

December 27, 2005

The Chairmen.
All Regional Rural Banks

Dear Sir,

Financial Inclusion – Zero balance accounts in RRBs

Please refer to Paragraph 96 of the Mid-term Review of Annual Policy Statement for the year 2005-06.

2. The Annual Policy Statement of April 2005, while recognizing the concerns in regard to the banking practices that tend to exclude rather than attract vast sections of population, urged banks to review their existing practices to align them with the objective of financial inclusion. While recognising the role of RRBs in providing basic and affordable banking services in their respective areas of operation, it is observed that the requirement of minimum balance by RRB/s may deter a sizeable section of population from opening / maintaining bank accounts.

3. In this context, with a view to achieving the objective of greater financial inclusion, all RRBs are advised to make available a **basic banking 'no-frills' account** either with 'nil' or very low minimum balances as well as charges that would make such accounts accessible to vast sections of population. The nature and number of transactions in such accounts could be restricted, if considered essential, but made known to the customer in advance in a transparent manner. **All RRBs are advised to give wide publicity to the facility of such a 'no-frills' account indicating the facilities and charges in a transparent manner.**

4. In order to encourage more and more persons in their area of operation, to open 'zero balance' accounts, RRBs may explore the provision of **small overdraft facility** to account holders. The limit of such overdraft could be reviewed depending on repayment record and may not be linked to any specific activity/end-use or security. Rates of interest may be fixed as applicable to normal clean overdrafts. RRBs may devise a simplified account opening-cum-overdraft application form for such facilities, while adopting simplified procedures, as appropriate to their local conditions, for ensuring compliance with 'Know Your Customer' guidelines.

5. Please acknowledge receipt to our concerned Regional Office.

Yours faithfully,

(G.Srinivasan)
Chief General Manager