

Opening of Current Accounts by Banks- Need for Discipline

1. Preliminary

- RBI has revised guidelines on the subject by its circulars dated [6.8.2020](#), [2.11.2020](#) and [14.12.2020](#).
- Earlier RBI guidelines allowed customer's Current Account (Fully Operative¹) with-
 - any bank freely on the customer's declaration of having no bank borrowing;
 - any bank which is the customer's lender bank; and
 - any bank which is the customer's non- lender bank, subject to NOC of customer's lender bank(s).
- Revised guidelines-
 - restrict keeping of current account by banks substantially;
 - restrict operation in CC/ OD account held with banks, except one Fully Operative CC/ OD account;
 - are effective 15.12.2020; and-apply to scheduled commercial banks and payment banks.
- Guidelines (both: earlier and revised) aim to curb diversion of funds lent by banks.
- This note is to summarise the revised guidelines.

2. Where Current Account is allowed and where not

- Allowed freely for customer with no bank borrowing.
- Allowed freely when stipulated under any law or regulation (e.g., RERA Current Account).
- Not allowed if customer has CC/ OD account, except where stipulated under any law or regulation.
- Not allowed/ allowed with restrictions if customer does not have CC/ OD Account (see 3 below).

3. Current Account allowed/ allowed with restrictions/ not allowed when no CC/ OD Account

In case of customer's bank borrowing is		
< Rs. 5 crores	Rs. 5 crores and more but < Rs. 50 crores	Rs. 50 crores and more
Current Account (Fully Operative) allowed with any bank. <u>Condition</u> Customer Undertaking to inform when borrowing= Rs.5 crores or more.	(A) Current Account (fully operative) allowed with any lender bank. (B) Collection Account allowed with non-lender bank. <u>Conditions</u> 1: Debits in the Collection Account to allowed only for credit to Escrow Account. 2: Half yearly compliance checks by the banks keeping such account. 3: Customer Undertaking to inform when exposure= Rs.50 crore or more ² .	(A) Escrow Account (i.e. fully operative current account) compulsory with the customer's lender bank as selected by the customer. (B) Collection Account allowed with other lender banks as selected by the customer. <u>Condition</u> Credit balance in such Collection Account with other lending bank not to be used as margin for NFB facilities. (C) Current Account/ Collection Account not allowed with a non- lender other bank.

4. Restrictions on CC/ OD Accounts

- (A) Only one lender bank with 10% or more exposure selected by customer to keep fully operative CC/ OD Account.
- (B) In case no bank has 10% or more exposure, the fully operative CC/ OD account to be with the bank with largest share.
- (C) Other lender banks can keep CC/ OD account only for-
 - credits;
 - interest on that CC/ OD account;
 - fees and charges in respect of non- fund based facilities/ remittances etc.; and
 - balance transfer to fully operative CC/ OD account per (A) or (B).
- (D) Credit balance in the CC/ OD account with other lending bank not to be used as margin for NFB facilities.

5. Monitoring

Banks holding current accounts, collection accounts and CC/ OD accounts are required to monitor such accounts regularly and minimum half yearly for compliance with the revised guidelines on the aspects of exposure, cash flows and periodic transfer to Fully Operative Escrow Account or Fully Operative CC/ OD account. Also, banks need to monitor inflows and outflows from the escrow accounts and fully operative CC/ OD accounts.

6. Challenges

-Revised guidelines, well intended with an objective to curb diversion of funds lent by banks, may be perceived as anti-competitive restricting the customers and banks (with nil or less than 10% exposure) the choice of doing business owing to the restrictions it stipulates thereby indirectly providing competitive advantage (unintended though) to banks with exposure of 10% or more/ banks holding Escrow Account.

-The requirement of minimum half yearly compliance check of all current accounts, collection accounts and CC/ OD accounts could be burdensome for banks.

-Non availability of current account or CC/ OD account with banks not holding Fully Operative CC/ OD Account/ Escrow Account may face operational inconvenience for making debits such as for LC retirement/ BG Invocation/ TL repayment etc.

¹ Fully Operative refers to an account which could be operated freely by customer/ bank, without restriction on credits and debits to it.

² Advisable to obtain though not expressly provided in the guidelines.