



Indian Banks' Association

SOCIAL BANKING

SB/RBI/DBT/2017-18/2889

21st June, 2017

To

The Chief Executive of all Member Banks & All SLBC Conveners

Dear Sir(s)/ Madam,

DBT & the Banker's Right to Set Off

RBI convened a meeting with select Public and Private Sector Banks and IBA on April 18, 2017 to discuss the issues of bankers' legal right to set-off and its implications in financial inclusion and implementation of DBT.

2. In the meeting, while the bankers stood by their legal right to set-off, there was a general consensus that banks may choose to forgo this right and not set off input subsidies specifically meant for relief measures extended by the Sovereign (Central or State Government). RBI opined that if the banks continue to set off subsidies/relief provided by the Government under various welfare schemes through Direct Benefit Transfer (DBT) then the borrower could not be benefited and the purpose for which DBT was introduced could also be defeated. As such, RBI decided that an industry wide framework is evolved across the banking industry so that the DBTs are not affected while the bankers' legal right to set-off is also recognized. IBA was requested to look into this issue and evolve a common framework for the industry.

3. In this context, IBA convened a meeting of senior executives from select Public Sector and Private Sector Banks on 23rd May, 2017. In the meeting the following consensus emerged among the group of bankers:

- Banks are not agreeable to forgo their right to set off as a general rule.
- Banks will consider forgoing their right to set off in specific instances where the relief assistance is linked to natural calamities such as flood, cyclone, earthquake etc. and are as a one-time measure based on the notifications issued by the Central/State Government.
- Banks are not agreeable to extend the concession to all cases of distribution of Government subsidy including subsidy routed through DBT, on a regular basis.
- Banks also don't have any specific policy under which banks consider ceding their legal right to set off.

4. The above views of the banks were conveyed to RBI vide our letter No. SB/RBI/DBT/2017-18/2889 dated 02nd June, 2017.

5. RBI has now vide letter No. FIDD.CO.FSD.No 5000/05.05.012/2016-17 dated June 14, 2017 requested IBA to convey the aforesaid decision(s) to all banks/SLBCs.

6. Member Banks may kindly take a note of the above views.

Yours faithfully,

(D.K. Malhotra)
Sr. Advisor