

RESERVE BANK OF INDIA DIRECTIONS ON CURRENT ACCOUNTS**Z. Pasha¹ and G. Puthukulam²**¹St. Claret College, Affiliated To Bangalore University, Bangalore, India²Business Studies Department, University of Technology And Applied Sciences (Hct), Al Khuwair, Muscat, Sultanate Of Oman

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ABSTRACT

The Reserve Bank of India's (RBI's) Circular of August 6, 2020, capped the number of current accounts businesses could operate with commercial banks. It came with the rider that businesses should, in general, maintain their current accounts only with such banks as they had their loan / (overdraft) OD / (cash-credit) CC accounts with. It expectedly stirred up a hornets' nest then, as it does now. However, the Circular brought to the fore several facts that had remained obscure so far. The private sector banks' (PrSBs') share of the current accounts of businesses was and still is much higher than that of their PSB counterparts. Ironically, the PrSBs' share of loans issued to businesses was and still is much lower than that issued by the PSBs, in value terms and volume terms. PrSBs also benefited from the float that the current account balances of businesses conferred on them. Thus, the PrSBs had been enjoying the best of both worlds. Some businesses too took advantage of the erstwhile regime that did not cap the number of current accounts they could maintain with banks. They would raise competitively priced loans from PSBs but would maintain their current accounts with the hi-tech PrSBs. The latter provided value-added services like cash management services competitively, swiftly and efficiently. Yet some businesses would park the funds generated by their PSB-financed business with the PrSBs! The strategy, if it could be called that, helped them to delay the repayment of loans they had raised from PSBs, if necessary. In the extreme, they would even default on their PSB loans! In the circumstances the regulator was left with no alternative but to enforce credit discipline in the PSB borrowers by issuing the Circular of August 6, 2020. The regulator is in no mood to defer the enforcement of the Circular instructions beyond October 31, 2021. Hence the researcher set out to ascertain the challenges posed by the Circular instructions and the outcomes the enforcement of the Circular instructions would culminate in. The researcher inferred that a few minor and temporary hiccups would have to be overcome by the businesses and banks. If businesses have to necessarily maintain their current accounts with PrSBs, one wonders why they should not persuade the PrSBs to finance them too, as competitively as PSBs do. The government has levelled the playing field for the PrSBs by permitting them to participate in all government businesses!

Keywords: cap; default; float; hornets' nest; loopholes; park; rider; value-added

Theoretical background of the topic

Operation of multiple current accounts across banks has always been practised by our businesses for various reasons, some of them justifiable and some of them not. The latter bunch of reasons prompted the RBI to curb this practice on the part of our businesses. RBI issued a Circular dated August 6, 2020, for the purpose and expectedly the move stirred up a hornets' nest. Attempts to persuade the RBI to dilute the Circular instructions or defer the enforcement of the instructions have not borne fruit with the RBI holding its ground on the enforcement of the Circular instructions. The regulator has mandated that by October 31, 2021, the Circular instructions shall be enforced and complied with by the banks.

1.1 Statement of the problem

Enforcement of Circular instructions definitely pose problems to the businesses and their financing banks. But then they are minor

hiccups of a temporary nature and will have to be endured by the businesses and banks in their own interest. In the circumstances, it is to be ascertained how the instructions can be enforced in the least disruptive manner. This warrants identification of the challenges the enforcement of the instructions will give rise to and the possible outcomes the enforcement will result in.

1.2 Review of literature

In the following paragraphs, a few pieces of literature on the subject are reviewed.

1. Lately, small businesses have been complaining that banks are freezing their accounts in compliance with RBI instructions on the current accounts they maintain with the banks (Susmita & Chaturvedi, 2021). RBI has extended the compliance deadline to October 31, 2021, to ring in changes in the banks' management of the current accounts. This follows reports that the operations of small

businesses are being affected upon the banks freezing their current accounts. On its part, the regulator reproduced the circulars it issued in August, November and December 2020 and asserted that the circular instructions sought to infuse credit discipline in borrowers. Additionally, it will help the banks monitor the end use of their loans effectively. RBI advised the banks to enforce these instructions in a non-disruptive manner even as the bona fide requirements of the businesses are honoured.

2. RBI gave banks time till October 31, 2021, to comply with its guidelines on current account and overdraft facilities (Anup & Lele, 2021). The central bank signified that it was in no mood to water down the Circular instructions. It would however allow extension of the timeline for hassle-free enforcement of the instructions. The initial deadline ended on July 31, 2021. It had led to thousands of current accounts being closed / frozen by the banks. Banks sought some more time from the RBI to resolve the operational issues that might arise during the implementation of the August 2020 Circular. According to the banks, the closed or frozen accounts could now be reactivated for three more months. It would help the banks iron out the issues. State Bank of India's (SBI's) top management stated that most of the challenges had been addressed. The timeframe permitted by the RBI was good enough to engage with businesses on the subject. The bank would reactivate the frozen accounts to ensure smooth transition to the regulatory requirement concerning current accounts.
3. The Reserve Bank of India has further extended by three months the deadline for enforcing the new Circular instructions on current accounts consequent upon banks making a request to this effect (Gopika, 2021). The extension comes a year after the RBI introduced the guidelines and nine months after the first deadline expired. RBI has now advised banks to ensure that the instructions are implemented in a non-disruptive manner. Banks will use the extended timeline to engage with their

borrowers and arrive at mutually satisfactory resolutions, within the scope of the circular. Banks should escalate such issues as they cannot resolve to Indian Banks' Association (IBA) for guidance. IBA should flag residual issues, if any, by September 30, 2021, for consideration by the Reserve Bank. To enforce credit discipline and check diversion of funds, RBI sought to put in place certain safeguards in August 2020. Banks were also instructed to follow certain safeguards when the businesses sought to open current accounts with them. Broadly, these instructions lay down that banks cannot open current accounts for borrowers if their exposure is less than 10 percent of the borrower's total exposure to the banking system.

1.4 Research gap

Well, the researchers have presented in a balanced, analytical manner the implications of the RBI's Circular instructions for two major categories of respondents, namely the affected businesses and the affected banks. An analysis of the challenges posed by the Circular instructions and the likely outcomes of the enforcement of the instructions would have complemented the learned researchers' otherwise valuable reviews. It is this gap the present study seeks to bridge.

1.5 Scope of the present study

The study confines itself to 50 banking experts based out of Bangalore city and 50 business respondents based out of Bangalore city.

1.6 Objectives of the study

The objectives of the study are to:

1. Ascertain the challenges posed by the RBI's Circular instructions
2. Identify the possible outcomes of the enforcement of the Circular instructions

1.7 Hypothesis proposed to be tested

The study proposes to test the following hypothesis:

"To retain current accounts that generate a significant float, PrSBs may finance high-performing businesses as competitively as the PSBs do".

1.8 Research design

1.8.1 Research methodology

The study is descriptive in nature. It has used the 'fact-finding' survey method.

1.8.2 Sources of data

Primary data has been collected from the respondents, viz., the 50 banking experts and the 50 businesses that have been financed by banks and hence maintain current accounts with the banks. Secondary data has been collected from leading journals, magazines, newspapers and the financial press, in hard as well as soft version.

1.8.3 Sampling plan

The researcher employed the non-probability sampling technique owing to non-availability of some population elements for collection of data, etc. The study seeks to feel the range of conditions or the nature of the phenomenon. Time constraints and the time limit for completing the study precluded the application of the probability sampling technique. The researcher settled for the purposive or judgement sampling method since it guaranteed the inclusion of all the relevant elements in the sample. Probability sampling plans could not give such a guarantee (Krishnaswami, Ranganatham, & Harikumar, Research Methodology, 2019). The researcher settled for two categories of respondents, namely, banking experts (numbering 50) and businesses (numbering 50), eventually.

1.8.4 Data collection instruments

Interview schedules, specially drafted for the purpose, were administered to the respondents for collection of primary data.

1.8.5 Data processing and analysis plan

Non-parametric statistical unit, namely the chi square test, was used to test the association between qualitative characters and conclusions were drawn based on formation of H_0 and H_1 .

1.8.6 Limitations of the study

Primary data has also been deduced through constant topic-related discussions with the respondents. It is possible that a certain degree of subjectivity, even if negligible, has coloured the views of the respondents. But the researcher is confident that the level of subjectivity, if any, will be too insignificant to mar the accuracy of the findings of the study.

1.9 Banking experts

In the following paragraphs, the primary data collected from the 50 banking expert respondents is analysed.

1.9.1 Challenges posed by the Circular instructions

It is held in some stakeholder circles that the Circular instructions will necessarily prove disruptive in the short term unless some correctives are inserted in the Circular. They believe, for example, that the enforcement of the Circular instructions should be phased to minimise disruptions to businesses, among other things. Hence the researcher requested the respondents to cite the challenges that the Circular instructions will pose. Their replies to the query appear in the following Table.

Table-1.1 : Challenges posed by the Circular instructions

Challenges	Frequency
Standing instructions issued by businesses for periodic transfer of statutory payments like GST from current accounts will be disrupted at least in the short term	45
Businesses should have the right to choose the bank they borrow from and the right to choose the bank they would like to additionally have their current account with	44
MSMEs too will oppose the restrictions placed on operation of multiple current accounts	42
State-owned businesses will oppose the restrictions placed on operation of multiple current accounts	41
State-owned businesses may blacklist the banks that do not permit them to operate multiple current accounts	41
Not all businesses are inclined to maintain their loan / OD facility and current account facility with the same category of bank (PSB / PrSB)	39
Too many current accounts will have to be closed by banks if they have to fulfil the Circular instructions in letter and spirit	33

45 respondents believe that Standing instructions issued by businesses for periodic transfer of statutory payments like GST from current accounts will be disrupted at least in the short term. 44 believe that Businesses should have the right to choose the bank they borrow from and the right to choose the bank they would like to additionally have their current account with. 42 believe that MSMEs too will oppose the restrictions placed on operation of multiple current accounts. 41 respondents believe that State-owned businesses will oppose the restrictions placed on operation of multiple current accounts. 41 believe that State-owned businesses may blacklist the banks that do not permit them to operate multiple current accounts. 39 believe

that not all businesses are inclined to maintain their loan / OD facility and current account facility with the same category of bank (PSB / PrSB). 33 believe that too many current accounts will have to be closed by banks if they have to fulfil the Circular instructions in letter and spirit.

1.9.2 Possible outcomes of the enforcement of the Circular instructions

Yet some stakeholder circles allege that the enforcement of the Circular instructions has implications for public sectors banks (PSBs) and private sector banks (PrSBs) as well. Hence the researcher requested the respondents to disclose the implications. Their replies to the query appear in the following Table.

Table-1.2: Possible outcomes of the enforcement of the Circular instructions

Possible outcomes	Frequency
PSBs that lag behind the PrSBs in the area of service quality may draw level with PrSBs by upgrading their technology and HR to retain current accounts that assure a good float	39
Businesses will no longer be able to enjoy the best of both worlds, namely raising cheaper loans from PSBs and maintaining current accounts with PrSBs that offer state-of-the-art services	37
PrSBs that lag behind the PSBs in financing businesses may draw level with PSBs by financing the businesses as competitively as the PSBs, now that they participate in all government businesses.	36
To retain current accounts that generate a significant float, PrSBs may finance high-performing businesses as competitively as the PSBs do.	35
Foreign banks account for a small chunk of the loans issued but account for a relatively large chunk of current accounts, and hence will miss out on the income generated by the float.	33

PSBs that lag behind the PrSBs in the area of service quality may draw level with PrSBs by upgrading their technology and HR to retain current accounts that assure a good float, according to 39 respondents. Businesses will no longer be able to enjoy the best of both worlds, namely raising cheaper loans from PSBs and maintaining current accounts with PrSBs that offer state-of-the-art services, according to 37 respondents. PrSBs that lag behind the PSBs in financing businesses may draw level with PSBs by financing the businesses as competitively as the PSBs, now that they participate in all government businesses, according to 36 respondents. To retain current accounts that generate a significant float, PrSBs may finance high-performing businesses as competitively as the PSBs do, according to 35 respondents. Foreign banks account for a small chunk of the loans issued but account for a relatively large chunk

of current accounts, and hence will miss out on the income generated by the float according to 33 respondents.

1.10 Businesses

In the following paragraphs, the primary data collected from the 50 business respondents is analysed.

1.10.1 Challenges posed by the Circular instructions

It is held in some stakeholder circles that the Circular instructions will necessarily prove disruptive in the short term unless some correctives are inserted in the Circular. They believe, for example, that the enforcement of the Circular instructions should be phased to minimise disruptions to businesses, among other things. Hence the researcher requested the respondents to cite the challenges that the Circular instructions will pose. Their replies to the query appear in the following Table.

Table-1.3 : Challenges posed by the Circular instructions

Challenges	Frequency
Businesses should have the right to choose the bank they borrow from and the right to choose the bank they would like to additionally have their current account with	45
MSMEs too will oppose the restrictions placed on operation of multiple current accounts	43
Not all businesses are inclined to maintain their loan / OD facility and current account facility with the same category of bank (PSB / PrSB)	41
Standing instructions issued by businesses for periodic transfer of statutory payments like GST from current accounts will be disrupted at least in the short term	39

45 believe that Businesses should have the right to choose the bank they borrow from and the right to choose the bank they would like to additionally have their current account with. 43 believe that MSMEs too will oppose the restrictions placed on operation of multiple current accounts. 41 believe that not all businesses are inclined to maintain their loan / OD facility and current account facility with the same category of bank (PSB / PrSB). 39 respondents believe that Standing instructions issued by businesses for periodic transfer of statutory payments like GST from current

accounts will be disrupted at least in the short term.

1.10.2 Possible outcomes of the enforcement of the Circular instructions

Yet some stakeholder circles allege that the enforcement of the Circular instructions has implications for public sectors banks (PSBs) and private sector banks (PrSBs) as well. Hence the researcher requested the respondents to disclose the implications. Their replies to the query appear in the following Table.

Table-1.4: Possible outcomes of the enforcement of the Circular instructions

Possible outcomes	Frequency
To retain current accounts that generate a significant float, PrSBs may finance high-performing businesses as competitively as the PSBs do.	39
PSBs that lag behind the PrSBs in the area of service quality may draw level with PrSBs by upgrading their technology and HR to retain current accounts that assure a good float	34
Businesses will no longer be able to enjoy the best of both worlds, namely raising cheaper loans from PSBs and maintaining current accounts with PrSBs that offer state-of-the-art services	33
PrSBs that lag behind the PSBs in financing businesses may draw level with PSBs by financing the businesses as competitively as the PSBs, now that they participate in all government businesses.	29

To retain current accounts that generate a significant float, PrSBs may finance high-performing businesses as competitively as the PSBs do, according to 39 respondents. PSBs that lag behind the PrSBs in the area of service quality may draw level with PrSBs by upgrading their technology and HR to retain current accounts that assure a good float, according to 34 respondents. Businesses will no longer be able to enjoy the best of both worlds, namely raising cheaper loans from PSBs and maintaining current accounts with PrSBs that offer state-of-the-art services, according to 33 respondents. PrSBs that lag behind the PSBs in financing businesses may draw level with PSBs by financing the businesses as competitively as the PSBs, now that they participate in all government businesses, according to 29 respondents.

1.11 Summary of findings

In the following paragraphs, a summarised version of the findings arrived at in respect of the two categories of respondents is furnished.

1.11.1 Banking experts

- 45 respondents believe that Standing instructions issued by businesses for periodic transfer of statutory payments like GST from current accounts will be disrupted at least in the short term. 44 believe that Businesses should have the right to choose the bank they borrow from and the right to choose the bank they would like to additionally have their current account with. 42 believe that MSMEs too will oppose the restrictions placed on operation of multiple current accounts. 41 respondents believe that State-owned businesses will oppose the restrictions

placed on operation of multiple current accounts. 41 believe that State-owned businesses may blacklist the banks that do not permit them to operate multiple current accounts. 39 believe that not all businesses are inclined to maintain their loan / OD facility and current account facility with the same category of bank (PSB / PrSB). 33 believe that too many current accounts will have to be closed by banks if they have to fulfil the Circular instructions in letter and spirit.

- PSBs that lag behind the PrSBs in the area of service quality may draw level with PrSBs by upgrading their technology and HR to retain current accounts that assure a good float, according to 39 respondents. Businesses will no longer be able to enjoy the best of both worlds, namely raising cheaper loans from PSBs and maintaining current accounts with PrSBs that offer state-of-the-art services, according to 37 respondents. PrSBs that lag behind the PSBs in financing businesses may draw level with PSBs by financing the businesses as competitively as the PSBs, now that they participate in all government businesses, according to 36 respondents. To retain current accounts that generate a significant float, PrSBs may finance high-performing businesses as competitively as the PSBs do, according to 35 respondents. Foreign banks account for a small chunk of the loans issued but account for a relatively large chunk of current accounts, and hence will miss out on the income generated by the float according to 33 respondents.

1.11.2 Businesses

- 45 believe that Businesses should have the right to choose the bank they borrow from and the right to choose the bank they would like to additionally have their current account with. 43 believe that MSMEs too will oppose the restrictions placed on operation of multiple current accounts. 41 believe that not all businesses are inclined to maintain their loan / OD facility and current account facility with the same category of bank (PSB / PrSB). 39 respondents believe that Standing instructions issued by businesses for periodic transfer of statutory payments like

GST from current accounts will be disrupted at least in the short term.

- To retain current accounts that generate a significant float, PrSBs may finance high-performing businesses as competitively as the PSBs do, according to 39 respondents. PSBs that lag behind the PrSBs in the area of service quality may draw level with PrSBs by upgrading their technology and HR to retain current accounts that assure a good float, according to 34 respondents. Businesses will no longer be able to enjoy the best of both worlds, namely raising cheaper loans from PSBs and maintaining current accounts with PrSBs that offer state-of-the-art services, according to 33 respondents. PrSBs that lag behind the PSBs in financing businesses may draw level with PSBs by financing the businesses as competitively as the PSBs, now that they participate in all government businesses, according to 29 respondents.

1.12 Conclusions

Conclusions relate to the hypotheses. They are answers to the research questions. In the following paragraphs, the hypothesis proposed by the scholar is tested (Krishnaswami, Ranganatham, & Harikumar, Research Methodology, 2019).

1.12.1 Hypothesis testing

As explained, the following is the hypothesis proposed to be tested:

“To retain current accounts that generate a significant float, PrSBs may finance high-performing businesses as competitively as the PSBs do”.

Hence H_0 and H_1 are as follows:

H_0 : “To retain current accounts that generate a significant float, PrSBs may finance high-performing businesses as competitively as the PSBs do.”

H_1 : “To retain current accounts that generate a significant float, PrSBs need not finance high-performing businesses as competitively as the PSBs do.”

Based on the primary data collected from the respondents, vide Tables: 2 and 4, a chi-square test was applied to ascertain the association, if any, between the two variables. The following Table reveals the computation made using MS-Excel:

		Observed Values		
Category		Yes	No	Total
	Banking experts	35	15	50
	Businesses	39	11	50
	Total	74	26	100
		Expected Values		
Category		Yes	No	Total
	Banking experts	37	13	50
	Businesses	37	13	50
	Total	74	26	100
		Yes	No	
	o-e	-2.0000	2.0000	
2		2.0000	-2.0000	
	(o-e) ²	4.0000	4.0000	
		4.0000	4.0000	
	((o-e) ² /e	0.1081	0.3077	
		0.1081	0.3077	
	CV	0.2162	0.6154	0.8316
	TV			3.8415
	p			0.3618

The calculated value of χ^2 is 0.8316, lower than the table value of 3.8415 for an alpha of 0.05 at one degree of freedom. Hence the null hypothesis is not rejected, and the alternative hypothesis is rejected. $p=0.3618$ is the inverse of the one-tailed probability of the chi-squared distribution.

1.13 Researcher's recommendations

1. Minor disruptions like execution of standing instructions issued by businesses for periodic transfer of statutory payments like GST should not come in the way of the regulator enforcing credit discipline. It is a small cost the businesses have to incur to ensure the health of the banking industry. A sick banking industry, far from accelerating the growth of the businesses, will slow down and eventually stall the growth of the businesses.
2. Businesses may rightly feel that they should have the freedom to choose the bank they would like to have their current account additionally with. But given that such freedom is liable to be misused and abused, banks are obliged to err on the side of caution. Until a fool-proof mechanism is developed in the country to detect businesses that misuse and abuse the freedom, this measure has to be in force. In view of this reality, businesses, whether

large or from the MSME segment or are state-owned, had better appreciate the spirit behind the RBI diktat and co-operate with the regulator by complying with the requirements.

3. State-owned businesses will be courting trouble if they try to blacklist the banks that do not permit them to operate multiple current accounts. All the banks will follow the RBI diktat and hence the state-owned businesses will be left with no alternative but to fall in line eventually.
4. Enjoying loan / OD facility with a PSB and maintaining current account with a PrSB naturally irks the PSB concerned. Businesses cannot seek the best of both worlds. If businesses have to maintain their current accounts with PrSBs, one wonders why they should not persuade the PrSBs to finance them too, as competitively as the PSBs! Now that they are permitted to participate in all government businesses, PrSBs should accede to the request of businesses.
5. On their part, the PSBs should raise their service quality. They should enlarge and optimise their service basket by upgrading their technology. It will help them deliver current account-related services and cash management services as efficiently and as competitively as the PrSBs.

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