



BCSBI NEWS

The fourth Annual General Meeting (AGM) of the Banking Codes and Standards Board of India (BCSBI) was held on June 4, 2010.



Members of the Governing Council at the AGM – (L to R) Shri Cyrus Guzder, Shri V P Shetty, Smt. K J Udeshi, Shri B M Mittal, Shri M M Chitale, Dr. Ajit Ranade. Also seen is Shri Kaza Sudhakar, Chief General Manager, Customer Service Department, RBI.



A section of Member banks of BCSBI at the AGM.

At the AGM, Chairman, BCSBI flagged the following three issues of concern:

- **Attitude of staff:** Though member banks had extended full co-operation to BCSBI in trying to bring about improvements in systems as and when identified by BCSBI, these efforts often get thwarted due to staff 'attitudes' and acts of omission and negligence. RBI advocates a 'zero tolerance' approach towards such matters and banks also need to adopt this approach.
- **Persisting asymmetry of information between bank and customer:** Banks are required to ensure that all customer-centric policies, MITCs on credit / debit cards and loan products are available on the bank's website and also easily accessible to customers.
- **Mis-selling of financial products by banks:** It was clarified that any such instance would be in clear violation of Code commitments.

We are happy to inform that with the admission of nine Regional Rural Banks and two Urban Co-operative Banks, the membership of BCSBI has gone upto 100.

Micro and Small Enterprises play an important role in the development of the country, apart from providing employment to a vast section of the society. The Report of the Prime Minister's Task Force on Micro, Small and Medium Enterprises, submitted in January 2010 examines concerns and issues regarding MSMEs. The development of each State can be accelerated through focussed attention on the availability of adequate and timely bank finance to Micro and Small Enterprises in the State. BCSBI officials have, therefore, been addressing bankers and State Govt. officials through the forum of the State Level Bankers Committee to highlight the role played by such units and the role of banks in the healthy growth of this sector through their commitments in dealing with MSEs enshrined in the

Code of Bank's Commitment to Micro and Small Enterprises. Our officials addressed meetings of SLBCs of the States of Gujarat, Karnataka, Puducherry, Tamilnadu and Uttar Pradesh and Union Territory Level Bankers Committee for Dadra and Nagar Haveli. This will be an ongoing exercise till all the States are covered.

CREDIT PARAMETERS

One of the commitments made by banks through "The Code of Bank's Commitment to Micro and Small Enterprises" is to share with the customer parameters of the rating system adopted by them for sanctioning a loan. The bank is not required to share the methodology adopted by them or the credit score against such parameters. The underlying principle is the same as an employee wanting to know the parameters against which his performance is to be evaluated.

The parameters may vary from bank to bank but for a retail loan, generally, the parameters could be - age, income (steady or uncertain), occupation, ownership of residence / property, credit history [obtained from Credit Reference Agencies (CRAs)], the length of time you have been availing credit facilities, purpose of loan (e.g. you will be assigned a higher score if you are purchasing a readymade flat rather than if you are constructing a house, as a shorter time frame for creating security will be preferred by the bank), your spouse's income, ratio of networth to loan amount, loan to value ratio, guarantor's networth, ratio of present surplus income to total EMIs, repayment period, relationship of borrower with bank, etc.

The bank will then internally assign scores against each of the parameters to arrive at a decision whether you are a good credit risk.

As a customer, therefore, once you know the parameters, it is for you to convince your bank on the appropriate assessment against each parameter by providing the requisite information / documents.

How can you improve your credit score?

- Pay your bills and loans in time.
- Have credit cards but manage them responsibly.
- When you are seeking a new loan or credit card and apply to several banks to seek better terms, do it in a

relatively short period of time. (When you apply for credit, the credit grantor 'enquires' from CRAs for your credit history. If these inquiries are made within a short time, it is assumed that you are shopping for a single loan. If, however, inquiries are many and at regular intervals, it may indicate that you are desperately looking for credit and this may lower your score).

Note that closing an account does not make it go away. It still forms part of your credit history.

CASE STUDY

Shri Taparia (name changed) started a small scale industrial unit engaged in manufacture and export of certain goods. The unit, like others, was set up with financial aid from a bank. Soon the unit was flourishing and all was well till a couple of export bills were dishonoured and Shri Taparia was not able to make regular payments to the bank. Shri Taparia hoped the bank would consider his position and help him get back on his feet. However, the bank classified his loan account as a Non-Performing Asset (NPA) in accordance with extant guidelines.

Shri Taparia had given the plant and machinery at his factory as also residential property as security for the loan facility availed. With the charge of overdue interest, the amount owed rose steeply. The bank lodged its claim with the ECGC and received some amount. This was not sufficient to close the loan.

The bank continued its efforts towards recovery and filed recovery suit in Debt Recovery Tribunal (DRT) but Shri Taparia did not have enough cash to make payments.

Shri Taparia claimed that his unit was working at 40% of its installed capacity and he needed additional working capital to earn profits and repay bank dues as the breakeven level was 60%. He asked his bank to lend him funds to get his unit working satisfactorily with only plant and machinery as security. He wanted the bank to release its hold on the residential property for which he had availed a housing loan. He also expressed his inability to contribute financially towards revival of his unit as the continuing losses had wiped off his entire capital. As he did not get a positive response from his

bank, Shri Taparia started routing his export bills through another bank. Trust between bank and customer reached an all time low.

Though an initial attempt at a onetime settlement (OTS) was made, no genuine efforts were made by either bank or Shri Taparia to reach a mutual agreement. The bank had adequate security, sale of which would yield more than the outstanding amount while a one-time settlement would not work in favour of the borrower as CIBIL records would show his credit history with a settlement and that would make other banks wary of lending him money.

Shri Taparia feels that dishonour of a few export bills is a commercial risk and the actions of the bank were hasty and uncalled for and led to the losses suffered by him.

Do you have a solution or suggestion for this stalemate? Do write in to us at ceo.bcsbi@rbi.org.in or C 7, RBI Building, Bandra- Kurla Complex, Bandra (East), Mumbai 400 051.

EXEMPLARY CASES

● A customer availed a housing loan from a bank during a Housing Loan Festival, at a special rate of interest of 7.25% (BPLR of 10.50% minus 3.25%). The loan agreement indicated that the interest payable by the borrower would be subject to change from time to time pursuant to the change in BPLR. Subsequently, the bank informed the borrower that the rate of interest was revised to 9% (when BPLR was raised to 11.25%) which amounted to BPLR minus 2.25%. Though the borrower had accepted that there would be changes in the rate of interest with the change in BPLR, the fact that the margin /spread would also undergo change was not made transparently clear in the loan document. The reduction in the spread from 3.25% to 2.25% was against the terms of the agreement. Banks are required to be transparent when fixing rates of interest. Further, the bank had not informed the customer of the logic leading to revised rates of interest. The bank was, therefore, required to reverse its decision and continue to charge interest on the loan at BPLR minus 3.25%.

● A customer was issued a credit card by a bank. After a couple of years, the bank issued a 'gold card' to the customer without receiving any request or application

from him. After a few months, he received a statement where a transaction of Rs.29,950/- was shown on a credit card allegedly issued in his wife's name as an add-on card. The customer had neither applied for this card nor had he received it. He made a complaint to the bank and requested for a copy of the application based on which the bank had issued the card. He received no response from the bank and recovery agents started harassing him for payment. He filed a complaint claiming compensation of Rs. 1 lakh from the bank. The bank admitted that the disputed transactions were fraudulent and hence reversed the transactions and associated costs. The bank was required to pay compensation of Rs.40000/- to the complainant.

REGULATORY INITIATIVES

- ❖ Banks to waive margin / security requirements for agricultural loans up to Rs. 1,00,000/-.
- ❖ Banks to prescribe a ceiling rate of interest, including processing and other charges in respect of credit cards as in the case of small value personal loans and loans similar in nature. The fact that higher interest rates are being charged to the cardholder on account of his payment /default history should be made known to the card holder. Banks should publicise through their websites and other means, the interest rate charged to various categories of customers.

ATTENTION MSEs!

- ❖ Banks have been advised to:
 - Achieve a 20% year-on-year growth in credit to micro and small enterprises (MSEs) to ensure enhanced credit flow;
 - Achieve mandated allocation of 60% of the MSE advances to the micro enterprises in stages viz. 50% in the year 2010-11, 55% in the year 2011-12 and 60% in the year 2012-13;
 - Achieve a 10% annual growth in number of micro enterprise accounts;
 - Open more MSE focussed branch offices at different MSE clusters which can also act as Counselling Centres for MSEs.
 - Lead bank of each district may adopt at least one MSE cluster.



Shri S Balasubramanian
Managing Director and CEO
City Union Bank Ltd.

Finance to Micro Enterprises: Efforts of City Union Bank Ltd.

The City Union Bank Ltd., has given special emphasis to MSE sector, in particular to Micro Enterprises and made significant contribution to its growth by way of extending credit facilities. As at the end of

June 2010, loans and advances extended by the bank to Micro Enterprises constituted 33% of the total advance to MSE sector. The bank is also keen to achieve the sub-target fixed for increasing the share of Micro Enterprises in MSE lending to 50% before the end of current financial year.

Specific measures taken by the bank to improve credit to Micro Enterprises include delegation of powers to Branch Managers for speedy disposal of loan applications, processing of loan proposals of MSE borrowers by Central Processing Centres within a period of one week, adhering to simplified loan application prescribed by IBA, adoption of Nayak Committee recommendations for assessing working capital requirement of the MSE borrowers, collateral free lending upto Rs.10 lakhs and subscribing to Credit Guarantee Fund Trust for Micro and Small Enterprises, skill enhancement of officers through training, etc.

READERS' VOICE

Q Can my bank insist on my placing a fixed deposit with them when I apply for a safe deposit locker?

A Banks have been advised by Reserve Bank of India not to insist on a term deposit as a condition for allotting a locker. RBI has, however, advised that banks, in order to ensure prompt payment of locker rent, may at the time of allotment of the locker, obtain a fixed deposit which would cover three years' rent and charges for breaking open the locker in case of an eventuality.

Q I recently opened a Savings Bank account with a bank. I want to apply for a Debit Card. Will I be charged for it?

A In the context of granting greater functional autonomy to banks, RBI has given operational freedom to them on matters pertaining to banking transactions including levy of charges. These charges are, however, to be brought to the notice of the customer upfront. Before opting for Debit Card or any other product or service offered by your bank, please peruse the tariff schedule of the bank on its website or ask to see it at the branch.

Q I withdrew Rs.8000/- from the ATM of a bank with which I do not have an account. I was charged Rs.20/- for this withdrawal. I thought withdrawals from any ATM did not attract a cost.

A Five withdrawals in a month, from ATMs of banks other than where you have an account are permitted free of cost. The cap on each such withdrawal is Rs.10000/-. Banks do levy charges for withdrawals beyond these limits.

FOR YOUR INFORMATION

- ❖ The name of ABN Amro Bank has been changed to The Royal Bank of Scotland N V.
- ❖ The name of Calyon Bank has been changed to Credit Agricole Corporate and Investment Bank.
- ❖ State Bank of Indore has been amalgamated with State Bank of India.
- ❖ The Bank of Rajasthan Ltd. has been amalgamated with ICICI Bank Ltd.
- ❖ The Reserve Bank of India has constituted a Committee to look into banking services rendered to retail and small customers, including pensioners and also to look into the system of grievance redressal mechanism in banks. The Committee is chaired by Shri M Damodaran, former Chairman, SEBI. Shri B M Mittal, CEO, BCSBI is a member of the Committee.

Would you like to share any information/experience connected with customer service? If so, please feel free to write to us at C-7, RBI Building, Bandra-Kurla Complex, Mumbai - 400 051 or mail us at ceo.bcsbi@rbi.org.in