking and pushes them to BC banking (for which the poor have to pay high service charge). Unlike the elite, the gullible and poor are not able to access cheaper services at the bank branch which is located at close proximity to a BC outlet. This brings in serious concerns of customer service, customer education, customer protection and customer empowerment.

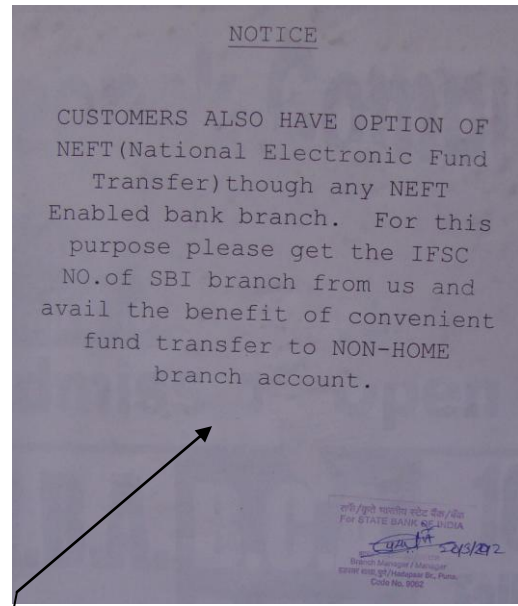
8.3 It is emphasized that the basic premise of the BC model is in devising means to provide a banking solution which is cheaper than setting up a brick-and-mortar bank branch. So given that bank branch and the BC-Agent co-exist at close proximity, it defies logic when banks design the service charge of a banking product keeping it more expensive at the urban BC-Agent than at the bank branch. And this too when as per RBI directives, the service charge at the BC outlet can be different from the branch charges provided that for each (BC outlet and branch counter), the charges are respectively reasonable and not out of line with the average cost of providing these services.

8.4 We highlight below a typical situation where people get forced to go to a BC because the branches are dissuading them to provide the minimum basic banking services. Some



Banks Violating PML Act for Excluding the Excluded

pictures presented below illustrate the BC outlet at Hadapsar (Pune), which is located just about 20 meters away from a SBI branch (see reference [15]).





Banks Violating PML Act for Excluding the Excluded



The picture shows the disappointment and helplessness of a gullible person after moving through queues to find the fees being imposed under the new BC set-up arranged by the bank branch. Moreover, the charges to do even basic banking (as below) have marked variation at the urban locations as against nearby bank branch.

Complaints / Suggestions:
SMS: 9594976145
E-mail: customersupport@zero-mass.org.

SBI TINY State Bank of India **ZERO**

Revised Charges to be Levied to Customers at all SBI-Tiny Outlets of Zero Microfinance and Savings Support Foundation

(as per SBI's Letter No. RBNF/AC/248 dated 10th May 2011)

Transaction Description	Charges that must be levied to Customer (Urban/Metro)
1 Enrolment for Account Opening	Rs. 100 (urban/Metro) / Rs. 25 (Rural/Semi-urban) one time at the time of enrollment
2 Account Maintenance Charge	Rs. 4 per month
3 Cash Deposit Transaction	0.25% of amount deposited, minimum Re. 1, maximum Rs. 6
4 Cash Withdrawal Transactions	0.50% of the amount transacted (Min Rs. 2, Max. Rs. 12)
5 Account to Account Remittance	1% of amount remitted - minimum Rs. 2
6 Tatkal Remittance	2% of amount remitted - minimum Rs. 25, maximum Rs. 100
7 Tatkal Beneficiary Account Registration	Rs. 25 one time, for each beneficiary account registration
8 Smart Card	Rs. 40 (this is optional). At the time of enrollment
9 Photo ID Card	Rs. 15 (this is optional). At the time of enrollment

Amount to be deposited in beneficiary account (Rs.)	Fee paid to SBI (Rs.)	Total Amount to be paid by Customer including Fee
500	25	525
1000	25	1025
1500	30	1530
2000	40	2040
3000	60	3060
4000	80	4080
5000	100	5100
6000	100	6100
8000	100	8100
9900	100	10000

Maximum Rs. 10,000

Amount to be deposited in beneficiary account (Rs.)	Fee paid to SBI (Rs.)	Total Amount to be paid by Customer including Fee
400	4	404
1000	10	1010
1500	15	1515
2000	20	2020
3000	30	3030
4000	40	4040
5000	50	5050
6000	60	6060
8000	80	8080
9900	100	10000

Maximum Rs. 10,000

Amount to be deposited in beneficiary account (Rs.)	Fee paid to SBI (Rs.)	Total Amount to be paid by Customer including Fee
49	1	50
99	1	100
399	1	400
798	2	800
997.5	2.5	1000
1995	5	2000
2994	6	3000
4994	6	5000
7994	6	8000
9994	6	10000

Maximum Rs. 10,000. Multiples of Rs. 50

Amount to be debited from beneficiary account (Rs.)	Fee paid to SBI (Rs.)	Total Amount to be paid by Customer after deducting Fee
52	2	50
102	2	100
402	2	400
1005	5	1000
2010	10	1000
3012	12	2000
5012	12	3000
6012	12	5000
8012	12	8000
10000	12	9988

Maximum Rs. 10,000

Rs. 10,000 Daily Limit for any customer's account | Ensure your printed receipt clearly shows the fee charged to you.



8.5 Thus we see that banks exploit such poor clients by pushing them towards BC which exists at urban locations (though primarily envisaged and meant for serving rural area where there are issues of distance and there is sparse population to serve). The prime objective of the BC model was reaching out to the hinterlands; and to make banking a viable proposition, banking under the BC setup allowed service charges to be higher than those at bank branches. In the urban location where branch penetration is adequate, the poor and gullible (unwelcome as they are), are not served at branches and are being forced towards BCs. They embrace BC not by choice but by force. Why would you and I want to go to an urban BC and not only pay more for a basic banking service but also get a relatively less quality service than what a bank branch potentially can provide or are required to provide (in terms of basic banking service)?

8.6 The BC-Agents facilitating remittance service in metros and urban locations (on behalf of banks) are an alternative to ‘over the counter’ branch service, Cash Deposit Machines and ATMs. Accordingly, banks need to invest in urban BC-Agent network as they did to set-up the ATM network in the country. Just because it costs much higher to serve a customer at the branch counters, ATMs were seen as an alternative. For all practical purpose, despite costing banks around Rs. 50,000 a month to run an ATM, ATM services in the country are offered free. However, the same analogy does not exist for urban BCs. Why are banks not ready to invest in a similar fashion when it comes to urban BCs?

8.7 Banks should not be creating second class citizens for providing access to the minimal basic branch banking services. Urban BC is one such example where a poor/gullible man pays disproportionately higher to get simple basic banking service which is otherwise available for free (or almost free) for the elite/smart/educated in a bank branch. Urban BCs are not alternatives that can be considered at par (in terms of fee structure) with branch banking (unlike the ATMs when looked as alternatives). As see in Table 2, urban BCs are growing at an exponential rate whereas rural BCs’ rate of growth is declining. This showcases the tremendous banking needs still at the urban locations.

Table 2: Financial Inclusion Plan - Summary progress of all banks including RRBs

SR	Particulars	Year ended	Year ended	Year ended	Year ended	% increase	% increase	% increase	% increase
		Mar 10	Mar 11	Mar 12	Mar 13	2010 to 2011	2011 to 2012	2012 to 2013	2010 to 2014
1	Banking Outlets in Villages - Branches	33378	34811	37471	40837	4	8	9	22
2	Banking Outlets in Villages - BCs	34174	80802	141136	221341	136	75	57	548
3	Banking Outlets in Villages - Other Modes	142	595	3146	6276	319	429	99	4320
4	Banking Outlets in Villages -TOTAL	67694	116208	181753	268454	72	56	48	297
5	Urban Locations covered through BCs	447	3771	5891	27143	744	56	361	5972
6	Basic Savings Bank Deposit A/c -branches (No. In millions)	60.19	73.13	81.2	100.8	21	11	24	67
7	Basic Savings Bank Deposit A/c - branches (Amt. In billions)	44.33	57.89	109.87	164.69	31	90	50	272
8	Basic Savings Bank Deposit A/c - BCs (No. in millions)	13.27	31.63	57.3	81.27	138	81	42	512
9	Basic Savings Bank Deposit A/c - BCs (Amt. in billions)	10.69	18.23	10.54	18.22	71	-42	73	70
10	ICT A/Cs-BC- Transaction-No. in millions	26.52	84.16	155.87	250.46	217	85	61	844
11	ICT A/Cs-BC- Transactions -Amt in billions	6.92	58	97.09	233.88	738	67	141	3280

Source: Extract from Table IV.4 of RBI Annual Report 2012-13. <http://rbidocs.rbi.org.in/rdocs/AnnualReport/PDFs/01FLAR22082013.pdf>



Banks Violating PML Act for Excluding the Excluded

8.8 The current impasse is a tremendous loss to social inclusion in banking. The impact of this exclusion can be measured only in terms of how intensely it hurts the poor people more than relatively better off. The voice of millions of such poor people is not heard through the media. Thus, as a first step, the people in long queues attempting money transfers at metro and urban locations should be educated on how they can easily open a bank account in any bank's branch (with whatever little documents they have) and then transfer money easily from their own bank account to another without much effort.

8.9 However, bank branches located in metros and urban regions should be allowed and encouraged to use the services of quality BC for supporting its branch banking activities. Branches need such a support due to possible lack of sufficient staff/space/etc. at the branch (leading to inefficient service being rendered to their customers). Keeping the fundamental concept of a BC in the forefront (i.e., an entity which substitutes for a bank branch, where it may not be feasible to take a bank branch), one needs to redefine such BC's working in the near vicinity of a bank branch. Accordingly, any BC Agent within two km of **any** bank branch in Urban regions should be designated the status of *Urban BC* and be considered as extended arms or facilitators of bank branches in urban location, analogous to an ATM. This would automatically require removal of any possible differentials in service charges for the customer at *Urban BCs* outlet and at bank branches (atleast during the branch banking hours). However, independent of the service charge imposed on the customers at BC service point by the bank, for viability of *Urban BCs* it is felt that such a move **should not** allow banks to disturb the existing reasonable commission (in absolute terms) that is being paid to the BCs by banks.

8.10 As alternatives to BCs, Payment System Operators (non-bank) with authorisation from RBI that are offering prepaid products should also contribute in providing prepaid accounts to unbanked with system controls as laid down under *Small Account*. Interoperable prepaid accounts (cards) would allow depositing money into the account in form of cash, or electronically through IMPS (being promoted by National Payments Corporation of India (NPCI)) initiated from a bank account or Cash-IMPS. The prepaid accounts also allow transfer of funds from the prepaid account to a bank account and for its use at merchant establishments. The fee structure for such prepaid accounts should be similar to BSBDA. With switch providers NPCI, MasterCard and Visa providing the required interoperability for the prepaid cards to work in a holistic manner, RBI needs to re-look and re-work the possibility of allowing cash out at ATMs (open-loop) through independent membership of National Financial Switch (NFS) for the prepaid service providers, like in the case of IMPS inward-outward transactions. This can be test run on few of the bigger prepaid service providers. Furthermore, to facilitate bank branches, such prepaid accounts can be assisted, outsourced and promoted by banks. In order to make it a viable and sustainable model, the income for the provider will primarily get generated through (i) banks who would need equivalent alternatives to branch banking, (ii) interest from funds in the escrow account held with a bank under the prepaid setup, (iii) interchange on use of prepaid cards at merchant locations, etc. Additionally, one



Banks Violating PML Act for Excluding the Excluded

could also think of a minimum load of Rs 200 which remains locked in the account for one year and can be used thereafter.

8.11 RBI's financial education initiative should have focused awareness programs empowering the unbanked poor and gullible about the varied options and their rights. Also, RBI can develop confidence among them to exercise options as per their convenience and financial capabilities.



IX. Recommendations and Potential Impact

9.1 With a view to enhancing ease in financial inclusion one needs to arrive at a balance between banks' commercial interest and their social obligations. Alongside, RBI should have a relook at its own policy on interest rate restrictions and the no fee requirement for zero balance savings bank deposit accounts. Such restrictions are dissuading banks. Banks in turn are creating hurdles in implementation of an otherwise well thought of initiative towards financial inclusion. A path needs to be laid which can make banks facilitate opening of accounts for people who do not have the same resources and opportunities that are available to others. Based on the findings of the experiment conducted through this study and learning from interactions with management of banks and their front line staff, with non-banks providing banking services, with the migrants and underprivileged section of society and with RBI officials and top management, it is recommended that:

A. Small Accounts be made a Viable Business Proposition

9.2 RBI has deregulated savings bank deposit interest rate subject to two conditions:

- First, each bank will have to offer a uniform interest rate on savings bank deposits up to Rs. 1,00,000, irrespective of the amount in the account within this limit.
- Second, for savings bank deposits over Rs. 1,00,000, a bank may provide differential rates of interest, if it so chooses, subject to the condition that banks will not discriminate in the matter of interest paid on such deposits, between one deposit and another of similar amount, accepted on the same date, at any of its offices.

This has led to a practice among few banks, that offer differential savings interest rate, to give interest, for instance, on a Rs. 1,15,000 deposit by paying interest at a lower rate on the deposit amount upto Rs. 1,00,000 and paying interest at a higher rate on the balance Rs. 15,000.

9.3 It is recommended that the Rs. 1,00,000 threshold be changed to Rs. 10,000 in the existing deregulated framework of interest rate for savings bank deposit accounts. This deregulation could be combined with removal of any fee on non-maintenance of any prescribed minimum balance in savings bank deposit accounts (exceptions may apply to privileged high end accounts with special features/facilities). Such a move would give more flexibility to banks for designing of more viable business models and for bringing in innovations in the savings product for all sections of society. In order to encourage people to move to higher brackets, products could be made where the higher rate applies to the full deposit amount on crossing the threshold. It may



Banks Violating PML Act for Excluding the Excluded

inculcate savings habit among the small depositors and encourage them to reach the threshold that can help them earn more interest on their deposits.

9.4 Furthermore, it is strongly believed (based on interactions with unbanked) that the poor are more concerned about *Suraksha* and *Sanchayan (Bachat)* not *Sood* – i.e., they need a safe custody of their money and get some opportunity to save through this safe custody. Interest earning is not a major attraction for small deposits. Another objective to open a bank account is to transact.

9.5 At present, banks are required to include all Savings Bank deposit liabilities for computation of Net Demand and Time Liabilities (NDTL) and for maintenance of CRR and SLR. In order to encourage *Small Accounts*, **it is recommended that RBI should look at the possibility of exempting savings bank deposits, under *Small Accounts*, from maintenance of CRR and SLR.** Such financial incentives to banks would help them to encourage the opening of *Small Accounts* by reducing their cost.

9.6 With regards BSBDA, though RBI has prohibited debits (with a fee) beyond 4 free debits per month, banks should be allowed to retain the name of BSBDA even if they allow debits beyond the 4 free debits and charge for them. The charges, if imposed, could also be in form of penalty. Furthermore, even though it is a zero balance account, in order to eliminate unwanted elements, the initial sum required for opening such an account should not be Rs. 0. **It is recommended that a minimum amount requirement to open the BSBDA be set at not exceeding Rs. 500.** This minimum amount requirement could be further scaled down appropriately for rural/semi-urban/urban locations, with it being Rs. 100 for rural. It is re-emphasised that this requirement is only to open a bank account and that the minimum balance requirement continues to be Rs. 0.

9.7 As of now, even after 34 months of enactment of PML legislation for opening of *Small Accounts*, many banks have not put in place software systems to ensure implementation of checks pertaining to *Small Accounts*. Furthermore, within the PML Act, to facilitate people who desire to open *Small Accounts*, controls need to be placed (atleast for all CBS enabled banks) so that the system does not allow unintentional violation of the transaction limits set under *Small Accounts*. In other words, if the *Small Account* has a balance of Rs. 48,000, and the account holder attempts to deposit Rs. 3000 over the counter, the controls should disallow the transaction there and then. **It is recommended that RBI mandate banks to put in place controls so as to reduce hardships to *Small Account* holders in case of unintentional breach of threshold limits.** In view of the severe implications for the financially excluded and disadvantaged sections of society, **it is recommended that RBI should ensure that banks build in the checks in their CBS for *Small Accounts*, and considering the time already lost this should be done on priority within the next four months (latest by March 2014).**



9.8 While the recommendations at Para 9.3 to 9.6 will address the costing of *Small Account* products, making it a viable business proposition for banks, **it is also recommended that RBI should ensure compliance of its own instructions on KYC/AML/CFT by banks so that no individual is turned away by a bank branch, for want of some documents, while attempting to open a simple bank account.** In other words, RBI should plug the current rampant non-compliance of legislation related to opening of Nil- or relaxed- KYC enabled *Small Accounts* and full-KYC enabled BSBDA. Also, in order to facilitate a *Small Account* (having a status where Valid ID has been shown) to be converted into a full-KYC enabled normal account, the bank branch opening such an account may get the address (as on the application) physically verified.

B. Urban BC and Prepaid Alternatives be made Seamless

9.9 Bank branches located in metros and urban regions should be allowed and encouraged to use the services of quality BC for supporting its branch banking activities. Branches need such a support due to possible lack of sufficient staff/space/etc. at the branch. **It is recommended that any BC Agent within two km of any bank branch in Urban regions should be designated the status of an Urban BC and be considered as an extended arms or facilitators of bank branches in urban location, analogous to an ATM.** This would automatically require removal of any possible differentials in service charges for the customer at *Urban BCs* outlet and at bank branches (atleast during the branch banking hours). However, independent of the service charge imposed on the customers at BC service point by the bank, for viability of *Urban BCs* **it is recommended that such a move should not allow banks to disturb the existing reasonable commission (in absolute terms) that is being paid to the BCs by banks.**

9.10 As alternatives to BCs, Payment System Operators (non-bank) with authorisation from RBI that are offering prepaid products should also contribute in providing prepaid accounts to unbanked with system controls as laid down under *Small Account*. The fee structure for such prepaid accounts should be similar to BSBDA. With switch providers NPCI, MasterCard and Visa providing the required interoperability for the prepaid cards to work in a holistic manner, **it is recommended that RBI re-look and re-work the possibility of allowing cash out at ATMs (open-loop) through independent membership of NFS for the prepaid service providers.** Furthermore, to facilitate bank branches, such prepaid accounts can be assisted, outsourced and promoted by banks. In order to make it a viable and sustainable model, the income for the provider will primarily get generated through (i) banks who would need equivalent alternatives to branch banking, (ii) interest from funds in the escrow account held with a bank under the prepaid setup, (iii) interchange on use of prepaid cards at merchant locations, etc. Additionally, one could also think of a minimum load of Rs 200 which remains locked in the account for one year and can be used thereafter.



C. Banking Standards, Customer Service and Financial Education be Prioritised

9.11 BCSBI has not yet addressed the ‘standards’ aspects with respect to ground realities as dealt in this Report. The Board should also, as its name suggests, work proactively towards identifying banking standards, for the good of the banking system and its users. **It is recommended that BCSBI develops and identifies good banking standards to enhance harmony and transparency in the banking practices.** BCSBI should be more sensitive and passionate in their endeavours to play an effective and proactive role.

9.12 In the interest of customer service, **it is recommended that Customer Service Department of RBI be expanded four folds and be mandated to carry out holistic research studies on customer service pertaining to payment systems, deposits, loans, awareness building by banks, financial education initiatives, etc.** Such a move should be independent of creation of separate authorities for enforcing fair market conduct and for protection of financial consumers. Thus the role of CSD would be expanded to include research wings dealing with continuous surveys of customers and bank branches culminating in monthly reporting. This would act as a means and catalyst for training banks and having them firmly committed to treating their customers fairly. CSD must include a division of handpicked, more sensitive and passionate officers who can go around branches in India and report state of affairs from the customer angle.

9.13 With the creation of the DEAF earmarked for promotion of depositors’ interest and for such other purposes considered necessary for the promotion of depositors’ interests, **it is recommended that the funds under DEAF, among other purposes, be utilised for including the excluded by running campaigns to educate them on (a) *Small Accounts*, (b) BSBDA, (c) money transfers (deposits) using Cash-NEFT and Cash-IMPS , (d) minimal KYC requirements for opening of normal savings account, etc.**

9.14 Usually, in a bank branch, there are explicit displays where details of the documents required are indicated for opening of savings bank deposit accounts. Just to undo the incorrect learning (with respect to *Small Accounts*) that has percolated over the years among bank staff and public at large, **it is recommended that for the next two years RBI make it mandatory for banks to display in branches that no documents are required for opening of *Small Accounts*.** Many banks attempt not to place BSBDA alongside accounts with potentially high balances. Bank branches are not disclosing the RBI mandated zero balance account while listing other categories of non-zero minimum balance savings bank account. Thus, **it is also recommended that RBI mandate banks to have proper disclosure norms (including verbal) at their branches pertaining to their offering basic banking facilities such as zero balance BSBDA, *Small Account*, Cash-NEFT and Cash-IMPS.**



9.15 Finally, it is recommended that RBI should conduct focused campaigns on financial education through various modes (radio, TV, print media, posters and banners) and in simple clear terms, so that every household becomes aware of *Small Accounts* as they are aware of Money Order in Post Office. For meeting its objective of *including the excluded*, it is recommended that the advertisements be made of high standards at par with Pulse Polio or Aids awareness campaigns involving brand ambassador of high repute like Amitabh Bachchan, Vidya Balan or Amir Khan.

D. Enhance Transparency in Interest of Customers

9.16 In RBI's Annual Policy Statement for the year 2013-14 (May 3, 2013), Paras 90 and 93 proposed, respectively, “to replace the existing FAQs on KYC/AML/CFT with a comprehensive set of questions and answers by end-June 2013” and, “to finalise the modalities for setting up of DEAF by end-September 2013”. Since depositors and prospective customers are the real stakeholders to the above proposals and since the same has not been finalised by RBI (even after more than 150 and 55 days, respectively, of passage of indicative target dates set by RBI), RBI remains answerable to the public. With a view to facilitating understanding of RBI policies and compliance thereof and to avoid miscommunication, it is recommended that in its subsequent policies, RBI should strive to provide updates of all proposals made in earlier policies.

9.17 To conclude, it is pertinent to mention the types of error done by banks (unintentional or otherwise) associated with the implementation of the PML Act. Error of Type I is committed when a bank deprives a poor client to open an account without address proof (that is a violation under PML Act), while Type II error is committed when bank facilitate opening of an account by money launderer (again a violation under PML Act), see Chart below.

Bank's status of acceptance of customer as per PML Act 	Nature of client Poor (with correct name and address but no proof)	Money launderer or with terrorist links (without proper ID and address)
	Do not open bank account (deprive)	Type I error
Open bank account (facilitate)	Correct	Type II error

Chart: Type I and Type II errors



Banks Violating PML Act for Excluding the Excluded

9.18 Given the extent of financial exclusion, Type I error is more serious and accordingly the PML Act sets reasonable safeguards/limits/controls to take care of such errors. The recommendations of this Report are directed towards *including the excluded* by allowing them to open a *Small Account* even in absence of a valid proof of identity or residence. This move, with all its checks in place will minimise Type I error and promote financial inclusion without significantly increasing Type II error (favouring money laundering / financing of terrorism).

9.19 Thus the regulator needs to take prompt corrective measures to check banks who, in the name of KYC, are committing a crime of excluding the excluded. The impact of this exclusion can be measured only in terms of how intensely it hurts the poor people more than relatively better off. The voice of millions of such poor people is not heard through the media. Therefore, the government and RBI should, in furthering their focus on *aam aadmi*, financial inclusion and inclusive growth, treat this matter with utmost priority.



References (*Chronological from latest*)

0. The Five Pillars of RBI's Financial Sector Policies. Speech by Governor Raghuram G. Rajan at BANCON 2013 held at Mumbai on November 15, 2013.

<http://rbidocs.rbi.org.in/rdocs/Speeches/PDFs/BC15120113SP.pdf>

1. What, Why and How of Retail (Mass) Banking: Issues and Challenges. Inaugural address by Dr. K. C. Chakrabarty, Deputy Governor, RBI at the Bank CEOs Roundtable organised by CAFRAL in Udaipur on October 2, 2013.

<http://rbidocs.rbi.org.in/rdocs/Speeches/PDFs/CRB071013F.pdf>

2. Financial Inclusion- Access to Banking Services – Basic Savings Bank Deposit Account (BSBDA) – FAQs. DBOD.No. Leg.BC.52/09.07.005/2013-14 dated September 11, 2013.

http://rbidocs.rbi.org.in/rdocs/notification/PDFs/BSBC52_11092013.pdf

3. Financial Inclusion in India: Journey So Far And Way Forward. Keynote address delivered by Dr. K.C. Chakrabarty, Deputy Governor, RBI at the Finance Inclusion Conclave organized by CNBC TV 18 at New Delhi on September 6, 2013.

<http://rbidocs.rbi.org.in/rdocs/Speeches/PDFs/CN18060913FS.pdf>

4. KYC Norms/AML Standards/Combating Financing of Terrorism (CFT)/Obligation of Banks under PMLA, 2002 - e-KYC Service of UIDAI – Recognising on-line Aadhaar authentication to be accepted as an 'Officially Valid Document' under PML Rules dated September 2, 2013.

<http://rbidocs.rbi.org.in/rdocs/notification/PDFs/CKUI0209013E.pdf>

5. Master Circular – Know Your Customer (KYC) norms / Anti-Money Laundering (AML) standards/Combating of Financing of Terrorism (CFT)/Obligation of banks under PMLA, 2002. DBOD.AML.BC.No.24/14.01.001/2013-14 dated July 1, 2013.

<http://rbidocs.rbi.org.in/rdocs/notification/PDFs/94CF010713FL.pdf>

6. Master Circular on Know Your Customer (KYC) Norms/Anti-Money Laundering (AML) Measures/Combating of Financing of Terrorism (CFT) / Obligations of banks under Prevention of Money Laundering Act (PMLA), 2002. UBD.BPD. (PCB).MC.No.16/12.05.001/2013-14 dated July 1, 2013.

<http://rbidocs.rbi.org.in/rdocs/notification/PDFs/31UBM010713F.pdf>

7. Social Inclusion of Internal Migrants in India- Internal Migration in India Initiative. UNESCO Office New Delhi. June 2013.

<http://unesdoc.unesco.org/images/0022/002237/223702e.pdf>



Banks Violating PML Act for Excluding the Excluded

8. Monisha Mason (2013) Financial Inclusion – The Challenges of Implementation (Submitted June 26, 2013). Development Outlook. Research on Financial Services for the Poor. Institute for Financial Management and Research, Chennai.

<http://www.developmentoutlook.org/2013/06/financial-inclusion-challenges-of.html>

9. Monetary Policy Statement 2013-14. RBI, May 3, 2013.

<http://rbidocs.rbi.org.in/rdocs/notification/PDFs/1E77D99729MS030513FL.pdf>

10. Financial Literacy Guide. RBI, RPCD, January 2013.

http://www.rbi.org.in/financialeducation/content/GUIDE310113_F.pdf

11. KYC norms /AML Standards/CFT)/Obligation of banks under PMLA, 2002. UBD.BPD (PCB) Cir. No. 28/14.01.062/2012-13 dated December 19, 2012.

<http://rbidocs.rbi.org.in/rdocs/notification/PDFs/CE342KC191212.pdf>

12. Know Your Customer norms /Anti-Money Laundering Standards/Combating of Financing of Terrorism /Obligation of banks under Prevention of Money Laundering Act, 2002. DBOD.AML.BC. No. 65/14.01.001/2012-13 dated December 10, 2012.

<http://rbidocs.rbi.org.in/rdocs/notification/PDFs/KYC101212CFS.pdf>

13. Financial Inclusion- Access to Banking Services – Basic Savings Bank Deposit Account. DBOD.No. Leg. BC.35/09.07.005/2012-13 dated August 10, 2012.

<http://rbidocs.rbi.org.in/rdocs/notification/PDFs/BC35100812SF.pdf>

14. Master Circular on Standardization of Know Your Customer (KYC) requirements and facilitating opening / operations of accounts of the bank customers. F. No. 31/3/2011-BO.II, Government of India, Ministry of Finance, Department of Financial Services dated July 20, 2012.

<http://financialservices.gov.in/banking/circulars/2012/KYC%20%20Master%20Circular.pdf>

15. Das, A. (2012) Including the Poor– Need for Reforms in Remittances. IIT Bombay Technical Report.

http://dspace.library.iitb.ac.in/jspui/bitstream/100/14395/3/NEFT-Report_2012.pdf

16. Master Circular – Know Your Customer (KYC) norms / Anti-Money Laundering (AML) standards/Combating of Financing of Terrorism (CFT)/Obligation of banks under PMLA, 2002. DBOD. AML. BC. No. 11/14.01.001/2012-13 dated July 2, 2012.

<http://rbidocs.rbi.org.in/rdocs/notification/PDFs/45ML010712FL.pdf>

17. Denny George and Nitin Garg with inputs from Shivshankar V., Anil Paul and Premasis Mukherjee (2012). Saddling Up a Dead Horse: Financial Inclusion in India. *MicroSave India*.



http://www.microsave.net/files/pdf/1375874621_IFN_95_Saddling_up_a_Dead_Horse_Financial_Inclusion_in_India.pdf

18. KYC requirements and facilitating opening / operations of accounts of the bank customers. F. No. 31/3/2011-BO.II, Government of India, Ministry of Finance, Department of Financial Services dated December 28, 2011.

<http://financialservices.gov.in/banking/circulars/Circular%20KYC%20requirements.pdf>

19. Alphina Jos, Denny George, Shivshankar V. and Stanley V. (2011). Thomas Exploring Reasons for Dormancy in No Frills Savings Accounts In Tamil Nadu. *MicroSave India*.

http://www.microsave.net/files/pdf/Exploring_Reasons_for_Dormancy_in_No_Frills_Savings_Accounts_In_Tamil_Nadu.pdf

20. Deregulation of Savings Bank Deposit Interest Rate – Guidelines. DBOD.Dir.BC. 42/13.03.00/2011-12 dated October 25, 2011.

<http://rbidocs.rbi.org.in/rdocs/notification/PDFs/CAN251011FL.pdf>

21. Das, A. (2011). A Rational Savings Bank Deposit Interest Rate in India. IIT Bombay Technical Report.

http://dspace.library.iitb.ac.in/jspui/bitstream/10054/1736/1/On_SB_Deposit.pdf

22. Master Circular – Know Your Customer (KYC) norms / Anti-Money Laundering (AML) standards/Combating of Financing of Terrorism (CFT)/Obligation of banks under PMLA, 2002 dated July 1, 2011.

<http://rbidocs.rbi.org.in/rdocs/notification/PDFs/72CY300611F.pdf>

23. Das, A. (2011). Savings Bank Accounts- Interest Rate Deregulation. IIT Bombay Technical Report.

<http://dspace.library.iitb.ac.in/jspui/bitstream/10054/1734/1/1734.pdf>

24. Opening of "Small Account". DBOD.AML.No. 77/14.01.001/2010-11 dated January 27, 2011.

<http://rbidocs.rbi.org.in/rdocs/notification/PDFs/COSA270111.pdf>

25. Financial Inclusion by Extension of Banking Services – Use of Business Correspondents (BCs). DBOD.No.BL.BC.43 /22.01.009/2010-11 dated September 28, 2010.

<http://rbidocs.rbi.org.in/rdocs/notification/PDFs/CPC28092010.pdf>

26. Master Circular – Know Your Customer (KYC) norms / Anti-Money Laundering (AML) standards/Combating of Financing of Terrorism (CFT)/Obligation of banks under PMLA, 2002. DBOD. AML. BC. No. 2/14 .01.001/2010-11 dated July 1, 2010.



Banks Violating PML Act for Excluding the Excluded

http://rbidocs.rbi.org.in/rdocs/notification/PDFs/MCKYCA010710_F.pdf

27. S. Thyagarajan and Jayaram Venkatesan (2008). Cost –Benefit and Usage Behaviour Analysis of No Frills Accounts: A Study Report on Cuddalore District. CAB, RBI, Pune.

<http://cab.org.in/Lists/Knowledge%20Bank/Attachments/100/Nofrills%20in%20Cuddalore%20%20Report.pdf>

28. Financial Inclusion. DBOD.No.Leg.BC. 44/09.07.005/2005-06 dated November 11, 2005.

<http://rbidocs.rbi.org.in/rdocs/notification/PDFs/67155.pdf>

29. SCBs - KYC - Anti-Money Laundering Standards. DBOD.NO.AML.BC.28 /14.01.001/2005-06 dated August 23, 2005.

<http://rbidocs.rbi.org.in/rdocs/notification/PDFs/65481.pdf>

30. UCBs - KYC Guidelines - Anti-Money Laundering Standards. UBD.BPD. PCB. Cir.11 /09.161.00/2005-06 dated August 23, 2005.

<http://rbidocs.rbi.org.in/rdocs/notification/PDFs/65477.pdf>



Appendix A

The correspondence initiated with Department of Communication, RBI, on October 11, 2012, keeping concerned top management of RBI in the loop.

From: Das, Sangeeta
Sent: 09 January 2013 18:40
To: 'ashishdas.das@gmail.com'
Cc: Killawala, Alpana
Subject: Opening of Small Accounts

Dear Dr. Das

Please refer to your email dated October 11, 2012 addressed to Ms Alpana Killawala, CGM, Department of Communication on the subject matter. In this connection please note that the Department of Banking Operations and Development has examined the suggestion. The department vide circular DBOD.AML.BC.No65/14.01.001/2012-13 dated December 10, 2012 has again advised banks to promote opening of 'small accounts' for greater financial inclusion and to open 'small accounts' for all persons who so desire (para 2 V). Further, the issue was also discussed in the post-policy meeting with Indian Banks' Association and select bank Chairmen held on December 21, 2012. The relevant circular is attached for your information.

With regards,

Sangeeta Das
Director
Department of Communication
Reserve Bank of India
Mumbai 400001

----- Original Message -----

From: Ashish Das <ashishdas.das@gmail.com>
To: Killawala, Alpana
Cc: CGM in-charge DBOD; Jha, Sudhir Kumar; CGMCSD; Sinha, Rajeev; Governor, Reserve Bank Of India; Chakrabarty, Dr. K C; Secretary FS <secy-fs@nic.in>; Forum of Free Enterprise <ffe@vsnl.net>
Sent: Sun Nov 25 19:05:04 2012
Subject: Re: THE 20 months old Savings Bank Deposit Account (Small Accounts)

2nd reminder to the communication department of RBI.

Requesting for your response.

Best regards,
Ashish

On Sat, Nov 3, 2012 at 7:20 AM, Ashish Das <ashishdas.das@gmail.com> wrote:

> Reminder.
> Best regards,
> Ashish
>



Banks Violating PML Act for Excluding the Excluded

> On **Thu, Oct 11, 2012 at 10:59 PM**, Ashish Das <ashishdas.das@gmail.com> wrote:

>> Dear Ms. Killawala:

>>

>> I have received informal response (over phone) from DBOD on the issue
>> at hand (see mail below).

>>

>> Coming to the point,

>>

>> 1. I have highlighted and am of the view that in the true spirit we
>> should NOT be proactive in financially educating the people that they
>> can open more than one SMALL account in different banks (even though
>> on paper it is possible) .

>>

>> 2. Now coming to a more significant issue, "Why during the past 20
>> months has there been no move by your department (under the financial
>> education and financial literacy programs) to reach the more or less
>> correct 5-10% of the urban adult population in India who should be
>> knowing that THEY CAN open at least a SMALL account at a bank branch
>> without an ID, address proof and without any introduction?"

>>

>> 3. I would guess that there is a need for Demand Based financial
>> education and financial literacy at urban locations.

>>

>> 4. It is a different matter that had you taken this initiative
>> aggressively under you urban programs on financial education, not
>> only in this process you would have educated the urban
>> un-branch-banked but also the banks, their branches and their staff.
>> And if you are not able to educate the banks in this process (as an
>> off-shoot), the CSD/DBS and DBOD would get forced to go into action
>> to ensure that NO branch staff of a bank (or at least the branch
>> manager and all concerned staff involved in opening deposit accounts)
>> is ignorant of the fact that such an account can be opened. I say so
>> since, the by-now financially educated un-banked (with the help of
>> NGO's and well wishers) would flood DOC and CSD on why
>> they are being educated on something that does not exist.

>>

>> 5. If the RBI wants, under the power vested, it too can take
>> initiatives in the interest of the urban-unbanked and look at the
>> demand side of financial education.

>>

>> I look forward to your response.

>>

>> Best regards,

>>

>> Ashish

>>

>>

>> On **Fri, Oct 5, 2012 at 10:30 AM**, Ashish Das <ashishdas.das@gmail.com> wrote:

>>> Dear Shri Jha:

>>>

>>> Kindly advise on the subject matter where I open three of such
>>> accounts in three different banks based on production of a
>>> self-attested photograph and affixing my signature on the account
>>> opening form.



Banks Violating PML Act for Excluding the Excluded

>>>

>>> Such a move facilitates me to overcome the restrictions imposed on
>>> the accounts when the three accounts in combination are used in a
>>> judicious way.

>>>

>>> Request you to advise if this could be considered as part of
>>> financial education in the urban locations for the migrant population.

>>>

>>> Does DBOD have any view on this?

>>>

>>> With regards,

>>>

>>> Ashish

>>>

>>> --

>>> Ashish Das

>>> Department of Mathematics

>>> Indian Institute of Technology Bombay Powai, Mumbai 400076

>>> Phone: +91-22-25767486

>>> E-mail: ashish@math.iitb.ac.in

>>


>>



Banks Violating PML Act for Excluding the Excluded



Appendix B



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
www.rbi.org.in

RBI/2010-11/389
DBOD.AML.No. 77 /14.01.001/2010-11 **January 27, 2011**

**The Chairmen / CEOs of all Scheduled Commercial Banks (Excluding RRBs)/
Local Area Banks / All India Financial Institutions**

Dear Sir,

Opening of "Small Account"

Please find enclosed a copy of the Government of India, Notification No. 14/2010/ F.No.6/2/2007-E.S. dated December 16, 2010, amending the Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of the Banking Companies, Financial Institutions and Intermediaries) Rules, 2005.

A. Small Accounts

2. In terms of Rule 2 clause (fb) of the Notification 'small account' means a savings account in a banking company where-

- (i) the aggregate of all credits in a financial year does not exceed rupees one lakh;
- (ii) the aggregate of all withdrawals and transfers in a month does not exceed rupees ten thousand; and
- (iii) the balance at any point of time does not exceed rupees fifty thousand .

3. Rule (2A) of the Notification lays down the detailed procedure for opening 'small accounts'. Banks are advised to ensure adherence to the procedure provided in the Rules for opening of small accounts.

Department of Banking Operations and Development, Central Office, C.O. Building, 13th Floor, Fort, Mumbai, 400001
टेलिफोन / Tel No: 022-22601000 फैक्स / Fax No: 022-22701239 Email ID: cgmicdbodco@rbi.org.in

हिंदी आसान है, बसका प्रयोग बढ़ाए



B. Officially Valid Documents

4. The Notification has also expanded the definition of 'officially valid document' as contained in clause (d) of Rule 2(1) of the PML Rules to include job card issued by NREGA duly signed by an officer of the State Government or the letters issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number.

5. It is further advised that where a bank has relied **exclusively** on any of these two documents, viz. NREGA job card or Aadhaar letter, as complete KYC document for opening of an account (ref. paragraph 2.4 (f) of the Master circular dated July 1, 2010) the bank account so opened will also be subjected to all conditions and limitations prescribed for small account in the Notification.

6. Accordingly, all accounts opened in terms of procedure prescribed in Rule 2A of the Notification enclosed **and** all other accounts opened **ONLY** on the basis of NREGA card or Aadhaar letter should be treated as "small accounts" subject to the conditions stipulated in clause (i) to (v) of the sub-rule (2A) of Rule 9.

7. Please acknowledge receipt.

Yours faithfully,

(Vinay Baijal)
Chief General Manager

Encl: As above



Banks Violating PML Act for Excluding the Excluded

Government of India
Ministry of Finance
(Department of Revenue)

Notification

New Delhi, the 16th December, 2010

GSR (E) – In exercise of the powers conferred by sub-section (1) read with clauses (h) (i), (j) and (k) of sub-section (2) of Section 73 of the Prevention of Money-laundering Act, 2002 (15 of 2003), the Central Government hereby makes the following amendments to the Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of the Banking Companies, Financial Institutions and Intermediaries) Rules, 2005, namely:-

1. (1) These rules may be called the Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of the Banking Companies, Financial Institutions and Intermediaries) Third Amendment Rules, 2010.

(2) They shall come into force on the date of their publication in the Official Gazette.

2. In the Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of the Banking Companies, Financial Institutions and Intermediaries) Rules, 2005, -

(a) in rule 2,-

(i) after clause (b), the following clause shall be inserted, namely:-

“(bb) “Designated Officer” means any officer or a class of officers authorized by a banking company, either by name or by designation, for the purpose of opening small accounts”.

(ii) in clause (d), for the words “the Election Commission of India or any other document as may be required by the banking company or financial institution or intermediary”, the words “Election Commission of India, job card issued by NREGA duly signed by an officer of the State Government, the letter issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number or any other document as notified by the Central Government in consultation with the Reserve Bank of India or any other document as may be required by the banking companies, or financial institution or intermediary” shall be substituted;

(iii) after clause (fa), the following clause shall be inserted, namely:-

“(fb) “small account” means a savings account in a banking company where-



Banks Violating PML Act for Excluding the Excluded

- (i) the aggregate of all credits in a financial year does not exceed rupees one lakh,
- (ii) the aggregate of all withdrawals and transfers in a month does not exceed rupees ten thousand, and;
- (iii) the balance at any point of time does not exceed rupees fifty thousand”.

(b) In rule 9, after sub-rule (2), the following sub-rule shall be inserted, namely:-

“(2A) Notwithstanding anything contained in sub-rule (2), an individual who desires to open a small account in a banking company may be allowed to open such an account on production of a self-attested photograph and affixation of signature or thumb print, as the case may be, on the form for opening the account.

Provided that –

- (i) the designated officer of the banking company, while opening the small account, certifies under his signature that the person opening the account has affixed his signature or thumb print, as the case may be, in his presence;
- (ii) a small account shall be opened only at Core Banking Solution linked banking company branches or in a branch where it is possible to manually monitor and ensure that foreign remittances are not credited to a small account and that the stipulated limits on monthly and annual aggregate of transactions and balance in such accounts are not breached, before a transaction is allowed to take place;
- (iii) a small account shall remain operational initially for a period of twelve months, and thereafter for a further period of twelve months if the holder of such an account provides evidence before the banking company of having applied for any of the officially valid documents within twelve months of the opening of the said account, with the entire relaxation provisions to be reviewed in respect of the said account after twenty four months.
- (iv) a small account shall be monitored and when there is suspicion of money laundering or financing of terrorism or other high risk scenarios, the identity of client shall be established through the production of officially valid documents, as referred to in sub rule (2) of rule 9”; and
- (v) foreign remittance shall not be allowed to be credited into a small account unless the identity of the client is fully established through the production of officially valid documents, as referred to in sub-rule (2) of rule 9.”

(Notification No.14/2010/F.No.6/2/2007-ES)

(S.R. Meena)
Under Secretary

Note: The principal rules were published in Gazette of India, Extraordinary, Part-II, Section 3, Sib-Section (i) vide number G.S.R.444 (E), dated the 1st July, 2005 and subsequently amended by number G.S.R.717 (E), dated the 13th December, 2005, number G.S.R. 389(E), dated the 24th May, 2007, number G.S.R. 816(E), dated the 12th November, 2009, number G.S.R.76 (E), dated the 12th February, 2010 and number G.S.R. 508(E), dated the 16th June, 2010.



Appendix C

Some Highlights from the RBI's Master circular on KYC/AML/CFT

(Has been in existence over several years)

2.3 Customer Acceptance Policy (CAP)

a) Every bank should develop a clear Customer Acceptance Policy laying down explicit criteria for acceptance of customers. The Customer Acceptance Policy must ensure that explicit guidelines are in place on the following aspects of customer relationship in the bank. ... (iv) Not to open an account or close an existing account where the bank is unable to apply appropriate customer due diligence measures, i.e., bank is unable to verify the identity and /or **obtain documents required as per the risk categorisation** due to non cooperation of the customer or non reliability of the data/information furnished to the bank. **It is, however, necessary to have suitable built in safeguards to avoid harassment of the customer.** For example, decision by a bank to close an account should be taken at a reasonably high level after giving due notice to the customer explaining the reasons for such a decision.

b) Banks should prepare a profile for each new customer based on risk categorisation. The customer profile may contain information relating to customer's identity, social/financial status, nature of business activity, information about his clients' business and their location etc. **The nature and extent of due diligence will depend on the risk perceived by the bank.** However, while preparing customer profile banks should take care to seek only such information from the customer, which is relevant to the risk category and is not intrusive. The customer profile is a confidential document and details contained therein should not be divulged for cross selling or any other purposes.

e) **It is important to bear in mind that the adoption of customer acceptance policy and its implementation should not become too restrictive and must not result in denial of banking services to general public, especially to those, who are financially or socially disadvantaged.**

g) It has been observed that some close relatives, e.g. wife, son, daughter and parents, etc. who live with their husband, father/mother and son, as the case may be, are finding it difficult to open account in some banks as the utility bills required for address verification are not in their name. It is clarified, that in such cases, banks can obtain an identity document and a utility bill of the relative with whom the prospective customer is living along with a declaration from the relative that the said person (prospective customer) wanting to open an account is a relative and is staying with him/her. Banks can use any supplementary evidence such as a letter received through post for further verification of the address. While issuing operational instructions to the branches on the subject, **banks should keep in mind the spirit of instructions issued by the Reserve Bank and avoid undue hardships to individuals who are, otherwise, classified as low risk customers.**

2.19 Principal Officer

- a. Banks should appoint a **senior management officer to be designated as Principal Officer.** Banks should ensure that the Principal Officer is able to act independently



Banks Violating PML Act for Excluding the Excluded

and report directly to the senior management or to the Board of Directors. Principal Officer shall be located at the head/corporate office of the bank and shall be responsible for monitoring and reporting of all transactions and sharing of information as required under the law. He will maintain close liaison with enforcement agencies, banks and any other institution which are involved in the fight against money laundering and combating financing of terrorism

- b. Further, the role and responsibilities of the Principal Officer should include overseeing and ensuring overall compliance with regulatory guidelines on KYC/AML/CFT issued from time to time and obligations under the Prevention of Money Laundering Act, 2002, rules and regulations made thereunder, as amended from time to time. The Principal Officer will also be responsible for timely submission of CTR, STR and reporting of counterfeit notes and all transactions involving receipts by non-profit organisations of value more than Rupees Ten Lakh or its equivalent in foreign currency to FIU-IND.

2.22 Customer Education/Employee's Training/Employee's Hiring

a) Customer Education

Implementation of KYC procedures requires banks to demand certain information from customers which may be of personal nature or which has hitherto never been called for. This can sometimes lead to a lot of questioning by the customer as to the motive and purpose of collecting such information. There is, therefore, a need for banks to prepare specific literature/ pamphlets etc. so as to educate the customer of the objectives of the KYC programme. The front desk staff needs to be specially trained to handle such situations while dealing with customers.

b) Employees' Training

Banks must have an ongoing employee training programme so that the members of the staff are adequately trained in KYC procedures. Training requirements should have different focuses for frontline staff, compliance staff and staff dealing with new customers. It is crucial that all those concerned fully understand the rationale behind the KYC policies and implement them consistently.



Appendix D

A paper of significance on frictions to open bank accounts and awareness of *Small Accounts* in rural locations

Monisha Mason (2013) Financial Inclusion – The Challenges of Implementation (Submitted June 26, 2013). Development Outlook. Research on Financial Services for the Poor. Institute for Financial Management and Research, Chennai.

<http://www.developmentoutlook.org/2013/06/financial-inclusion-challenges-of.html>

Financial Inclusion – The Challenges of Implementation

Submitted by [Monisha Mason](#)

CMF's Savings Monitors Study provided me an opportunity to get a first hand feel of some of the challenges faced in implementing financial inclusion among the poorer, rural community.

Recent research has shown that individuals across the world have trouble meeting their savings goals. In developed settings, technologies such as savings reminders and automatic retirement savings enrollments help individuals overcome these difficulties. Such technological solutions are far harder to implement for rural clients in developing countries, however. In our study we explore how existing peer networks might help individuals in these settings to mitigate psychological barriers (such as time inconsistency) and better mobilize savings.

The Study is operational across sixty villages in five districts. A key aspect of the project is to open no frill bank accounts (renamed by RBI to Basic Savings Bank Deposit Accounts in August 2012) or post office accounts (depending on the choice of the respondent) for the saver sample that don't already have these accounts. Since there is no single partner organisation for the study, all the Banks and Post Offices needed to be contacted prior to when we wanted to open these accounts.

Table 1 : Total Sample and New Accounts to be Opened

Net Savers Sample across 60 villages	No of Net Savers who opted for Bank Account	No of new Bank Accounts that had to be opened	No of Net Savers who opted for Post Office Account	No of New Post Office Accounts that had to be opened
1111	680	505	431	343

Over 75% of the sample did not have a Bank or Post Office Account at the commencement of the Programme, over 60% of them opted to open Bank Accounts and close to 75% of these respondents did not have a Bank Account at the start.



Study Findings

From our experience, opening of the Post Office Accounts was much easier. It was the opening of Bank Accounts which posed the real challenge. We wanted the Bank Managers' support in opening these accounts and requested them to give us the account opening forms in advance so that we could fill in these forms in the village (to save time) and then bring the respondents to the bank for the final signature. We wanted the Bank Managers' co-operation in assisting us to quickly open these accounts and issue passbooks. As part of the participation fee, an initial deposit of Rs 50 would be put into the no frill account and also other expenses associated with opening the account would be borne by the project. Given below are some of the key findings pertaining to opening Bank Accounts.

(i) Mixed response from Bank Managers

While some of the Bank Managers were co-operative & supportive, a lot of the others were not very accommodative and were hesitant initially to offer their support & co-operation.

On one of the very first visits to a Bank in Kolar, the Bank Manager agreed to co-operate with us almost immediately and told us he would give us the bank forms in advance. He mentioned that it would take around 5 days to open the accounts. The passbooks also would, in most cases be given on the same day as the account was opened. On mentioning to the Branch Manager, the other villages close by in which we would have to open these accounts as well, he mentioned that the concept of "service area" was very important and all the banks followed it very carefully. They would open no frill accounts only if the village came under their service area.

Quite a few of the other Bank Managers asked a lot of repeated questions about our organisation inspite of giving them a good introduction of what it is our organisation does and what our project was about. The first question by many was "Is this an MFI?" inspite of making it clear to them that we are strictly not one. After going through things again they would ask "But why a no frill account Madam? Why Not a Normal Savings Bank Account?" After telling them again that, we can open only no frill accounts and not a regular savings account with an initial deposit of Rs 500, many would say "But Rs 50 is too less to put as an initial deposit, why can't you put Rs 100 or Rs 200?" As part of the Central Bank's Policy we have already opened no frill accounts for all people in villages who come under our service area, I'm sure you won't find anyone Madam". I would then tell them that we have Bank Account Information from a previously done survey and there are several people in our sample who don't have one and want one. After reassuring them then they would say "Ok then, we will give the account opening forms to your surveyors in advance Madam. But please bring the people in groups of 5 across 3-4 days. As you can see we are short on staff here and we have a lot of customers. Yes, and regarding passbooks which you



mentioned that might take some time, because it has to come from our head office and we are usually short on them”.

(ii) Characteristics of the existing process

Concept of the Lead Bank strongly felt in some districts while not so much in the others. In some districts, Banks were not willing to open no frill accounts for villages even if they were very close to the Bank just because it didn't come under their service area.

On meeting a Branch Manager in Kolar and requesting his support in opening the accounts, he mentioned, “Yes, this village does come under our service area but I can't do anything until I get the Lead Bank's permission. The Lead Bank supervises all the activities of the Bank in this district and I wouldn't want to do anything without the Lead Bank Manager's permission.” On meeting the Lead Bank Manager he clearly mentioned he was not willing to give us any approval or sanction. After a lot of back and forth the Bank Manager at the local bank agreed and we got the Bank Accounts opened. It was very evident that in Kolar the concept of “service area” was very strong. Even if a village is very close to the Bank and the respondents want to go there, the banks are not willing to open these accounts (particularly no frill accounts). In Tumkur however things seemed more flexible. The Branch Managers were not strictly bound by the concept of “service area” and were more accommodative to open these no frill accounts for villages that were close to the Bank even if it did not come under their service area.

(iii) Documentation and Logistics Challenges faced by respondents

While getting the Banks to agree and co-operate, was one part of the issue, actually getting these accounts opened and organising the logistics was another equally important aspect. Some of the respondents did not have even the basic ID Proofs that were required and hence dropped out from the experiment. Some of them didn't have a proper residential proof for which we had to get the Village Headman to issue a letter which would sometimes take longer than expected. Organising a village photographer to take the pictures, filling up the forms, photocopying the documents, getting the witness signatures and taking the respondents to the bank when sometimes there was not good transport facility involved a lot of co-ordination and planning.

Conclusions and Policy Recommendations

1. While the RBI has made the opening of no-frill accounts compulsory for Banks across India, we find that when it comes to actual implementation, there is a resistance on the part of many Banks, which often cite procedural reasons (not in our service area, lead bank permission required, minor documentation issues) to delay and sometimes discourage opening of such accounts. This is because these accounts result in very little revenue to the Bank and entail relatively higher



costs to service. *The tendency for such behaviour needs to be factored into the Policy and appropriate incentives could be considered to encourage Banks to be supportive of this important initiative.*

2. A lot of time is involved in actually getting the necessary documentation and putting things together. *A little more relaxation in the documentation required to open accounts, and also support from the bank to open these accounts and having user friendly processes would help.*

3. A large number of persons in our villages did not seem to know that they could actually go and have these no frill accounts opened. There seemed to be little awareness about what they were entitled to. Also, in some cases, women we came across seemed intimidated about a Bank and its operations. Hence *targeted, effective communication in this regard could help raise awareness levels and bring about a greater consciousness among the poorer sections about their rights in this area.*



Appendix E

Addendum

1. Bank's internal circulars to the branches that have followed since the initiation of this study (starting September 2013) and the ones that would follow hereafter clearly establish that there are no aberrations to the facts highlighted in this Report. In fact, to the contrary, depriving the unbanked for want of some documents are the present norms, spanning across the length and breadth of a large country like India.

2. In case of *Small Accounts*, address proof is not required (which is what most of the poor people are devoid of) and ID proof is needed, that too, within the next two years. Today we are excluding the excluded, by not opening a *Small Account*, for want of some documents (which are not accessible immediately by this low risk segment of society).

3. The following possibilities arise related to *Small Accounts*:

A- You do not have address proof and possibly do not have immediate access to ID proof.

B- Your account will have transactional limitations as required for a *Small Account* (only till a point when you can provide the minimal ID and address proofs).

If A holds then B holds.

If A does not hold then B does not hold.

If B holds then A may or may not hold.

4. We expect that *Small Accounts* would be in demand (a demand based model) more in the urban and semi-urban regions. Once bank's system controls are in place, taking care of the supply side, *Small Accounts* would only prove to be a boon for banks.

5. Today the poor and the disadvantaged are spending as high as Rs. 100 to use the banking channel to just transfer Rs. 5,000 from one branch location (in metros/urban/semi-urban) to some other bank account. Such people would be more than happy to get minimal branch (or equivalent) banking services even if banks are not ready to pay any interest on little average funds that they may keep throughout the year. We should avoid creating a social divide at least in the basic banking arena. Give such citizens the knowledge and empower them with their rights. Many banks are contributing towards the social responsibility that they carry. It is high time that all private and foreign banks devise means to contribute equally at urban locations, if not at rural area.

6. To facilitate staff at bank branches and to provide convenience to customers, banks brought in ATM (which is a substitute of branch banking and thus fees for using of such



Banks Violating PML Act for Excluding the Excluded

gadgets is at par with branch banking). As against this, *Urban BC* model is completely flawed. It too is a substitute of branch banking to facilitate staff at bank branches and to provide convenience to customers. But in terms of fees *Urban BC* costs much higher than branch banking.

7. The banking sector's guardian of public interest, the RBI, is currently unable to guard the excluded since their rights are being stolen. Lukewarm attitude of RBI is no good for the excluded in India.