

29 September 2008

CIRCULAR BM 1045

To : **All Licensed Banks
Operating in the Sultanate of Oman**

After Compliments,

Sub : **Inoperative Accounts**

1. In order to streamline and standardize appropriate treatment and control of inoperative accounts and similar unclaimed balances/amounts, Central Bank of Oman sets the following requirements.

- i) Licensed banks should have policy, system and procedures to identify inoperative/dormant accounts and they should cover, as a minimum, the period of dormancy which will make an account to attract such a classification, authorization levels/control requirements for reactivation/repayments and processes to follow up appropriate revival/restoration of such accounts to normalcy.

The Central Bank suggests that running accounts not operated and other balances/accounts not claimed for two years (from due dates of payment) and other amounts not claimed for two years after they are due for payment may be treated so - though the banks may consider shorter period (of maturity) for such designation.

- ii) Banks shall continue to apply/credit interest on such savings accounts at prevalent rates and provide/accrue interest on overdue term and other interest-bearing deposits at rate applicable to one-year deposits.

Charges, if any, levied should be reasonable and, at any rate, not beyond the prescribed ceiling level.

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- iii) While banks may segregate such balances/amounts into an inactive fold, they should be cognizant that the purpose of such a procedure is to have risk management and, all the same, inconvenience to the owners should be minimized with control.

The general tendency for banks is not to pursue deposit account holders (for activation of accounts) as much as they follow up creditors for recoveries and, hence, the Central Bank emphasizes that banks should set in place appropriate and, progressively, more active steps and procedures to contact them and revive/repay.

It should not be considered that maintenance of inoperative accounts is a matter of risk management alone. There are other issues like cordiality and goodwill of relationship, good customer service, public interests etc. Many times, diligence enquiries may reveal that the bank needs to raise its service level to retain customers or that they have active accounts in other branches.

It will be necessary to have process to educate the customers on the need and desirability to keep the accounts alive and follow up operations/dues and the consequences otherwise. This should be done on on-going basis – at the time of opening accounts, reminders through statement of accounts and display in notice board etc.

Without undermining customer confidentiality provisions, banks should do utmost, diligently, to reach holders of inactive accounts (and their heirs, as the case may be). Return of statements of accounts etc should lead to greater actions like attempts to contact holders personally, seeking the help of employers, introducers etc. The need to update addresses and particulars requires needed attention.

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Banks should note that negligence in making reasonable attempts to pay amounts due may invite more claims from the counterparties.

- iv) Banks should stop **forthwith** the practices, if any, of taking balances in dormant/inoperative accounts to any Income Account since there is no law of limitation applicable for such liabilities and it is not a desirable practice – amounting to undue enrichment.

In respect of other amounts payable too (like unclaimed inward remittances, outward remittances returned etc), banks should follow the same degree of diligence in tracing the owners and retaining the amounts, in the meantime, in trust.

- v) Besides monitoring transactions at higher level, inactive accounts, in terms of number of accounts, balances and variance, should be reviewed by the top management/management committee and Board (at least once in a year) so as to create due recognition of importance and control and better efficiency at operational level and make improvements. They should involve audit, compliance and quality assurance functionaries in the process.
- vi) Needless to emphasize the importance of record-keeping in all respects. Normal limitation of record keeping should not be adhered to as a matter of routine (for such accounts).

Transfer to inactive fold should not hamper genuinely and usefully required access to information and process of revival.

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- vii) The broad principles, underlined here, shall apply to all similar relationships (custodial, trustee etc).
 - viii) Whenever there is a reconstitution, repositioning, merger, sale of business etc., it should be ensured by the banks concerned that liability is carried over clearly and with all details passed on.
2. Banks shall note the above requirements, review their existing policies, systems and procedures and ensure compliance, not later than 31st December 2008, sending a confirmation, accordingly, not later than 31st January 2009 and also providing then, balances/amounts remaining dormant/inoperative/“unclaimed” as of 31st December 2008 and such amounts taken by them to Income Account in each of the ten years ending with 2008 (with break-up of categories).

Best regards,

Hamood Sangour Al Zadjali
The Executive President

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