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# Fault Lines in Implementation of Minimum Balance Rule for Savings Bank Accounts in India

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## Executive Summary

### The Regulation and the non-compliance

1. Effective April 1, 2015, Reserve Bank of India (RBI) introduced focused guidelines on levy of penal charges for non-maintenance of minimum balance in savings bank accounts. Prior to this there were no such guidelines on identification of charges in relative terms, when there is a breach in the required minimum balances in the account. After the new regulation came into being, the banks have been prescribing penal charges for non-maintenance of minimum balance by taking into consideration the cost involved in maintaining and servicing such accounts due to such shortfalls. Over the past 33 months, banks, based on their interpretation of the RBI guidelines, have been levying specific charges, if minimum balance is not maintained. This report looks into the fault lines that exist in the implementation of a well-crafted regulation by RBI. The non-compliance of the regulation in violation to the spirit guiding the minimum balance rule has hurt the vast customer base of banks in a discriminatory fashion.

2. Of the six-point RBI guideline on levy of charges for non-maintenance of minimum balance in savings bank account, we focus on two of them, i.e. regulations A and B, as below.

- **A: (a) The penal charges should be directly proportionate to the extent of shortfall observed. (b) In other words, the charges should be a fixed percentage levied on the amount of difference between the actual balance maintained and the minimum balance as agreed upon at the time of opening of account. (c) A suitable slab structure for recovery of charges may be finalized.**
- **B: It should be ensured that such penal charges are reasonable and not out of line with the average cost of providing the services.**

3. Although RBI deserves credit for designing the above guidelines, even after passage of three years, the guidelines have not got implemented in proper spirit. One of the reasons for this is the

lack of banks' zeal to comply with RBI's basic direction that this **six-point guideline,** should be brought to the notice of all customers apart from being disclosed on the banks' website. Had that been in place, it would have helped in reducing the current customer inattention towards the extant guidelines that give them certain rights on the manner in which banks can impose penal charges for shortfalls in maintaining bank prescribed minimum balance. Only such an awareness building move, as envisaged by RBI, can bring customer attention and reduce possible scenarios where banks may be taking undue advantage of improper levy of such penal charges. The other major reason for inadequate implementation of the guidelines is possible lack in effective supervision and enforcement towards it. As a consequence, till date not only many banks remain non-compliant in levying the correct service charges for non-maintenance of minimum balance, but the public at large are also kept uninformed, by the banks, of the precise guidelines.

## What non-compliance are we talking about?

4. Banks have set multiple slabs of shortfalls and overall the charges are **not a fixed percentage** of the shortfall. In fact, the percentage usually decreases with increase in shortfall. It is a different matter that the charges set by banks may be reasonable in absolute terms but surely they are not reasonable in relative terms, given that RBI has clearly defined what, in relative terms, is reasonable. In other words, banks have introduced slabs in a manner that vitiates the fundamental principle of charges being a fixed percentage of shortfall (under the proportionality rule of RBI).

5. One could have cared less if the banks' approach had not been on penalising more, in percentage terms, the accounts with smaller shortfalls than the ones with larger shortfalls, thereby leading to accounts with smaller shortfalls cross-subsidising the accounts having larger shortfalls. The efficacy of the discrepancy on penal rates attaches significance, since banks give a fixed percentage rate of interest on balances in their savings account.

6. Banks usually violate regulations A(a) and A(b) but get possibly protected due to regulation A(c). There is a tendency on part of some banks to express somewhat like "… our slab structure provides for less penalty (in rupee terms) in the lower slabs and higher penalty for the higher slabs". Such a response gives an impression as if RBI could not make the country understand the meaning of 'proportionality' or 'fixed percentage'.

7. Banks' purportedly taking shelter under regulation A(c), implies as if regulations A(a) and A(b) have no relevance. It also signifies as if banks could have had logic to do otherwise (i.e., doing something different from a slab structure, in Rupees, not providing for lower penalty in the lower shortfall slabs and higher penalty for the higher shortfall slabs) had RBI come out with only regulation A(c) and not A(a) and A(b). In other words, what one may infer by such a stance taken by banks is that RBI has put redundant regulations A(a) and A(b) when A(c) alone would have sufficed. However, that could not be the case since RBI, even in the preamble of the said regulation, refers to the essence as *"the penal charges levied should be in proportion to the shortfall observed"*, and attributes the same to the Damodaran committee.

8. Notwithstanding the above, a careful reading will clearly show that regulation A(c) talks about allowing banks to finalise suitable slab structure (if they so desire) for *recovery* of charges. Therefore, the banks' suitable slab structure for *recovery* of charges comes into being only after the bank has put in place their charges as per regulations A(a) and A(b). Regulations A(a) and A(b) explicitly lays down the rule of how to set, or arrive at, the charges. The *recovery* of such charges (and how to *suitably* do so) is secondary. The banks tend to completely ignore regulation A(a), which in fact gets reiterated by RBI under regulation A(b).

9. So, what exactly is RBI trying to convey while giving freedom to banks on the formation of suitable slab structure for recovery of charges? The spirit and suitability of a slab structure hinges on RBI's fundamental policy, wherein it tried to judiciously link methods like (a) banks paying interest, in percentage terms, on the amount held under deposits, (b) banks charging interest, in percentage terms, on loan balances in accounts, and (c) savings deposit account holders paying a penal fee for non-maintenance of minimum balance, in percentage terms, on the shortfall amount. A vital question that arises is – what exactly are such slab structures set by banks, which are not only devoid of the spirit as set in the RBI guidelines but are also detrimental to depositors' interest?

10. It is pertinent to mention that banks should transparently declare a '*constant of proportionality*', which it might have adopted while arriving at the charges in line with regulations A(a) and A(b) for non-maintenance of their prescribed minimum balance in savings account. For most of the banks, the best fit of the their current charges to the proportionality model gives a value of around 0.065 for the constant of proportionality. That means the charges have been fixed at an average rate of 6.5% of every month's shortfall, which is equivalent to a penal rate of 78% per annum. This high rate of penalty appears to have no correlation with the costs for arranging such funds at, say, the call money market rate. Thus, it raises question on the efficacy of regulation B.

11. When RBI says "*banks should ensure that such penal charges are reasonable and not out of line with the average cost of providing the services*", the vital question that arises is whether RBI has built any capacity (in terms of a methodology) to judge compliance of the regulation. As such there is no item-wise scientific costing in banks since most of the operational expenses relate to bank as a whole. It may not be feasible to calculate precise costing for a particular type of account. The broader costs of deposit products are covered by the net interest margin.

## Assessment of banks

12. We focus on eleven select banks for assessing their take on the regulation. These banks are SBI, OBC, IOB, Axis Bank, HDFC Bank, Kotak Mahindra Bank, Yes Bank, IndusInd Bank, ICICI Bank, Citibank, and Standard Chartered Bank. To understand their interpretation of regulation A, we formally engaged with three banks apart from the Indian Banks' Association (IBA). However, the banks fumble in their attempt to respond.

13. Most of the banks have set two, three or four slabs of shortfalls and within each slab the charges are constant in rupee terms, i.e., the charges are **not a fixed percentage** of the shortfall even within each slab. Moreover, though between slabs the charges vary, with respect to the slab means the charges are **not a fixed percentage**. In fact, the percentage usually decreases with increase in mean shortfall implying that they are resorting to unwarranted cross subsidisation. To summarise, under no circumstance do these banks ensure that the charges are a fixed percentage of the shortfall. Table-A provides bank-wise slab summary.

14. One bank sets a typical example where one could argue that regulations A(a) and A(b) have been followed by the bank with the penal charges being a fixed 6% of shortfall. However, invoking regulation A(c) thereafter, the bank has finalised a 'suitable' slab structure where there is just one slab of penal charge of Rs 100 for any shortfall from the prescribed minimum balance of Rs 2500. This highlights how a loose end, such as in regulation A(c), can distort the spirit of the regulation. In the present age of core banking solutions, the spirit behind regulation A(c) could at best be used for rounding off the penal charges to the nearest higher Rupee. Making broad slab intervals with constant charges in rupee terms within the interval is not only unsuitable but also distorts the whole rationale of proportionate charges. It also unnecessarily creates significant disconnects in charges between slabs.

15. Based on the charge structure for the eleven banks, a best fit under the proportionality model allow us to derive the effective annual rate that the banks are charging for the shortfall amount of money. Such a fit also allows us to showcase that SBI, during the 6-month period April-September, 2017 had imposed excessive charges of about Rs 141 crore to a vast section of depositors by creating a biased slab structure in violation to the proportionality principle set by RBI. Similarly, while looking at other banks for possible violation in the proportionality principle, we have established that most of the banks in violation to a *rule of unbiasedness* set by RBI impose a disproportionately higher penal charge in the lower slab of shortfalls than in the higher slab of shortfalls. In this process the banks thrust undue and uncalled for discrimination in form of cross subsidisation at no fault of a vast section of depositors.

16. A shortfall in minimum balance maintenance by a savings account depositor can be considered akin to an overdraft facility availed by a customer. The only difference between overdraft funds and the shortfall money (in the required minimum balance) is the credit risk associated with the overdraft account. Since there is no credit risk in shortfall funds, there is no rationale for its cost to exceed the cost of overdraft funds. The interest rate in overdraft accounts was in the range of 6 to 14% per annum as on March 2016. Since then the interest rates have eased down significantly. Contrastingly, on the other extreme, the loans through credit cards carry a rate of around 40% per annum. If the cost of highly risky credit card based funds is 40% per annum, can the cost of zero risk funds (shortfall in customers' own savings deposit funds) be more than 40% per annum? Ideally, comparison with overdrafts highlights no grounds to charge more than 10% per annum for shortfalls in savings bank accounts.

17. Table-A shows that banks don't seem to correlate cost of shortfall funds with the cost of the same funds in the call money market. Banks lend to each other in call money market without collateral. The call money market rates on an average have been less than 7% per annum, in the near past. Thus, keeping the alternate month shortfall issue in view and the cost to setup IT based control mechanisms for such type of customers, it is imperative that the cost of shortfall funds cannot exceed 14% per annum. With many banks charging at an average high rate of 78% per annum of the shortfall amount, it makes the whole regulation of 'reasonableness of charges as per cost' quite shallow.

Table-A: Glimpse of the bank charges in terms of annual penal rate on shortfall funds

| Name of Bank | Minimum balance (Rs) | Slab Type | Constant of proportionality ($k$) | Monthly rate set by bank (%) | Implicit annual rate set by bank (%) |
|---|---|---|---|---|---|
| SBI | 3000 | Disproportionate 3-slabs | 0.0208 | 2.08 | 24.96 |
| OBC | 2500 | Disproportionate 1-slab | 0.0597 | 5.97 | 71.64 |
| IOB | 1000 | Disproportionate 3-slabs | 0.1329 | 13.29 | 159.48 |
| | | | | | |
| Axis Bank | 10000 | Disproportionate 3-slabs | 0.0685 | 6.85 | 82.20 |
| HDFC Bank | 10000 | Disproportionate 4-slabs | 0.0698 | 6.98 | 83.76 |
| Kotak Mahindra Bank | 10000 | Disproportionate 2-slabs | 0.0635 | 6.35 | 76.20 |
| Yes Bank | 5000 | Disproportionate 2-slabs | 0.0940 | 9.40 | 112.80 |
| IndusInd Bank | 10000 | Disproportionate 2-slabs | 0.0563 | 5.63 | 67.56 |
| ICICI Bank | 10000 | Disproportionate 1-slab | 0.0649 | 6.49 | 77.88 |
| | | | | | |
| Citibank | 100000 | Disproportionate 2-slabs | 0.0079 | 0.79 | 9.48 |
| Standard Chartered Bank | 10000 | Directly proportionate | 0.0500 | 5.00 | 60.00 |

## Cross subsidisation when not required – Enforce control

18. The specific service provided by the banks is to allow withdrawal of funds even when balances go below the minimum balance prescribed. Accordingly, the penal charges for non-maintenance of the banks' prescribed minimum balance should ideally be commensurate with the actual cost of the shortfall funds. Banks should not thrust as charges the cost of something which should be borne, on an average, by all normal savings bank account holders – like the broader cost of NPA or cost of running BSBDAs or cost of running ATMs, etc. Banks have already been given the freedom to use the savings bank interest rate as an instrument to adjust for their overall expenditure-revenue. Therefore, given that RBI has clearly put in a regulation mandating banks to ensure that the charges are reasonable and as per cost of the specific service, RBI needs to appropriately address whether it is desirable to artificially build cross subsidisation in a selective manner in form of excessive service charges.

19. A major hurdle is the mixing of the cost of providing a specific service (in this case, cost of funds) by banks and the cost of cross subsidisation. With a view to eliminate discrimination in form of cross subsidisation, a possible way out for banks could be to enforce reasonable changes for a service without cross subsidisation, and that all situations demanding cross subsidisation should be accommodated by adjusting the savings bank interest rate.

20. Nevertheless, the banking supervisor may like to ensure compliance of its regulatory instructions on minimum balance so that no individual is left discriminated. This may require a clear understanding on whether RBI should allow cross subsidisation to be loaded, while banks workout the service charges based on actual costing.

21. RBI has formulated the penal charges rule with an objective of bringing in fairness from the customers' angle. Thus, it is time to plug the regulatory and supervisory gaps in a holistic manner and not only formulate clearer guidelines on the formation of slabs but also how to measure reasonableness of charges based on costs of funds.

## Recommendations

i. Given the extant regulation on minimum balance in savings account, RBI may like to ensure its compliance not only in letter but also in spirit. Though banks are free to decide on the penal charges so long as it is reasonable and as per cost, the charges should have a clear objective of bringing in fairness from the customers' angle. The penal charge rule is not to facilitate adjustments by banks based on their analysis of the distribution of shortfalls and net amount of revenue expected; thereby creating a situation of cross subsidisation.

ii. A loose end, such as in regulation A(c), can distort the spirit of the regulation. In the present age of CBS, the spirit behind regulation A(c) could at best be used for rounding off the penal charges to the nearest higher Rupee. Making broad slab intervals with constant charges in rupee terms within the interval is not only unsuitable but also distorts the whole rationale of proportionate charges. It also unnecessarily creates significant disconnects in charges between slabs.

iii. So long as the minimum balance regulation is in place and the spirit behind the regulation has not changed, the EFD of RBI, having a focused objective of enforcing regulations keeping in view promotion of public interest and consumer protection, should be pro-active in checking such situations that affects the gullible masses directly.

iv. The CEPD of RBI needs to pitch-in to protect the depositors and educate them about the correct regulation since the central bank has already directed the banks that the *RBI guidelines* of November 2014, on levy of charges for non-maintenance of minimum balance in normal savings bank account, should be brought to the notice of all customers apart from being disclosed on the bank's website.

This work is dedicated to all those who do not have the capability to figure out the nuances of the minimum balance rule, set by the Reserve Bank of India, for savings bank deposit accounts, and to promote banker/consumer education and protection in this regard.

# Fault Lines in Implementation of Minimum Balance Rule for Savings Bank Accounts in India[1]

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## Abstract

The objective of this note is to highlight the true features of a significant regulation put in place by RBI on levy of penal charges for non-maintenance of minimum balance in savings bank accounts. Banks have been given freedom to prescribe their minimum balance requirements in normal savings bank accounts. However, there are certain far reaching guidelines that banks need to follow when it comes to levy of charges for non-maintenance of the same. While arriving at the charges for non-maintenance of minimum balance, banks are required to ensure that (i) the penal charges are a fixed percentage levied on the shortfall, i.e., the amount of difference between the actual balance maintained and the minimum balance prescribed by bank, and (ii) the penal charges are reasonable and not out of line with the average cost of providing the services.

While giving some freedom to banks on the quantum of charges, the spirit and suitability of the regulation hinges on RBI's fundamental policy, wherein it tried to judiciously link methods like (a) banks paying interest, in percentage terms, on the amount held under deposits, (b) banks charging interest, in percentage terms, on loan balances in accounts, and (c) savings deposit account holders paying a penal fee for non-maintenance of minimum balance, in percentage terms, on the shortfall amount.

This note shows that banks have set their penal charges in violation to the spirit behind the regulation by not framing the charges as a fixed percentage of shortfalls. It is observed that most of the banks have set some slab structure in a manner that vitiates the fundamental principle of charges being a fixed percentage of the shortfall. Furthermore, for most of the banks, the charges when considered as a percentage of shortfalls work out to an average rate of 6.5% of every month's shortfall, which is equivalent to a penal rate of 78% per annum. This high rate of penalty appears to have no correlation with the costs for arranging such funds at, say, the call money market rate. The present charges for the cost of shortfall funds are camouflaged in a manner which doesn't look exploitative but are actually so. RBI may like to see if it is fair for the banks to let their charges remain as is, disregarding the underlying and intended spirit of the regulation.

This report has been prepared to facilitate the regulator and the banks to come out with meaningful supervisory steps and corrections, while taking forward normal savings bank accounts in the right perspective and thus supporting the country's financial inclusion drive.

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[1] The views expressed are those of the author and not necessarily of the institution to which he belongs.
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The author also thanks few officials in banks, RBI, and IBA for some fruitful discussions. In particular, based on a request, the efforts put by IBA to collect inputs on the core contention from multiple banks is duly acknowledged. Thanks are also due to my wife for going through the report, participating in discussions and offering comments. In the paper all possible care has been taken to project the correct picture using the data gathered. Deviations, if any, are inadvertent.

The present report, in form of a confidential draft dated December 1, 2017, was shared among select banks, the IBA, the BCSBI and the RBI to receive their valued comments and to point out specific disagreements, if any. The author thanks them for their considered call for sharing their comments.

# I. Introduction

## Motivation

1.1 "*While banks have been* ***granted autonomy in fixing minimum average balance*** *or for charging for premium services, it* ***should not be used as an excuse to deny service or to drive away common man.***" - Shri S. S. Mundra, the then Deputy Governor RBI said[3] on May 30, 2017. He further added that "*... RBI would be extensively focused on ..., imposition of usurious service charges during the current year's supervisory cycle*" and that "*... RBI has specifically established a department for examining the instances of regulatory violations with a view to taking enforcement actions on the errant banks*[4]."

1.2 As of March 2016, there were 135 crore savings bank accounts in India. Of these 88 crore were normal savings bank accounts while the remaining 47 crore were the RBI mandated zero minimum balance Basic Savings Bank Deposit Accounts (BSBDAs). Since there is a huge cost in maintaining the savings accounts, it is prudent on the part of banks to not only impose fees for non-maintenance of minimum balance in normal savings bank accounts but also suitably calibrate the savings bank interest rates to balance the expenditure-revenue equation while providing for the savings account product in general. However, given that there is a regulation in place for charges related to breach in minimum balance, the banks have to ensure that such charges are in agreement to the extant regulations brought out by RBI.

1.3 As an illustration, State Bank of India (SBI) has about 27 crore normal savings bank accounts. In the first quarter of the financial year 2017-18, SBI recovered Rs 235.06 crore as penalty from 3.89 crore normal savings bank accounts for not maintaining minimum monthly average balance[5]. At the beginning of May 2017, as per rules, SBI had given notices to all those account holders who did not have bank's prescribed minimum monthly average balance for the month of April 2017 and asked them to keep the required minimum balance in the month of May. When they did not maintain the required monthly average balance in May, then a non-maintenance fee was recovered in June for shortfalls[6] in April. In other words, a total of Rs 235.06 crore was recovered from SBI's 3.89 crore normal savings bank account holders who

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[3] Keynote address delivered by Shri S. S. Mundra, Deputy Governor, Reserve Bank of India at the Annual Conference of Principal Code Compliance Officers organized by the Banking Codes and Standards Board of India in Mumbai on May 30, 2017. https://www.rbi.org.in/Scripts/BS_SpeechesView.aspx?Id=1040

[4] RBI formalised a framework for taking enforcement action against banks for non-compliance with guidelines and instructions issued by it. Accordingly, a separate Enforcement Department has been created within the RBI in April 2017. The core function of the department is to enforce regulations with the objective of ensuring financial system stability and promoting public interest and consumer protection.

[5] For more details see http://www.livemint.com/Industry/d75aXGhVIpgnHtBUqYOwxJ/SBI-collects-Rs235-crore-in-minimum-balance-fine-in-1st-quar.html and http://profit.ndtv.com/news/banking-finance/article-fines-from-minimum-balance-defaults-to-amount-rs-2-000-crore-sbi-says-1751489

[6] Shortfall means "amount of difference between the actual balance maintained and the minimum balance as agreed upon at the time of opening of account".

were short of the bank's prescribed average monthly balance for the month of April. The same procedure was adopted for recovery of penal charges for shortfalls in account balances for the months of May, June, July, August and September. Therefore, for the period April-September 2017, SBI is expected to have generated revenue to the tune of Rs 1300 crore from normal savings bank account holders who had shortfall in minimum balances and were not able to keep the required minimum balances even after one month's grace period.

1.4 Prima facie charges seem to be technically in order. However, the question remains as to whether SBI (and similarly many other banks) followed the extant regulation on charges related to breach in minimum balance?

1.5 On April 1, 2014, Dr. Raghuram G. Rajan, the then Governor of RBI in his First Bi-monthly Monetary Policy Statement (Developmental and Regulatory Policies), highlighting charges in connection with savings account, mentions[7] that "*Banks should also not take undue advantage of customer difficulty or inattention. Instead of levying penal charges for non-maintenance of minimum balance in ordinary savings bank accounts, banks should limit services available on such accounts to those available to Basic Savings Bank Deposit Accounts and restore the services when the balances improve to the minimum required level.*"

1.6 Earlier, a July 2011 report of the RBI constituted Committee on Customer Service in Banks, chaired by Shri M. Damodaran, inter-alia, recommended that "*banks should inform the customer immediately on the balance in the account breaching minimum balance and the applicable penal charges for not maintaining the balance by SMS/Email/letter. Further, the penal charges levied should be in proportion to the shortfall observed*".

## The regulation

1.7 Prior to November 2014, RBI had not issued any focused guidelines on the minimum balance rule for savings bank accounts. The banks have been prescribing the minimum balance requirements taking into consideration the cost involved in maintaining and servicing such accounts. They have also been levying specific charges, if minimum balance was not maintained. However, no uniform approach was followed by the banks in this regard.

1.8 On November 20, 2014, RBI brought out a directive[8] wherein, effective April 1, 2015, banks were mandated to follow certain guidelines on penal charges for non-maintenance of minimum balance requirements in savings bank accounts.

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[7] First Bi-monthly Monetary Policy Statement, 2014-15 By Dr. Raghuram G. Rajan, Governor, RBI, April 1, 2014. https://rbidocs.rbi.org.in/rdocs/PressRelease/PDFs/EPFS192BE268D98D3.pdf

[8] Levy of penal charges on non-maintenance of minimum balances in savings bank accounts. RBI/2014-15/308 DBR.Dir.BC.No.47/13.03.00/2014-15 dated November 20, 2014. https://rbidocs.rbi.org.in/rdocs/notification/PDFs/MBLRDC201114.PDF

Guidelines on levy of charges for non-maintenance of minimum balance in savings bank account

(i) In the event of a default in maintenance of minimum balance/average minimum balance as agreed to between the bank and customer, the bank should notify the customer clearly by SMS/ email/ letter etc. that in the event of the minimum balance not being restored in the account within a month from the date of notice, penal charges will be applicable.

(ii) In case the minimum balance is not restored within a reasonable period, which shall not be less than one month from the date of notice of shortfall, penal charges may be recovered under intimation to the account holder.

(iii) The policy on penal charges to be so levied may be decided with the approval of Board of the bank.

**(iv) The penal charges should be directly proportionate to the extent of shortfall observed. In other words, the charges should be a fixed percentage levied on the amount of difference between the actual balance maintained and the minimum balance as agreed upon at the time of opening of account. A suitable slab structure for recovery of charges may be finalized.**

**(v) It should be ensured that such penal charges are reasonable and not out of line with the average cost of providing the services.**

(vi) It should be ensured that the balance in the savings account does not turn into negative balance solely on account of levy of charges for non-maintenance of minimum balance.

RBI also mandated that **these guidelines should be brought to the notice of all customers apart from being disclosed on the bank's website.**

1.9 Although RBI deserves credit for designing the above guidelines (see Appendix A for the full regulation), even after passage of three years, the guidelines have not got implemented in proper spirit. One of the reasons for this is the lack of banks' zeal to comply with RBI's basic direction that this **six-point guideline,** should be brought to the notice of all customers apart from being disclosed on the banks' website. Had that been in place, it would have helped in reducing the current customer inattention towards the extant guidelines that give depositors certain rights on the manner in which banks can impose penal charges for shortfalls. Only such an awareness building move, as envisaged by RBI, can bring customer attention and reduce possible scenarios where banks may be taking undue advantage of improper levy of such penal charges.

1.10 The other major reason for inadequate implementation of the guidelines is possible lack in effective supervision and enforcement. As a consequence, till date not only many banks remain non-compliant in levying the correct service charges for non-maintenance of minimum balance, but the public at large are also kept uninformed, by the banks, of the precise guidelines. The present scenario exists despite the Government being presumably complacent when it simply reiterates to the country, the guidelines on penal charges without looking into its proper implementation as per the spirit of the law.

> As late as March 28, 2017, in a written reply in the Rajya Sabha, the Government said that regarding levy of penal charges on non-maintenance of minimum balances in saving accounts, a bank has to formulate a policy on penal charges with the approval of the bank board subject to the board being satisfied that the bank has ensured (i) the penal charges are a fixed percentage levied on the difference between the actual balance maintained and the minimum balance agreed upon, and (ii) such penal charges are reasonable and not out of line with the average cost of providing the services.

## Content of the report

1.11 The banks have set their minimum balance requirements for normal savings bank accounts. This report is based on how banks charge their normal savings bank account holders for non-maintenance of minimum balance. There are certain issues, both technical and commercial in nature, which are not being interpreted properly. This report has been prepared to facilitate the regulator and the banks to come out with meaningful corrections, while taking forward normal savings bank accounts in the right perspective.

1.12 In what follows, first of all the report tries to explain the existing rule as set by RBI towards levy of penal charges for non-maintenance of minimum balance. With this backdrop, we look at the possible non-compliance of the regulation by banks at the cost of expenses incurred by gullible depositors and RBI's approach towards the same. Finally, we suggest some checks to make the regulation supervisable and implementable.

1.13 In Section II, we provide the regulatory backdrop in form of a historical perspective, rationale and spirit behind the minimum balance rule. We also look into the extant state of affairs with respect to the regulation. Section III presents the fault lines in banks' understanding of the rule and implementation of the same. Workouts and discussions for eleven banks are provided. In Section IV, we discuss the RBI advocated *reasonableness* of service charges with respect to extant regulations on minimum balance. Supervisory requirements for clearly understanding *what is reasonable and what is not* and then enforcing and ensuring compliance by banks is discussed. Finally in Section V we give our conclusions and recommendations.

# II. Regulatory backdrop and the state of affairs

## Revenue from minimum balance

2.1 RBI has prescribed mandates within which the banks have been given the freedom to set minimum balance requirements for normal savings bank accounts. Such minimum balances can vary based on different variants of savings bank deposit product. The banks' policy on charges for non-maintenance of such prescribed minimum balances may be decided with the approval of Board of banks, subject to adherence of the extant regulations.

2.2 Before deliberating on charges and regulations, one needs to address the fundamental question of why the minimum balance requirement exists. The answer appears to be simple. For our savings bank account, bank provides us with a few services free of charge. These primarily include branch entertainments, phone banking services, and debit/credit transactions. In order to generate revenue for the free services, banks not only attach a lower interest rate on the stipulated minimum balance kept with the bank, but also on the excess balances above the prescribed minimum. These lower interest rates are calibrated at levels below the term deposit interest rates. In other words, banks have differentiated the rate of interest on the time component[9] of the savings bank deposits and the term deposits. Under the premise that on an average there would be some reasonable amount of money in the savings account, the differentiated rate of interest has been the basis of identifying the nature and quantum of 'basic transactions' to be provided free by banks. Thus what is perceived as 'free' service of savings accounts by banks is actually paid *ex ante* by depositors by agreeing to park their funds in these accounts at a lower return.

2.3 Banks incur costs for providing transaction facilities in a savings bank account. In the interest of the banking system and the depositors, ideally such facilities should not be provided for free. Banks generate revenue for such transactions in form of a direct or indirect fee. The indirect fee is attributed to maintenance of balances where low interest is paid on savings account vis-à-vis MCLR[10] / term-deposit rates of bank. Banks on an average maintain more than 92% of their savings account deposits under time component of demand and time liabilities implying that, on an average, banks always hold more than 9 of every 10 rupees in their savings account deposit product – which, thus is in the nature of term deposit. Thus indirect fee/revenue, in form of low interest cost of these deposits for banks, provides viability to the service of providing certain number of free debit and credit transactions in a normal savings bank account. We discuss more on this in Section 4.

[9] See Section 4 for the definition of 'time component of the savings bank deposit'.

[10] MCLR is the Marginal Cost of funds based Lending Rate, and is used as an internal benchmark to arrive at its lending rate.

2.4 Now, one may ask as to why banks do not provide term deposit rates on balances much above the minimum balances held under savings accounts. Though some banks do provide this in form of flexi savings deposit product, having sweep-in and sweep-out facility, it is usually not encouraged as it has a potential for creating avenues for revenue leakages[11]. Instead, it may be more meaningful for banks to take the benefits of overall higher balances maintained in the accounts so as to cross subsidise by bringing down the minimum balance amount for the normal savings accounts. This way, they also achieve showcasing the promotion of financial inclusion for the country.

## Charges for non-maintenance of minimum balance - the regualtion

2.5 What exactly is the regulation on levy of penal charges for non-maintenance of the bank's prescribed minimum balance? The November 2014 regulation on the subject arrived at by RBI after more than six months of extensive consultation and deliberations with banks, states:

> **A. (a) The penal charges should be directly proportionate to the extent of shortfall observed.**
>
> **(b) In other words, the charges should be a fixed percentage levied on the amount of difference between the actual balance maintained and the minimum balance as agreed upon at the time of opening of account.**
>
> **(c) A suitable slab structure for recovery of charges may be finalized.**
>
> **B. It should be ensured that such penal charges are reasonable and not out of line with the average cost of providing the services.**

2.6 Of the above, regulation B is more generic in nature and this would be taken up later in Section 4. We now focus at what regulations A(a) and A(b) mean.

2.7 The meaning of regulation A(a) has to be only one. For two variables, the term **directly proportionate** is illustrated in Box-1. For our case the two variables are

$x$ = amount of shortfall (Rs)

$y$ = penal charges (Rs)

The regulation specifies that $x$ and $y$ are related by a relation $y = kx$, where $k$ is the constant of proportionality. Consider that a bank decides that $k$=0.03. It would mean that for a shortfall of $x$ = Rs 1800, say, the penal charge would be $y = 0.03 \times 1800$ = Rs 54. Again, if the shortfall is Rs 100, the penal charge would be Rs 3; if the shortfall is Rs 5000, the penal charge would be Rs 150; and so on. Banks have been given the freedom to wisely decide the constant of proporationaly $k$.

[11] Very few banks provide slightly higher savings bank deposit interest rates for balances exceeding Rs one lakh.

2.8 Focusing at regulation A(b), we see that it simply reiterates regulation A(a). It says that $y$ should be a fixed percentage of $x$. This fixed percentage is nothing but $100k$, where $k$ is the constant of proportionality as discussed above. In other words, if a bank decides on a value of $k$, the fixed percentage, denoted by $f$, say, gets automatically identified as $f=100k$. Equivalently, the bank can decide on a value of the fixed percentage $f$, which then implies $k=f/100$.

**Box-1: Directly proportionate - An Illustration**

Suppose you use your spare time in teaching a school going child. You earn Rs 150 an hour for teaching. How much you earn is directly proportional to how many hours you teach. If you teach more hours, you earn more, i.e., in direct proportion.

This could be written: Earnings ∝ Hours taught

- If you teach 2 hours you earn Rs 300
- If you teach 3 hours you earn Rs 450
- and so on ...

Constant of Proportionality: The "constant of proportionality" is the value that relates Earnings and Hours taught. Since you earn Rs 150 an hour, the constant of proportionality is 150 because <u>Earnings</u> = 150 × <u>Hours taught</u>. This can be written as $y = kx$, where $k$ is the constant of proportionality with $y$ = Earnings and $x$ = Hours tought. Here $y$ is directly proportional to $x$ since $y$ increases as $x$ increases and that the ratio of $y$ and $x$ is a positive constant.

Now, given that $y$ is directly proportional to $x$, the constant of proportionality is $k=y/x$ and this value remains the same for every pair $(x,y)$. When we know the constant of proportionality we can then answer a question like, what is the value of $y$ when $x = 5$? With $k=150$ in our example, $y = 150 \times 5 = 750$. Similarly, for the question, 'what is the value of $x$ when $y = 525$', the answer would follow from $525 = 150x$, i.e., $x = 3.5$.

2.9 Finally, regulation A(c) indicates that subject to regulations A(a) and A(b), banks may make **suitable** slabs for recovery of charges. This means that although RBI mandates regulations A(a) and A(b), however, banks may (if they so desire) finalise a suitable slab structure just for the *recovery* of charges.

### Banks' state of affairs while levying non-maintenance charges

2.10 It got highlighted during the course of this study that banks usually violate regulations A(a) and A(b) but get possibly protected due to regulation A(c). There is a tendency on part of some banks to express somewhat like "… our slab structure provides for less penalty (in rupee terms) in the lower slabs and higher penalty for the higher slabs". Such a response gives an impression as if RBI could not make the country understand the meaning of 'proportionality' or 'fixed percentage'.

2.11 Banks' purportedly taking shelter under regulation A(c), implies as if regulations A(a) and A(b) have no relevance. It also signifies as if banks could have had logic to do otherwise (i.e., doing something different from a slab structure, in Rupees, not providing for lower penalty in the lower shortfall slabs and higher penalty for the higher shortfall slabs) had RBI come out with only regulation A(c) and not A(a) and A(b). In other words, what one may infer by such a stance taken by banks is that RBI has put redundant regulations A(a) and A(b) when A(c) alone would have sufficed. However, that could not be the case since RBI, even in the preamble of the said regulation, refers to the essence as *"the penal charges levied should be in proportion to the shortfall observed"*, and attributes the same to the Damodaran committee.

2.12 Notwithstanding the above, a careful reading will clearly show that regulation A(c) talks about allowing banks to finalise suitable slab structure (if they so desire) for *recovery* of charges. Therefore, the banks' suitable slab structure for *recovery* of charges comes into being only after the bank has put in place their charges as per regulations A(a) and A(b). Regulations A(a) and A(b) explicitly lays down the rule of how to set, or arrive at, the charges. The *recovery* of such charges (and how to *suitably* do so) is secondary. The banks tend to completely ignore regulation A(a), which in fact gets reiterated by RBI under regulation A(b).

2.13 So, what exactly is RBI trying to convey while giving freedom to banks on the formation of suitable slab structure for recovery of charges? The spirit and suitability of a slab structure hinges on RBI's fundamental policy, wherein it tried to judiciously link methods like (a) banks paying interest, in percentage terms, on the amount held under deposits, (b) banks charging interest, in percentage terms, on loan balances in accounts, and (c) savings deposit account holders paying a penal fee for non-maintenance of minimum balance, in percentage terms, on the shortfall amount. A vital question that arises is – what exactly are such slab structures set by banks, which are not only devoid of the spirit as set in the RBI guidelines but are also detrimental to depositors' interest? We look into this in the next section.

## Is CBS an issue while adhering to minimum balance regulation?

2.14 There appears to be no evidence of the banks either engaging with RBI to highlight some of their possible operational constraints pertaining to minimum balance regulation, or banks tweaking their computer softwares for correctly implementing the rule on charges for non-maintenance of minimum balance. Though implementing the correct rule on the charges by simply tweaking the underlying IT systems in their core banking solutions (CBS) cannot be expensive, the banks appear to remain passive possibly due to lack of focused supervision of the regulation by the regulator.

2.15 The computer commands for implementing the regulations A(a) and A(b) are much simpler than to venture into forming a slab structure which, under the present regulations, is **not** a must. As a simple illustration, let

MIN = Bank's minimum balance requirement in Rs,
F = Fixed percentage that the bank decides to levy in %,
AMB = Average monthly balance as worked out by the bank in Rs.

Then the gist of a simple code to implement regulations A(a) and A(b) is

```
Input MIN, F, AMB
Let X = MIN-AMB,
If X > 0 then CHARGES = F*X/100
```

Today, many banks have implemented a slab structure. Relatively, the computer code and its execution for the slab structure implementation are much more tedious than the simple proportionate structure.

## Some remarks

2.16 Some banks have also presented the slab structure in a complex manner containing steep disconnects. The proportionate concept is much easier to state and comprehend – for example, '*the charges are Rs 5 for every Rs 100 shortfall*'. The numbers 5 and 100 can be arrived at by the bank based on the principle of reasonableness.

2.17 Even while there are systems in place to supervise the banks for possible non-compliance of regulatory mandates, undue penal charges are still being imposed by several banks for their normal savings bank accounts. Such a lapse hurts the public, especially those who do not have the capability and resources to figure out the flaws in their basic banking product – the savings bank account.

2.18 To illustrate how exactly banks have deviated from the proportionate rule (thereby hurting depositors either advertently or inadvertently), we consider select banks. The eleven banks that we have considered represent banks in the public, private and foreign sectors. Though we have presented the details for only eleven banks, the conclusions from these illustrations are no different for most of the other scheduled commercial banks in India. In fact, the author has done similar study for all other scheduled commercial banks. The results are available on request.

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# III. The fault lines

## The proportionality constant

3.1 Why do banks penalise depositors for not maintaining certain minimum balances in their savings accounts? The basis of the current regulation on levy of charge for non-maintenance of prescribed minimum balance lies in the cost of funds with respect to the shortfall, which the bank otherwise should have received from the depositor. RBI, through its regulation rationalised this aspect. We explain the regulation by a generic illustration as under.

3.2 Let $m$ be the minimum balance prescribed (usually monthly or quarterly average) for the savings account by a bank. We consider $n$ pairs of shortfall amount and corresponding penalty based on bank's perceived formula. Let $x_j$ be the $j$-th shortfall amount, $j=1,2,\ldots,n$. Clearly, $0 < x_j \le m$. Corresponding to a shortfall of $x_j$, let $y_j$ be the penal charges that the bank has decided to levy. In other words, we have bank's actual penal charges $y_j$ vis-à-vis the shortfall $x_j$. Thus, we can write pairs of values ($x_j$, $y_j$) for $j=1,2,\ldots,n$. What RBI expects by saying that penal charges should be directly proportionate to the shortfall is for banks to ensure is that $y_j = kx_j$ where $k$ is a constant of proportionality. The banks have freedom to decide on the value of $k$ subject to ensuring that its value is arrived in a manner such that the penal charges are reasonable and not out of line with the average cost of providing the services, which in our case is the cost of funds.

3.3 Suppose that the pairs of values ($x_j$, $y_j$) do not follow the linear relation $y_j = kx_j$. In such a situation, using the method of least squares[12], we identify the value of $k$ (i.e., the linear relation $y_j = kx_j$) that best fits the data corresponding to ($x_j$, $y_j$), $j=1,2,\ldots,n$. The estimate of $k$ is then given by

$$\hat{k} = \frac{\sum_{j=1}^{n} x_j y_j}{\sum_{j=1}^{n} x_j^{2}}.$$

In the language of the charges being expressed as a fixed percentage of shortfall, the best fit, based on the data pairs ($x_j$, $y_j$), $j=1,2,\ldots,n$, gives an estimate of the percentage of shortfall as $100\hat{k}$.

3.4 In what follows we look into what the banks are actually charging and whether at all these charges are a fixed percentage of shortfalls. If not, we work out the value of $\hat{k}$ to express the data under the proportionality model and arrive at the best fit $y = \hat{k}\,x$.

[12] The method of least squares is a standard method in linear models to arrive at the best linear fit based on data from $x$ and $y$.

3.5 For the purpose of computation and graphical representation, let $x_j = m(j/n)$ be the shortfall amount where $j$ takes values $1,2,\ldots,n$; and $n$ is the number of sequential fractions of the prescribed minimum balance. The least squares estimate of $k$ that best fits the data corresponding to $(m(j/n), y_j), j=1,2,\ldots,n$. is then given by

$$\hat{k} = \frac{6}{m(n+1)(2n+1)} \sum_{j=1}^{n} j\, y_j \, .$$

Note that in case $y_j$ is directly proportional to $m(j/n)$, replacing $y_j$ by $km(j/n)$, in above, we get $\hat{k} = k$.

## Disproportionate charges under slab structure – illustration for seven banks

3.6 To begin with, for select banks, we look into their rule for levy of penal charges for non-maintainance of the bank's prescribed minimum balance. Though it applies to all regions, for illustration, our focus is on charges under Metro/Urban and the simplest of the normal savings bank product. We consider three public sector banks SBI, Oriental Bank of Commerce (OBC) and Indian Overseas Bank (IOB); three private banks Axis Bank, HDFC Bank and Kotak Mahindra Bank; and one foreign bank Citibank. For each bank we first provide the bank's website dislosures on minimum balance (details of which are presented in Appendix B) and then present corresponding graphs for levy of penal charges. While creating the graphs, for illustration we have taken $n = 100$.

3.7 It is observed that most of the banks have set some slab structure for imposing penalty for shortfall in minimum balances. However, the slabs are prepared in a manner that vitiates the fundamental principle of charges being a fixed percentage of shortfall. In the graphs we give the actual charges that are being imposed by the banks and the charges (as per best fit given the bank's slab structure) under the proportionality rule of RBI. The efficacy of the discrepancy on penal rates attaches significance, since all banks give a fixed percentage rate of interest on balances in their savings account.

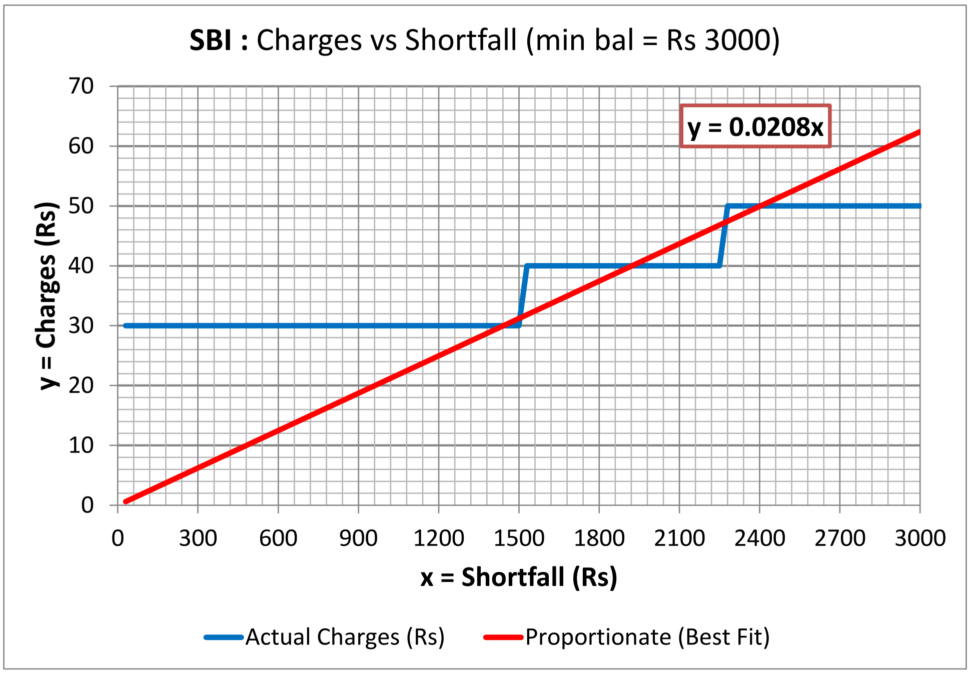
### SBI

3.8 SBI has set slabs for imposing penalty for shortfall in minimum balances in their savings account. With their minimum balance $m$ = Rs 3000, the charge slabs are Rs 30, Rs 40 and Rs 50 for respective shortfalls in the ranges Rs 0-1500, Rs 1500-2250 and Rs 2250-3000.

3.9 As we can see, SBI has set three slabs of shortfalls and within each slab the charges are constant in rupee terms, i.e., the charges are **not a fixed percentage** of the shortfall even within each slab. Moreover, though between slabs the charges vary, with respect to slab means the charges are **not a fixed percentage**. In fact, the percentage decreases with increase in mean shortfall. In other words, under no circumstance does SBI ensure charges being a fixed percentage of the shortfall. It is a different matter that the charges are reasonable in absolute terms but surely they are not reasonable in relative terms, given that RBI has clearly defined what, in relative terms, is reasonable.

3.10 One could have cared less if the bank's approach had been on penalising more, in percentage terms, the accounts with larger shortfalls (i.e., larger default) than the ones with smaller shortfalls (i.e., smaller defaults). However, the actual SBI penalty structure is such that it leads to accounts with smaller shortfalls cross subsidising the accounts having larger shortfalls. The average penal percentage for the three brackets set by SBI under metro/urban works out to be about 9%, 2.1% and 1.9% respectively, of the shortfall amount (based on a workout of sequential increments of Rs 30 shortfall under every bracket). Alternatively, the penal percentages with respect to the slab means for the three brackets set by SBI under metro/urban works out to be 4%, 2.13% and 1.90% respectively.

| SBI (min. bal. Rs 3000) | Slab 1 | Slab 2 | Slab 3 |
|---|---|---|---|
| Shortfall Slab Means Rs (x) | 750 | 1875 | 2625 |
| Charges Rs (y) | 30 | 40 | 50 |
| y as percentage of x (%) | 4.00 | 2.13 | 1.90 |




**SBI's actual charges and possible proportionate fit in Metro/Urban**

3.11 As mentioned earlier, during the period April-September, 2017, SBI earned a revenue of around Rs 1300 crore from penal charges for non-maintenance of minimum balance. Based on the data relating to the month of April, 2017 (see para 1.3), this penalty was recovered from nearly 23 crore debit entries in the six-month period. Therefore, a rough estimate indicates that about 12 crore debit entries in form of the then penal charges of Rs 50 (metro), Rs 40 (urban), Rs 25 (semi-urban) and Rs 20 (rural) for Slab 1 shortfalls in the normal savings bank accounts of

SBI got reflected during the period April-September 2017. Note that Slab 1 interval has the same width as slabs 2 and 3 taken together. Since the bank is following an approach where accounts with smaller shortfalls are, in percentage terms, cross subsidising accounts having larger shortfalls, a correction to that effect would allow us to workout the excessive amounts charged in these 12 crore debit entries. This is presented in Appendix C. Assuming that the debit entries Rs 50, Rs 40, Rs 25 and Rs 20 have equal frequencies, it follows that about Rs 141 crore was the excessive charge imposed due to possible non-compliance of the proportionality principle set by RBI[13]. Though we have done this small exercise for SBI, similar exercise can be done for other banks (see Appendix D).

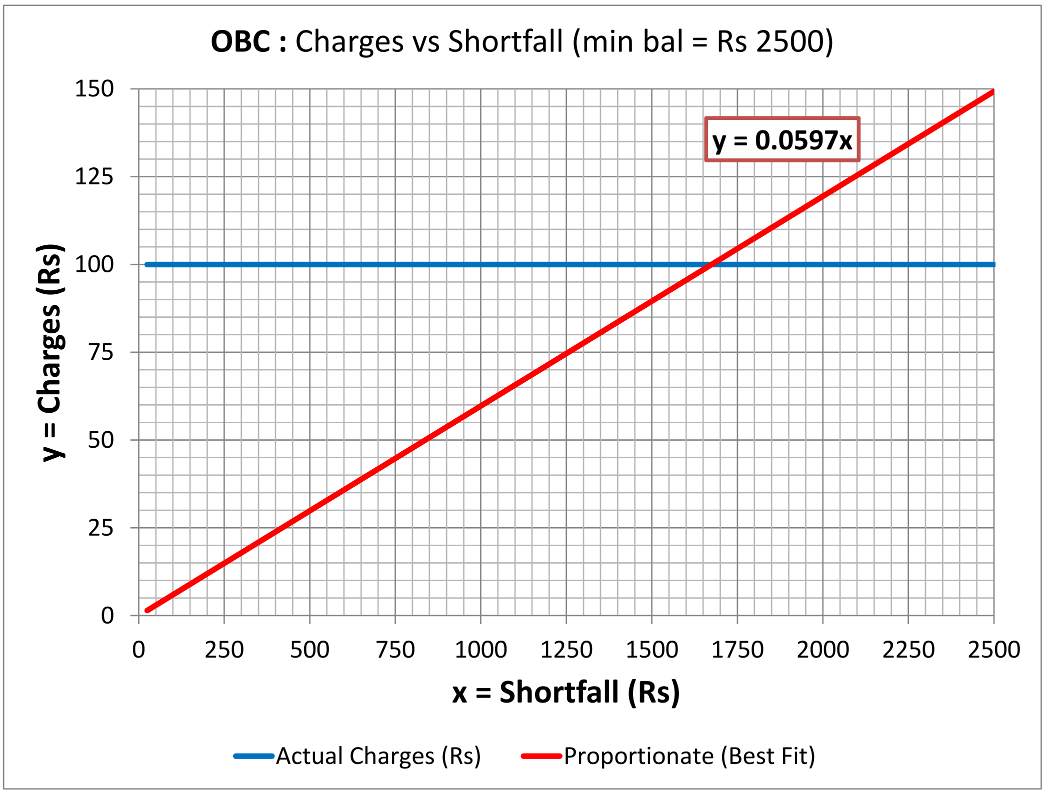
3.12 In general, it is observed that for SBI, and similarly for most of the other banks illustrated in the following sub-sections, the penal charge slab structure has been so set that not only vitiates *suitability* in terms of the explicit 'fairness' brought in by the RBI regulation (i.e., the charges have to be a fixed percentage of shortfall) but is also kinder to larger defaulters at the cost of major masses who default only at the margin.

## OBC

3.13 OBC has set only one slab for imposing penalty for shortfall in minimum balances in their savings account. With their minimum balance $m$ = Rs 2500, for shortfalls in the range Rs 0-2500 the penal charge is a flat Rs 100. In other words, OBC has set a single slab of shortfalls and within such a slab the charges are constant in rupee terms, i.e., the charges are **not a fixed percentage** of the shortfall even within the slab. Thus, under no circumstance does OBC ensure charges being a fixed percentage of the shortfall. Even though the charges may be reasonable in absolute terms but surely they are not reasonable in relative terms as envisaged under the regulation.

[13] On a conservative side, considering equal distribution of shortfalls, an average excessive charge of about Rs (20+16+5+6) = Rs 47 was collected for every four debit entries corresponding to Slab 1. Since Slab 1 would give rise to about 12 crore penal entries, the total excessive charge under Slab 1 due to improper cross subsidisation is Rs (12×47/4) = Rs 141 crore.

| OBC (min. bal. Rs 2500) | Slab 1 |
|---|---|
| Shortfall Slab Means Rs (x) | 1250 |
| Charges Rs (y) | 100 |
| y as percentage of x (%) | 8.00 |



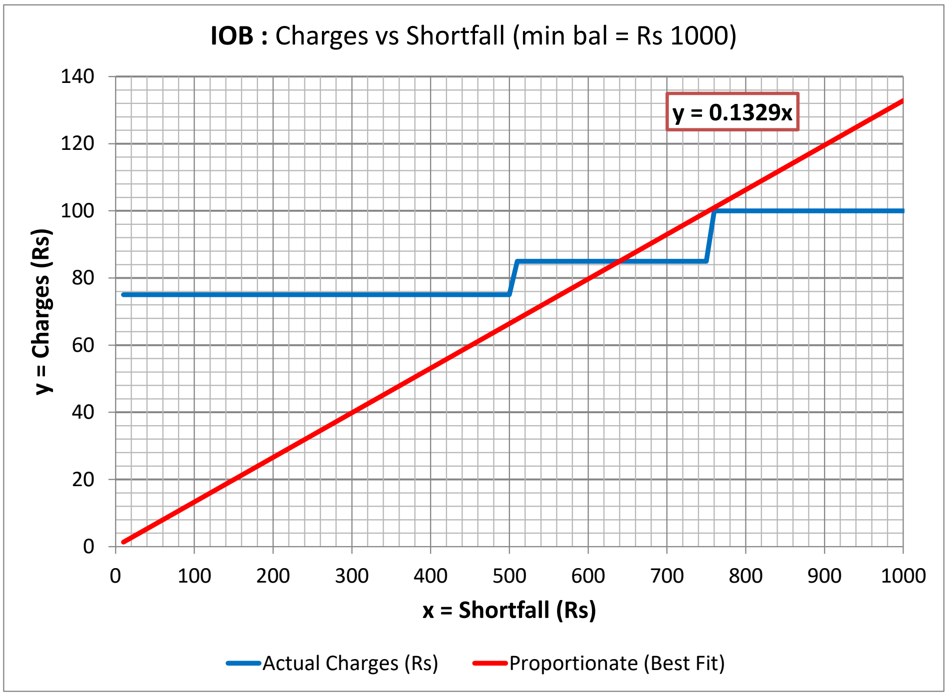

**OBC's actual charges and possible proportionate fit in Metro/Urban**

3.14 The bank sets a typical example where one could argue that regulations A(a) and A(b) have been followed by the bank with the penal charges being fixed 6% of shortfall. However, invoking regulation A(c) thereafter, the bank has finalised a 'suitable' slab structure where there is just one slab of penal charge of Rs 100. This highlights how a loose end, such as in regulation A(c), can distort the spirit of the regulation. In the present age of CBS, the spirit behind regulation A(c) could at best be used for rounding off the penal charges to the nearest higher Rupee.

## IOB

3.15 IOB has set three slabs of shortfalls (Rs 0-500, Rs 500-750 and Rs 750-1000) and within each slab the charges are constant in rupee terms (Rs 75, Rs 85 and Rs 100, respectively), i.e., the charges are **not a fixed percentage** of the shortfall even within each slab. Moreover, though between slabs the charges vary, with respect to the slab means the charges are **not a fixed percentage**. In fact, the percentage decreases with increase in mean shortfall. In other words, though the charges may be reasonable in absolute terms, under no circumstance does IOB ensure charges being a fixed percentage of the shortfall. The charges are not reasonable in relative terms, since RBI's regulation has clearly defined what, in relative terms, is reasonable.

| IOB (min. bal. Rs 1000) | Slab 1 | Slab 2 | Slab 3 |
|---|---|---|---|
| Shortfall Slab Means Rs (x) | 250 | 625 | 875 |
| Charges Rs (y) | 75 | 85 | 100 |
| y as percentage of x (%) | 30.00 | 13.60 | 11.43 |



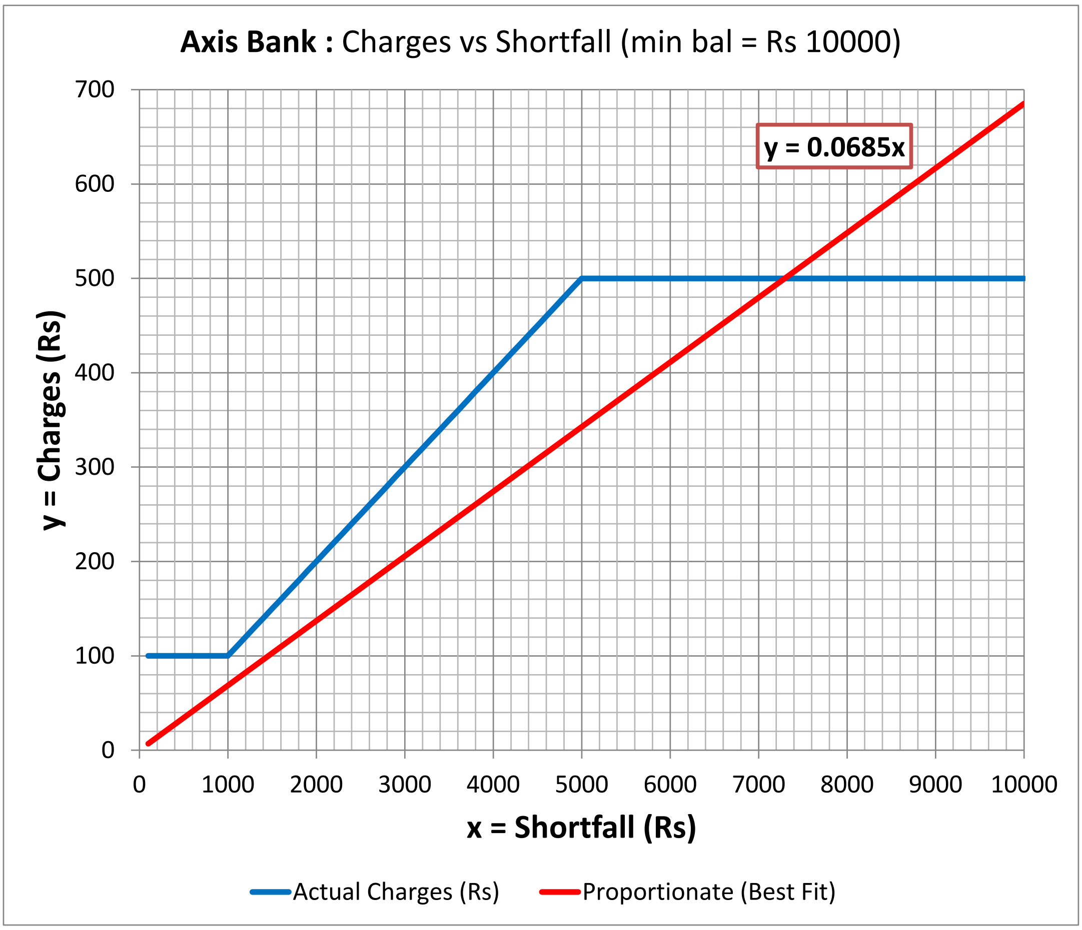

**IOB's actual charges and possible proportionate fit in Metro/Urban**

3.16 As seen in the case of the two banks studied earlier, this bank too is penalising more, in percentage terms, the accounts with smaller shortfalls than ones with larger shortfalls. This is leading to accounts with smaller shortfalls cross subsidising for the accounts having larger shortfalls. Furthermore, the bank on a monthly basis charges an exorbitant 30% of the shortfall amount in the first slab. In fact it can go much higher, for example, if the shortfall is only Rs 50 say, the charges, in percentage terms, would be an astonishingly 150% of this shortfall (that too applicable on a monthly basis).

## Axis Bank

3.17 Axis Bank has set a minimum balance requirement of Rs 10000 and imposes penalty at the rate of Rs 10 for every Rs 100 shortfall subject to a minimum penalty of Rs 100 and a maximum of Rs 500. Thus, in effect the bank has set three slabs of shortfalls (Rs 1-1000, Rs 1000-5000 and Rs 5000-10000) and within the first and third slab the charges are constant (Rs 100 and Rs 500, respectively), i.e., the charges are **not a fixed percentage** of the shortfall. For the second slab, the bank charges a fixed 10% of the shortfall (rounded to the nearest higher Rs 10). Moreover, though between slabs the charges vary, with respect to the slab means the charges are **not a fixed percentage**. In fact, the percentage decreases with increase in mean shortfall. Overall, Axis Bank does not ensure charges being a fixed percentage of the shortfall, though in case of the second slab the charges are a fixed percentage of the shortfall.

| Axis Bank (min. bal. Rs 10000) | Slab 1 | Slab 2 | Slab 3 |
|---|---|---|---|
| Shortfall Slab Means Rs (x) | 500 | 3000 | 7500 |
| Charges Rs (y) | 100 | 300 | 500 |
| y as percentage of x (%) | 20.00 | 10.00 | 6.67 |



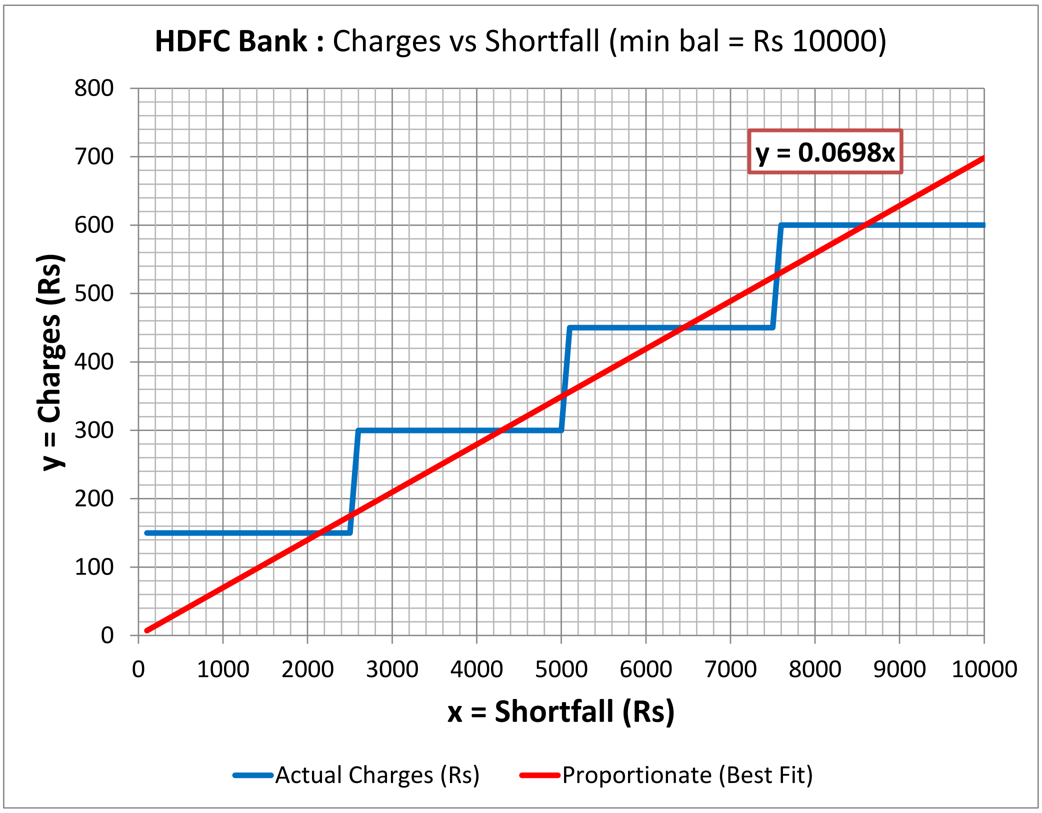

**Axis Bank's actual charges and possible proportionate fit in Metro/Urban**

3.18 Given that RBI's regulation has clearly defined what, in relative terms, is reasonable, Axis Bank's charges are not reasonable in relative terms since the bank's approach has been on penalising more, in percentage terms, the accounts with smaller shortfalls than ones with larger shortfalls. This has led to accounts with smaller shortfalls cross subsidising for the accounts having larger shortfalls. The penal percentages with respect to the slab means for the three effective brackets set by Axis Bank under metro/urban works out to be 20%, 10% and 6.67% respectively.

## HDFC Bank

3.19 HDFC Bank has set four slabs of shortfalls (see graph below) and within each slab the charges are constant in rupee terms, i.e., the charges are **not a fixed percentage** of the shortfall even within each slab. Moreover, though between slabs the charges vary, with respect to the slab means the charges are **not a fixed percentage**. In fact, the percentage decreases with increase in slab mean shortfall. Though at a first glance it may appear that slabs have been formed for the recovery of charges based on RBI's fixed percentage rule, but it is not quite so.

| HDFC Bank (min. bal. Rs 10000) | Slab 1 | Slab 2 | Slab 3 | Slab 4 |
|---|---|---|---|---|
| Shortfall Slab Means Rs (x) | 1250 | 3750 | 6250 | 8750 |
| Charges Rs (y) | 150 | 300 | 450 | 600 |
| y as percentage of x (%) | 12.00 | 8.00 | 7.20 | 6.86 |




**HDFC Bank's actual charges and possible proportionate fit in Metro/Urban**

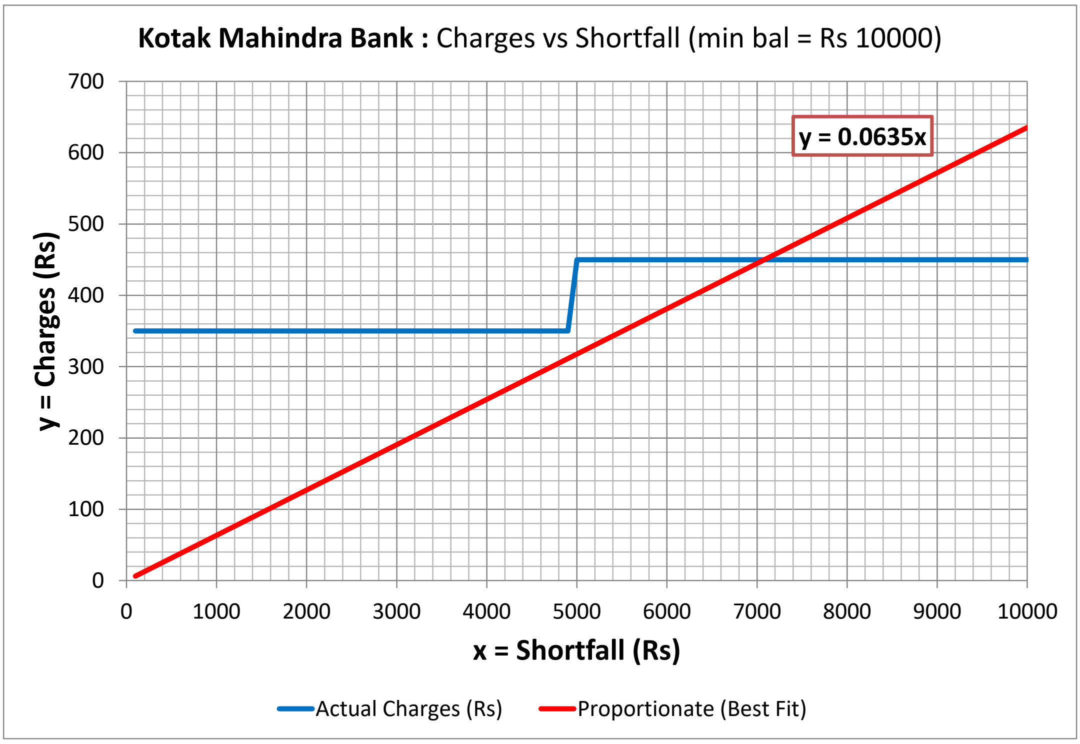
3.20 For HDFC Bank, the best fit leads to the proportionality constant *k*, which tends to a value of 0.07, i.e., charges are a fixed 7% of the shortfall. Corresponding to such a 7% rate, even if we consider framing their extreme four level slab structure (giving rise to significant disconnects at slab margins), it would have implied penal charges of Rs 87.50 for slab 1, Rs 262.50 for slab 2, Rs 437.50 for slab 3, and Rs 612.50 for slab 4. Comparing this with what is actually the effective charges set by the bank, it is clear that the bank's current approach is leading to accounts with smaller shortfalls significantly cross subsidising for the accounts having larger shortfalls. However, it is a different matter that the bank may like to portray charges as a fixed 6% of shortfalls where shortfalls are forced to be considered at a slab end-point.

3.21 Making broad slab intervals with constant charges in rupee terms within the interval is not only unsuitable but also distorts the whole rationale of proportionate charges under the extant regulations. It also unnecessarily creates significant disconnects in charges between slabs.

## Kotak Mahindra Bank

3.22 Kotak Mahindra Bank has set two slabs of shortfalls (Rs 0-5000 and Rs 5000-10000) and within each slab the charges are constant in rupee terms (Rs 350 and Rs 450, respectively), i.e., the charges are **not a fixed percentage** of the shortfall even within each slab. Moreover, though between slabs the charges vary, with respect to the slab means the charges are **not a fixed percentage**. In fact, the percentage decreases significantly (from 14% to 6%) with increase in mean shortfall (from Rs 2500 to Rs 7500). In other words, under no circumstance does the bank ensure charges being a fixed percentage of the shortfall.

| Kotak Bank (min. bal. Rs 10000) | Slab 1 | Slab 2 |
|---|---|---|
| Shortfall Slab Means Rs (x) | 2500 | 7500 |
| Charges Rs (y) | 350 | 450 |
| y as percentage of x (%) | 14.00 | 6.00 |



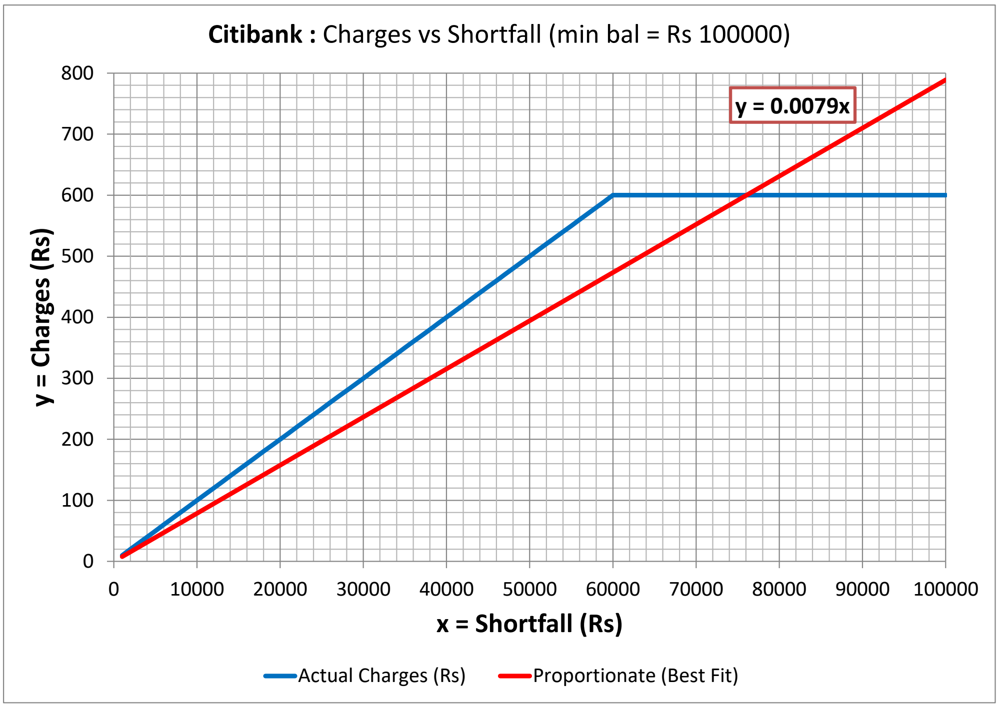

**Kotak Bank's actual charges and possible proportionate fit in Metro/Urban**

3.23 It is pertinent to mention that the bank should transparently declare a '*constant of proportionality*', which it might have adopted while arriving at the charges in line with regulations A(a) and A(b) for non-maintenance of their prescribed minimum balance in savings account. It is a different matter, as would be dealt later in the next section, that the best fit of the bank's current charges to the proportionality model gives a value of 0.0635 for the constant of proportionality. That means the charges have been fixed at an average rate of 6.35% of every month's shortfall.

## Citibank

3.24 Citibank has effectively set two slabs of shortfalls (see graph below) where, within the first slab, the bank charges a fixed 1% of the shortfall. For the second slab the charges are constant in rupee terms (Rs 500), i.e., the charges are **not a fixed percentage** of the shortfall in the second slab. Moreover, though between slabs the charges vary, with respect to the slab means the charges are **not a fixed percentage**. In fact, the percentage decreases with increase in mean shortfall. Overall Citibank does not ensure that the charges are a fixed percentage of the shortfall, though in case of the first slab the charges have been set as a fixed percentage of the shortfall.

| Citibank (min. bal. Rs 100000) | Slab 1 | Slab 2 |
|---|---|---|
| Shortfall Slab Means Rs (x) | 30000 | 80000 |
| Charges Rs (y) | 300 | 600 |
| y as percentage of x (%) | 1.00 | 0.75 |




**Citibank's actual charges and possible proportionate fit in Metro/Urban**

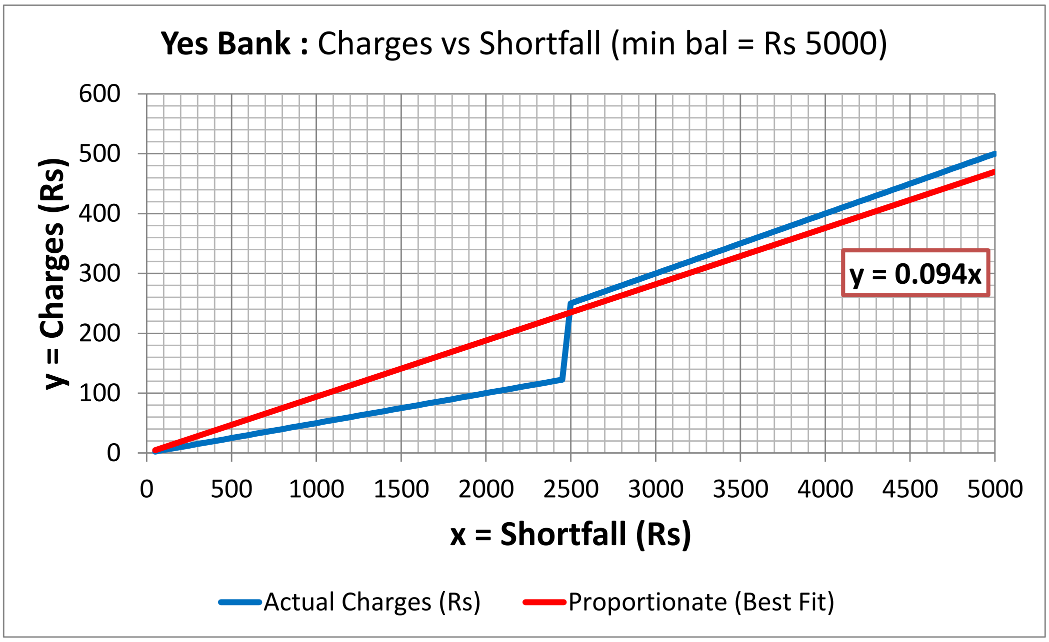
## Varying or fixed percentage slab structure – illustration for four banks

3.25 Although banks may have attempted and perceived to have set some suitable slabs, there are few banks who have maintained charges as a fixed percentage of the shortfall within each slab. However, the way this has been done by a few banks gives rise to significant disconnects as one moves from one slab to another. To illustrate this, we consider four banks Yes Bank, IndusInd Bank, ICICI Bank and Standard Chartered Bank.

### Yes Bank

3.26 For Yes Bank, the respective slab rates are 5% and 10% of the shortfall $x$, for $0 < x < 2500$ and $2500 \leq x \leq 5000$. Unlike other banks, such a slab structure can possibly be considered suitable (but would still lack sufficient rationale) with penal rate increasing for the excessive shortfalls. Notwithstanding suitability, such a slab structure significantly distorts the concept of fixed percentage of the shortfall in the vicinity of $x$ = Rs 2500. What Yes Bank could possibly have done is to make the two slabs with charges being, 5% for shortfall *upto* Rs 2500, and 10% for the shotfall *in excess of* Rs 2500. In other words, for shortfall upto Rs 2500, the penal charges are 5% of shortfall, while for shortfalls exceeding Rs 2500, the penal charges are Rs 125 plus 10% of shortfall *in excess of* Rs 2500.

| Yes Bank (min. bal. Rs 5000) | Slab 1 | Slab 2 |
|---|---|---|
| Shortfall Slab Means Rs (x) | 1250 | 3750 |
| Charges Rs (y) | 62.5 | 375 |
| y as percentage of x (%) | 5.00 | 10.00 |



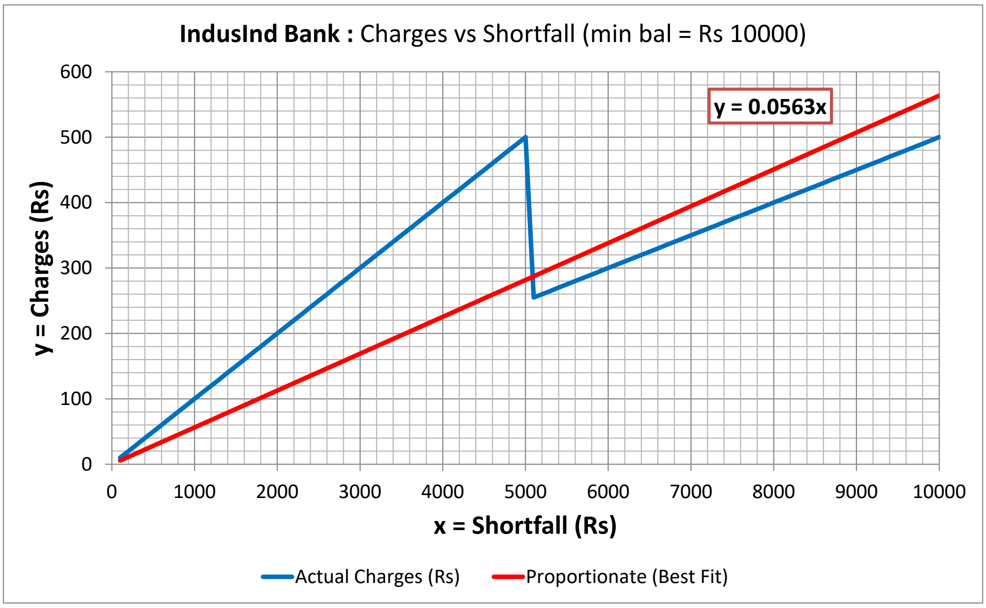

**Yes Bank's actual charges and possible proportionate fit in Metro/Urban**

3.27 Even though the overall penal charge structure violate regulations A(a) and A(b), if it is still considered to be in the right direction, the bank's slab structure has some inherent inefficiency in form of disconnects, which could be easily improvised. It is interesting to note that the bank, while giving interest in their savings deposit accounts, has taken care of this disconnect and has judiously arrived at a continuous slab structure for balances earnings interest at variable rates. The bank gives 5% interest for balances of less than Rs 1 lakh; gives 6% interest on balances in excess of Rs 1 lakh and less than Rs 1 crore; and 6.25% interest for balances in excess of Rs 1 crore.

## IndusInd Bank

3.28 IndusInd Bank has set slab rates of 10% and 5% of the shortfalls $x$ for $0 < x \leq 5000$ and $5000 < x \leq 10000$ respectively. Such a slab structure completely distorts the concept of charges being directly proportionate to shortfalls[14]. The penal charge is not a fixed percentage of the shortfall in the vicinity of $x$ = Rs 5000 and messes up the spirit behind formation of the slabs.

| IndusInd Bank (min. bal. Rs 10000) | Slab 1 | Slab 2 |
|---|---|---|
| Shortfall Slab Means Rs (x) | 2500 | 7500 |
| Charges Rs (y) | 250 | 375 |
| y as percentage of x (%) | 10.00 | 5.00 |




**IndusInd Bank's actual charges and possible proportionate fit in Metro/Urban**

3.29 It appears that the bank is violating regulations A(a) and A(b) but get possibly protected due to regulation A(c). There is a tendency on part of bank to express somewhat like '… our slab

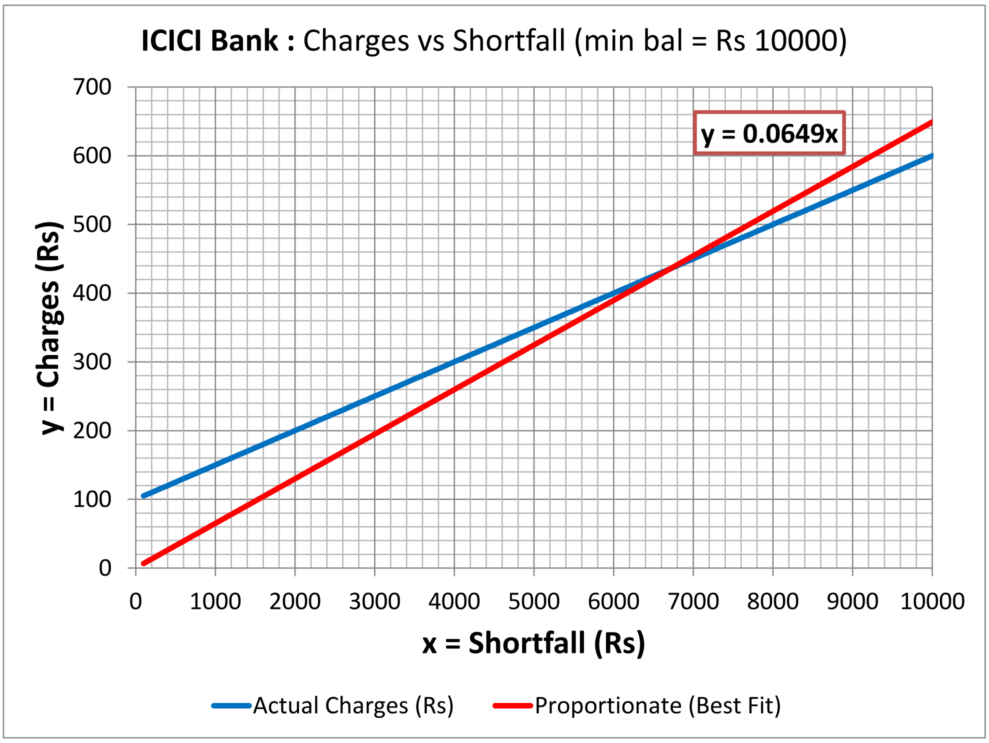
[14] For example, the bank charges Rs 400 for an average monthly shortfall of Rs 4000 and charges Rs 300 for an average monthly shortfall of Rs 6000.

structure incorporates a balancing act so as to comply with the regulation B, even if it may amount to lower slab shortfalls being charged more in rupee terms than higher slab shortfalls'.

## ICICI Bank

3.30 We observe that ICICI Bank has set a regression relation between charges and shortfall, though, with a non-zero incercept. For the charges $y$, the bank has set a relation $y = 100 + 0.05x$, for shortfalls $x$, where $0 < x \leq 10000$. This is not quite what RBI has mandated, which demands a relation of the type $y = kx$. Corresponding to their regression relation with non-zero intercept of Rs 100 and slope of 0.05, the best fit for the proportiality relation, as $n \to \infty$, has $\hat{k} = 0.065$, i.e. penal charges being 6.5% of the shortfall amount.

| ICICI Bank (min. bal. Rs 10000) | Slab 1 |
|---|---|
| Shortfall Slab Means Rs (x) | 5000 |
| Charges Rs (y) | 350 |
| y as percentage of x (%) | 7.00 |




**ICICI Bank's actual charges and possible proportionate fit in Metro/Urban**

3.31 Though RBI has set the proportionate rule which forces the intercept to be zero, this aspect could be deliberated upon. However, the only disadvantage of allowing a non-zero intercept would be possible exploitation and unreasonable value that may get charged even for a marginal slip in maintenance of minimum balance. However, that could possibly be checked if we are able to establish the overall reasonability of the fitted constant of proportionality, which in case of

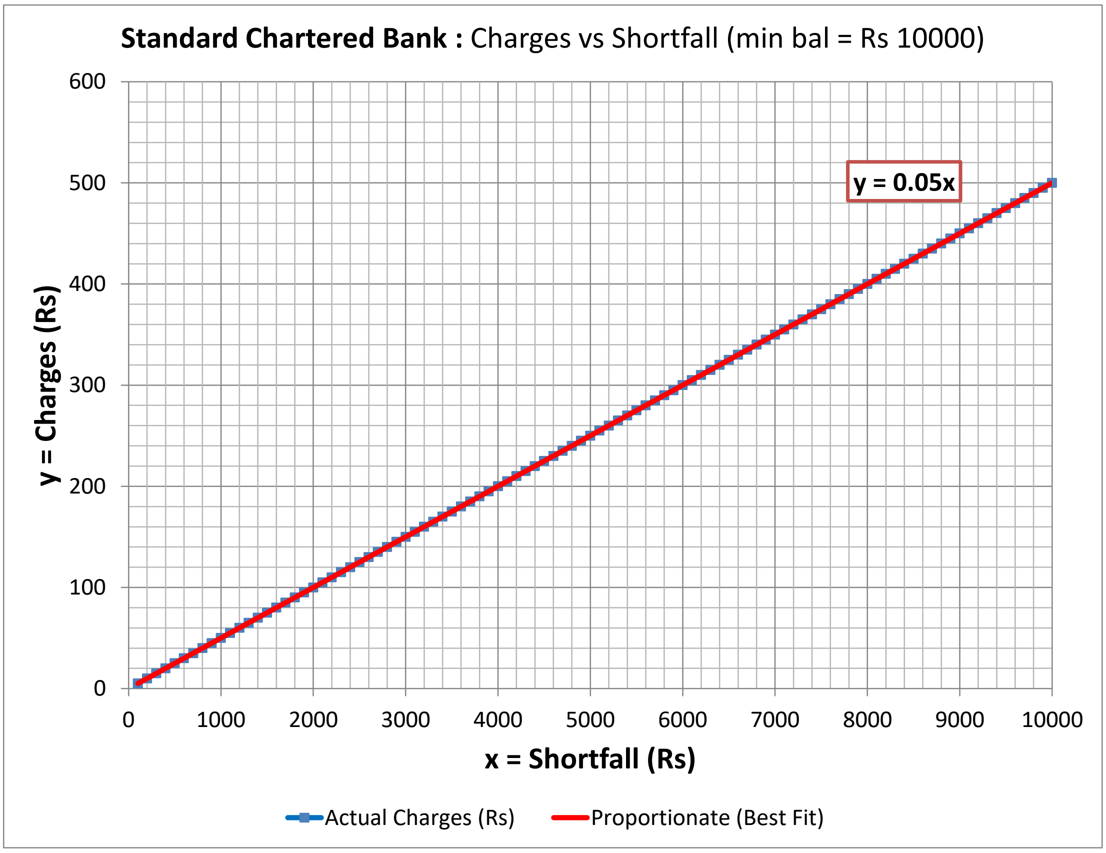
ICICI bank is 6.5% per month or 78% per annum. In other words, the cost of shortfall funds has an inherent interest rate of 78% per annum and appears to have no correlation to the cost of shortfall funds measured in terms of the call money market rate.

3.32 Since the cost of shortfall funds has an inherent relation to prevaling call money market rate, in the next section, we focus on how to ensure or judge that such penal charges are reasonable and not out of line with the average cost of funds.

## Standard Chartered Bank

3.33 Finally, we see that Standard Chartered Bank is fully compliant in following the regulation A. The bank has set charges at a fixed 5% of the shortfall. In other words, for the charges $y$, the bank has set a relation $y = 0.05x$, for shortfalls $x$, where $0 < x \leq 10000$. Wisely, the bank did not consider it relevant to make any further slabs, for recovery of charges. Their charges may at best get rounded off to the nearest Rupee.

| Standard Chartered (min. bal. Rs 10000) | Slab 1 |
|---|---|
| Shortfall Slab Means Rs (x) | 5000 |
| Charges Rs (y) | 250 |
| y as percentage of x (%) | 5.00 |




**Standard Chartered Bank's actual charges and directly proportionate fit in Metro/Urban**

## IV. How to judge reasonability of penal charges?

### General prespective

4.1 When RBI says "*banks should ensure that such penal charges are reasonable and not out of line with the average cost of providing the services*", the vital question that arises is whether RBI has built any capacity (in terms of a methodology) to judge compliance of the regulation. As such there is no item-wise scientific costing in banks since most of the operational expenses relate to bank as a whole. It may not be feasible to calculate precise costing for a particular type of account. However, the broader costs associated with deposit products are covered by the net interest margin[15] (NIM).

4.2 During 2015-16, the country's banking sector had an average of about Rs 25.1 lakh crore parked under savings bank deposits and about Rs 8.6 lakh crore held under current account deposits (see references [2] and [5]). The then 1-year term deposit rates, on an average, hovered above the repo rate (the rate at which RBI lends to the banks). Thus considering the then prevailing average repo rate of 6.5% per annum, the Rs 25.1 lakh crore parked under savings bank deposits had a potential to fetch interest to the depositors at least to the tune of Rs 1,50,098 crore (@ 6.5%) in a year. This is so since as per RBI[16], on an average, 92% of the total amount of savings bank deposits held by banks always remains with the bank throughout the year[17]. However, at 4% per annum average savings bank interest rate, what was received by the depositors is only Rs 1,00,400 crore in a year. The prime reason why savings account holders' money is not receiving more interest is the banking industry's choice to retain a major chunk of the Rs 49,698 crore (= $\alpha$) balance for cushioning their operational expenses and profitability.

4.3 RBI has regulated the interest rate on current account at 0% per annum. RBI may be aware that a very conservative estimate of the time component[18] of current account deposits is 50%. This guides us to the fact that about Rs 4.3 lakh crore held in the current accounts saves banks' interest liability to the tune of Rs 27,950 crore (= $\beta$) (at repo rate of 6.5%) or about Rs 17,200 crore (at savings bank rate of 4%) as the system currently provides nothing to the time component of the current account deposits.

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[15] Net interest margin (NIM) is a measure of the difference between the interest income generated by banks and the amount of interest paid out to their lenders (e.g., deposits), relative to the amount of their (interest-earning) assets.
[16] Deregulation of Savings Bank Deposit Interest Rate: A Discussion Paper, RBI, April 28, 2011. http://www.rbi.org.in/Scripts/bs_viewcontent.aspx?Id=2344.
[17] For calculating the "time liability" portion of saving deposits, the average of the minimum balances maintained (in each account) in each of the month during the half year period shall be treated by the bank as the amount representing the "time liability" portion of the savings bank deposits. See Sl. No. 57 of the Technical Guidance Note on XBRL Returns – Harmonization of Banking Statistics. RBI, March 30, 2017. https://www.rbi.org.in/scripts/bs_viewcontent.aspx?Id=3328
[18] One may refer to "Debits to Deposit and Credit Accounts with Scheduled Commercial Banks: 2004-05", Reserve Bank of India Bulletin, November 2006.

4.4 Over time, with the advent of information and communications technology and with the CBS in place, the banking system has evolved where the actual cost to manage 1-year term deposits vis-à-vis current account and savings account deposits for one year, should not be as large as Rs 77,648 crore (= $\alpha+\beta$). Thus, given that the banking sector already has in place RBI mandated *reasonable service charges* (not out of proportion of actual cost to provide the various services related to current and savings bank accounts), it appears unjustified to attribute an additional disproportionately high cost of Rs 77,648 crore to manage the minimal free services of current and savings bank deposit accounts.

4.5 For normal savings bank deposit accounts, other than certain RBI mandates in form of caps on service charges for ATM and NEFT/RTGS usage and cheque clearings, there exists no explicit or clearly defined mandate on service charges. Banks usually provide additional services for free or at a discount based on what minimum balance requirements are set for such normal savings bank accounts.

4.6 As already mentioned earlier, it has been perceived for long that it is necessary for banks to provide certain minimum number of basic transactions for free in a savings bank account since banks have differentiated the rate of interest on the time component of the savings bank deposits and the term deposits. Under the premise that on an average there would be some reasonable amount of money in the savings account, the differentiated rate of interest has been the basis of identifying the nature and quantum of 'basic transactions' to be provided free by banks. Thus what is perceived as 'free' service of savings accounts by banks is actually paid *ex ante* by depositors by agreeing to park their funds in these accounts at a lower return.

4.7 Keeping in view that RBI has mandated *Ensuring Reasonableness of Bank Charges*[19] (see, Box-2), either the banks have to *correctly* migrate to prudent pricing as per actual cost of a specific service, or RBI (under Section 35A of the Banking Regulation Act, 1949) may consider intervening in public interest and in the interest of banking policy to refine/reorient its directives on 'reasonableness'.

**Box-2: Fixing of service charges by banks**

The practice of Indian Banks' Association (IBA) fixing the benchmark service charges on behalf of member banks has been done away with and the decision to prescribe service charges are now taken by banks themselves with approval from their Board. While fixing service charges for various types of services like charges for cheque collection, etc., banks should ensure that the charges are reasonable and are not out of line with the average cost of providing these services. Banks should also ascertain that customers with low volume of activities are not penalised.

[19] Master Circular on Customer Service in Banks. RBI/2015-16/59 DBR No.Leg.BC.21/09.07.006/2015-16 July 1, 2015 https://rbidocs.rbi.org.in/rdocs/notification/PDFs/59FM04072F58B1DD44DFADD486B9B0A59E9D.PDF

4.8 Here the specific service provided by the banks is to allow withdrawal of funds even when balances go below the minimum balance prescribed. Accordingly, the penal charges for non-maintenance of the banks' prescribed minimum balance should ideally be commensurate with the actual cost of the shortfall funds. Banks should not thrust as charges the cost of something which should be borne, on an average, by all normal savings bank account holders – like the broader cost of NPA or cost of running BSBDAs or cost of running ATMs, etc. Banks have already been given the freedom to use the savings bank interest rate as an instrument to adjust for their overall expenditure-revenue. Therefore, given that RBI has clearly put in a regulation mandating banks to ensure that the charges are reasonable and as per cost of the specific service, RBI needs to appropriately address whether it is desirable to artificially build cross subsidisation in a selective manner in form of excessive service charges.

## Cost of 'shortfall' funds

4.9 What does it cost banks to provide a service of bringing an account holder at par with one who maintains exactly the banks' required minimum balance? Discovering the cost of shortfall funds has at least two aspects. Firstly, banks may be constrained to keep the quantum of the minimum balance low, leading to situations where it may not even account for the banks' expenses to serve the depositor. The expenses primarily include the free ATM and branch facilities that banks provide. Moreover, with the digital means of transactions getting promoted there would be new establishment costs that the banks would initially incur, but in the long run it would fetch gainful returns. Secondly, from the consumers' standpoint, the banks can always top the shortfall amount by borrowing the same from the market based on the actual cost of funds in the market.

4.10 The first aspect has a notion of cross subsidisation. The banks are able to keep the quantum of the minimum balance low and absorb the expense impact since much higher balances than the minimum prescribed are kept in many accounts, which cross subsidise the accounts which may just about maintain the minimum balance. In other words, accounts in a bank, on an average, maintain higher balances than the minimum the bank may have prescribed.

4.11 Coming to the second aspect, the cost of funds world over is judged by the interest charged for the same. The shortfall funds are not any type of loan taken from the bank and thus does not carry any credit risk. Nevertheless, the bank would want to have with it money, equal to the shortfall funds, so that it can give lower interest on the same and earn higher returns. The loss in terms of the overall NIM due to a bank being deprived of the low cost funds is a concern, and thus a depositor not maintaining the minimum balance needs to be penalised. This penalty, in order to be reasonable and be in line with the average cost of funds, has to be at the current market rate (say, call money market rate) *minus* the savings interest rate. However, since RBI has allowed a grace period of one month before bank can impose any charge for non-maintenance of minimum balance, it creates a leakage in revenue arising out of such shortfalls in savings accounts. Thus, the penal rate should possibly be twice the rate that prevails in the market for the cost of funds *minus* the savings interest rate. This savings interest rate can possibly be ignored so as to cover for the cost to setup IT based control mechanisms for such type of customers who have shortfalls.

4.12 A shortfall in minimum balance maintenance by a savings account depositor can be considered akin to an overdraft facility availed by a customer. The only difference between overdraft funds and the shortfall money (in the required minimum balance) is the credit risk associated with the overdraft account. Since there is no credit risk in shortfall funds, there is no rationale for its cost to exceed the cost of overdraft funds. The interest rate in overdraft accounts was in the range of 6 to 14% per annum as on March 2016[20]. Since then the interest rates have eased down significantly. Contrastingly, on the other extreme, the loans through credit cards carry a rate of around 40% per annum. If the cost of highly risky credit card based funds is 40% per annum[21], can the cost of zero risk funds (shortfall in customers' own savings deposit funds) be more than 40% per annum? Ideally, comparison with overdrafts highlights no grounds to charge more than 10% per annum for shortfalls in savings bank accounts.

4.13 The banks are required to be transparent with respect to the guidelnes set by RBI and accordingly, the 'constant of proportionality' that a bank adopts while arriving at the charges, in line with regulations A(a) and A(b), needs to get highlighted upfront. This constant of proportionality has a one-one relation to the cost of shortfall funds. In other words the monthly charges expressed as a fixed percentage of shortfall funds is synonymous to the monthly interest charged by banks for not keeping the due funds with the banks.

4.14 Though banks have been given the freedom to decide an overall revenue so long as it is reasonable, RBI has also formulated the penal charges rule with an objective of bringing in fairness from the customers' angle. The rule is not to facilitate adjustments by banks based on their analysis of the distribution of shortfalls and net amount of revenue expected; thereby creating a situation of unjustified cross subsidisation.

### What is banks' basis of charging for the cost of 'shortfall' funds?

4.15 Most of the banks have set the charges on a monthly basis. Since RBI has mandated that banks cannot impose the penal charges for a month (due to shortfall) so long as in the subsequent month there is no shortfall, it leads to a situation where a depositor could judiciously maintain minimum balance only in alternate months and still not be charged any penalty during the whole year, for his shortfalls in alternate months. This aspect needs to be kept in mind while we try to discover reasonableness in cost of funds. In other words, the cost of funds would technically get doubled just to overcome this benefit being provided by RBI. Nevertheless, it is worth studying

[20] See Table 4.2A in reference [2].

[21] Credit card interest rates are based on an inherent cross subsidisation to cover for defaulters.

what sort of actual revenue loss does this specific regulation of RBI impose on the banks. Such a measure can be used to adjust the penal charges due to shortfalls.

4.16 We have already provided the charge structure for the eleven banks. For them the summary of monthly fixed rate that gets translated, based on a best fit under the proportionality model, is presented in Table-1 along with the effective annual rate the banks charge for the shortfalls in normal savings accounts. While arriving at the constant of proportionality we have used $n = 100$. The results hardly differ even if we consider $n$ to be larger.

4.17 It is clear from Table-1 that banks don't seem to correlate cost of shortfall funds with the cost of the same funds in the call money market. Banks lend to each other in call money market without collateral. The call money market rates on an average have been less than 7% per annum, in the near past. Thus, keeping the alternate month shortfall issue in view and the cost to setup IT based control mechanisms for such type of customers, it is imperative that the cost of shortfall funds cannot exceed 14% per annum. With many banks charging at an average high rate of 78% per annum of the shortfall amount, it makes the whole regulation of 'reasonableness of charges as per cost' quite shallow.

Table-1: Glimpse of the bank charges in terms of annual penal rate on shortfall funds

| Name of Bank | Minimum balance (Rs) | Constant of proportionality ($k$) | Monthly rate set by bank (%) | Implicit Annual rate set by bank (%) |
|---|---|---|---|---|
| SBI | 3000 | 0.0208 | 2.08 | 24.96 |
| OBC | 2500 | 0.0597 | 5.97 | 71.64 |
| IOB | 1000 | 0.1329 | 13.29 | 159.48 |
| | | | | |
| Axis Bank | 10000 | 0.0685 | 6.85 | 82.20 |
| HDFC Bank | 10000 | 0.0698 | 6.98 | 83.76 |
| Kotak Mahindra Bank | 10000 | 0.0635 | 6.35 | 76.20 |
| Yes Bank | 5000 | 0.0940 | 9.40 | 112.80 |
| IndusInd Bank | 10000 | 0.0563 | 5.63 | 67.56 |
| ICICI Bank | 10000 | 0.0649 | 6.49 | 77.88 |
| | | | | |
| Citibank | 100000 | 0.0079 | 0.79 | 9.48 |
| Standard Chartered Bank | 10000 | 0.0500 | 5.00 | 60.00 |

4.18 This high rate of penalty appears to have no correlation with the costs for arranging such funds at, say, the call money market rate. The present charges for the cost of shortfall funds are camouflaged in a manner which doesn't look exploitative but are actually so. RBI may like to see if it is fair for the banks to let their charges remain as is, disregarding the underlying and intended spirit of the regulation.

## The way out

4.19 Currently banks are under tremendous pressure due to other major concerns such as NPAs and accordingly one wonders whether RBI is in a position to issue directions on these matters, which relate to direct consumer education and protection. Though the regulation on minimum balance has been arrived at after in length deliberations that RBI may have had with the banks, unless there are rational grounds, in spirit the banks and RBI need to uphold the law and ensure that it does not encourage non-compliance over those banks that choose to be compliant. After all by not following the regulation in spirit, the banks appear to induce discrimination among depositors. There are no grounds for cross subsidising through propagation of disproportionate charging structure. Instead banks may at best play with the savings bank interest rate, which applies to all depositors.

4.20 Nevertheless, the banking supervisor may like to ensure compliance of its regulatory instructions on minimum balance so that no individual is left discriminated. This may require a clear understanding on whether RBI should allow cross subsidisation to be loaded in the workout of the service charges. Ideally such a practice is discouraged since a platform based on cross subsidisation is likely to induce discrimination.

4.21 Moreover, now that RBI, as mentioned by DG(Mundra), would be extensively focused on banks' imposition of usurious service charges during the current year's supervisory cycle, the focus and characteristics of RBI's specifically established Enforcement Department (EFD) would be of significance. The core function of EFD is to examine instances of regulatory violations with a view to taking enforcement actions on errant banks. This attaches more significance since EFD's prime role is to enforce extant regulations set by RBI where banks are non-compliant so as to not only ensure financial system stability but also promoting public interest and consumer protection. With such a focused objective of enforcing regulations keeping in view promotion of public interest and consumer protection, it is paramount for EFD to be pro-active in such matters which affects the gullible masses directly.

4.22 Finally, RBI's Consumer Education and Protection Department (CEPD) also needs to pitch-in to protect the depositors and educate them about the correct regulation. More so since the central bank has already directed banks that the *RBI guidelines* of November 2014, on levy of charges for non-maintenance of minimum balance in normal savings bank account, should be brought to the notice of all customers apart from being disclosed on the bank's website.

4.23 Needless to say, RBI's supporting arm Banking Codes and Standards Board of India (BCSBI) needs to focus less on the letter and more on the spirit behind banking regulations and their own banking codes; rather than focusing on letter alone. On the basis of the author's engagement with BCSBI, with respect to the present concern, it appears that in spirit BCSBI works more as a support for banks than for bank customers, though in letter, it may showcase things differently. BCSBI may like to ensure code compliance in a more effective way.

# V. Concluding remarks and recomendations

## Concluding remarks

5.1 This note discusses the true features of a significant regulation put in place by RBI on levy of penal charges for non-maintenance of minimum balance in savings bank accounts. Banks have been given freedom to prescribe their minimum balance requirements in normal savings bank accounts. However, there are certain far reaching guidelines that banks need to follow when it comes to levy of charges for non-maintenance of the same. While arriving at the charges for non-maintenance of minimum balance, banks are required to ensure that (i) the penal charges are a fixed percentage levied on the shortfall, and (ii) the penal charges are reasonable and not out of line with the average cost of providing the services.

5.2 It may be construed that making of a suitable slab structure for recovery of the penal charges is **not** a must. However, if the slab structure is to be looked in terms of variable fixed percentage rate slabs (as one sees under the direct income tax slabs of 0%, 10%, 20% and 30% of the taxable income), that could possibly be justified, though subject to RBI's nod since the explicit regulation on the subject, as it stands now, would not allow to do so. However, location slabs based on varied minimum balance prescriptions could be considered with respect to metro, urban, semi-urban and rural regions.

5.3 RBI's explicit regulations on the levy of penal charges for non-maintenance of minimum balance in savings account say:
A(a) The penal charges should be directly proportionate to the extent of shortfall observed;
A(b) In other words, the charges should be a fixed percentage levied on the amount of difference between the actual balance maintained and the minimum balance as agreed upon at the time of opening of account;
A(c) A suitable slab structure for recovery of charges may be finalized.

5.4 It is clear that banks are usually taking shelter under regulation A(c), as if regulations A(a) and A(b) have no relevance. The present twist in the spirit while adhering to a well-crafted, easy to implement regulation, needs a review by RBI and the government, since it portrays how a loose brick in the drafting of a regulation can bring down the structure of the rationale built behind it.

5.5 When it comes to asking the banks the 'constant of proportionality' adopted by them while they arrive at the charges in line with regulations A(a) and A(b) for non-maintenance of their prescribed minimum balance in savings account, the banks fumble in their responses. Early October, 2017, few banks were queried highlighting the issue of levy of penal charges for non-maintenance of minimum balance. See Box-3 for a sample e-mail. Being a systemic issue, both CEPD of RBI and the BCSBI was kept in the loop with a view to keep them well informed.

5.6 Regarding banks being compliant to RBI's regulation on "*banks should ensure that such penal charges are reasonable and not out of line with the average cost of providing the services*", it appears that RBI has no scientific methodology in place on how to ensure or measure compliance of banks ensuring that penal charges are reasonable and not out of line with the average cost of funds. A major hurdle is the mixing of the cost of providing a specific service (in this case, cost of funds) by banks and the cost of cross subsidisation. With a view to eliminate discrimination in form of cross subsidisation, a possible way out for banks could be to enforce reasonable changes for a service without cross subsidisation, and that all situations demanding cross subsidisation should be accommodated by adjusting the savings bank interest rate.

**Box-3: Gist of an e-mail sent to select banks**

Subject: On the Minimum Balance Rule implementation

Dear Sir,

ABC Bank has set its minimum balance requirements and the penal charges for non-maintenance of minimum balances on various variants of the savings bank account that it provides. Looking at the regular savings bank account, it appears that the bank has set,

a) Minimum balance in terms of Average Monthly Balance (AMB) = Rs $m$
b) Penal charges for non-maintenance of AMB is equal to Rs $y$ if Rs p $\leq$ AMB $<$ Rs m
c) Penal charges for non-maintenance of AMB is equal to Rs $z$ if AMB $<$ Rs p

Based on the above backdrop, the specifics follow:

(i) The penal charges have not been set such that they are directly proportionate to the extent of shortfall in minimum AMB observed. In other words, the charges levied have not been arrived at so as to ensure that it is a fixed percentage of the amount of shortfall in the minimum AMB.

(ii) Moreover, with (i) above as the guiding factor, a suitable slab structure that ABC Bank has finalised for recovery of charges does not appear to be correct, and thus leads to possible noncompliance of BCSBI codes and the RBI's directive on the subject.

I would request the bank to kindly let know the correct position. So as to remove any ambiguity, I would request ABC Bank to let know its view on the noncompliance perception being indicated above.

I would have cared less if the ABC Bank's approach had not been on penalising more, in percentage terms, the accounts with smaller shortfalls than ones with larger shortfalls, thereby leading to accounts with smaller shortfalls cross subsidising the accounts having larger shortfalls. The average penal percentage for the two brackets set by ABC Bank works out to be about ($c$+9)% and $c$% respectively, of the shortfall amount (based on a workout of sequential increments of Rs $m$/100 shortfall under every bracket). The efficacy of the discrepancy on penal rates attaches significance, since ABC Bank gives a fixed percentage rate of interest on balances in their savings account (at least on balances up to Rs $m$).

With regards, Ashish

5.7 Finally, to summarise the major highlights that emerge of this report on the minimum balance rule and its adherence are:

(i) Non-compliance with respect to penal charges that are required to be a fixed percentage of the shortfall amounts,

(ii) Lack of reasonableness of the quantum of charges when viewed as a function of the shortfall amount.

(iii) Lack of concern on part of the banks in not following RBI's mandate of building awareness of the precise guidelines.

(iv) Existence of the lukewarm attitude of the banks and the regulator to ensure adherence of regulations in spirit,

(v) Lack of capacity on part of banks and the regulator to device means for implementation and supervision of the regulation,

(iv) Lack of awareness. As once said "…the biggest asset on the balance sheets of banks today is the ignorance of customers of their own rights, and their reluctance to fight for them" (Shri M. R. Pai, 2001).

5.8 The Government and RBI may like to work towards measures which would educate and protect the consumers as per extant regulations. Some recommendations follow from the analysis.

## Recommendations

i. Given the extant regulation on minimum balance in savings account, RBI may like to ensure its compliance not only in letter but also in spirit. Though banks are free to decide on the penal charges so long as it is reasonable and as per cost, the charges should have a clear objective of bringing in fairness from the customers' angle. The penal charge rule is not to facilitate adjustments by banks based on their analysis of the distribution of shortfalls and net amount of revenue expected; thereby creating a situation of cross subsidisation.

ii. A loose end, such as in regulation A(c), can distort the spirit of the regulation. In the present age of CBS, the spirit behind regulation A(c) could at best be used for rounding off the penal charges to the nearest higher Rupee. Making broad slab intervals with constant charges in rupee terms within the interval is not only unsuitable but also distorts the whole rationale of proportionate charges. It also unnecessarily creates significant disconnects in charges between slabs.

iii. So long as the minimum balance regulation is in place and the spirit behind the regulation has not changed, the EFD of RBI, having a focused objective of enforcing regulations keeping in view promotion of public interest and consumer protection, should be pro-active in checking such situations that affects the gullible masses directly.

iv. The CEPD of RBI needs to pitch-in to protect the depositors and educate them about the correct regulation since the central bank has already directed the banks that the *RBI guidelines* of November 2014, on levy of charges for non-maintenance of minimum balance in normal savings bank account, should be brought to the notice of all customers apart from being disclosed on the bank's website.

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# Appendix A: Regulation on penal charges for shortfall in minimum balance

भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
www.rbi.org.in

RBI/2014-15/308

DBR.Dir.BC.No.47/13.03.00/2014-15 November 20, 2014

All Scheduled Commercial Banks
(Excluding RRBs)

Dear Sir/Madam

**Levy of penal charges on non-maintenance of minimum balances in savings bank accounts**

Please refer to our circular DBOD.Dir.BC.53/13.10.00/2002-03 dated December 26, 2002 on 'Minimum Balance in Savings Bank Accounts' advising banks to inform customers, in a transparent manner, regarding the requirement of minimum balance in savings bank account and levy of penal charges for non-maintenance of the same at the time of opening the account.

2. In this connection, a reference is invited to paragraph 30 of Part B of First Bi-monthly Monetary Policy Statement, 2014-15 announced on April 1, 2014, regarding 'Developmental and Regulatory Policies' proposing certain measures towards consumer protection. One of the proposals contained therein was that banks should not take undue advantage of customer difficulty or inattention. Instead of levying penal charges for non-maintenance of minimum balance in ordinary savings bank accounts, banks should limit services available on such accounts to those available to Basic Savings Bank Deposit Accounts and restore the services when the balances improve to the minimum required level. A reference is also invited to the recommendations of Damodaran Committee on customer service in banks which, inter-alia, recommended that '*banks should inform the customer immediately on the balance in the account breaching minimum balance and the applicable penal charges for not maintaining the balance by SMS/Email/letter. Further, the penal charges levied should be in proportion to the shortfall observed'.*

बैंकिंग विनियमन विभाग, केंद्रीय कार्यालय, 13 माला, शहीद भगतसिंह मार्ग, मुम्बई 400001

Department of Banking Regulation, Central Office, 13th floor ,NCOB,Shahid Bhagat Singh Marg, Mumbai - 400001
Tel No: 91-22-22601000 /Fax No: 91-22-22701241 Email ID:cgmicdbodco@rbi.org.in

हिंदी आसान है, इसका प्रयोग बढ़ाइए

3. The policy announcement has been reviewed after extensive consultation with banks. Consequent to these deliberations and after taking into consideration the recommendation of Damodaran Committee, it has been decided that while levying charges for non-maintenance of minimum balance in savings bank account, banks shall adhere to the additional guidelines given in **Annex**. The guidelines come into effect from **April 1, 2015**.

4. These guidelines should be brought to the notice of all customers apart from being disclosed on the bank's website.

5. In the meantime, all banks are advised to take immediate steps to update customer information so as to facilitate sending alerts through electronic modes (SMSs/emails etc) for effective implementation of the guidelines.

Yours faithfully

(Lily Vadera)
Chief General Manager

**Annex**

Levy of charges for non-maintenance of minimum balance in savings bank account shall be subject to the following additional guidelines:

(i) In the event of a default in maintenance of minimum balance/average minimum balance as agreed to between the bank and customer, the bank should notify the customer clearly by SMS/ email/ letter etc. that in the event of the minimum balance not being restored in the account within a month from the date of notice, penal charges will be applicable.

(ii) In case the minimum balance is not restored within a reasonable period, which shall not be less than one month from the date of notice of shortfall, penal charges may be recovered under intimation to the account holder.

(iii) The policy on penal charges to be so levied may be decided with the approval of Board of the bank.

(iv) The penal charges should be directly proportionate to the extent of shortfall observed. In other words, the charges should be a fixed percentage levied on the amount of difference between the actual balance maintained and the minimum balance as agreed upon at the time of opening of account. A suitable slab structure for recovery of charges may be finalized.

(v) It should be ensured that such penal charges are reasonable and not out of line with the average cost of providing the services.

(vi) It should be ensured that the balance in the savings account does not turn into negative balance solely on account of levy of charges for non-maintenance of minimum balance.

# Appendix B: Sketch of Banks' disclosures on minimum balance

## SBI

Revised criteria for Monthly Average Balance (MAB) in Savings Bank Accounts and charges for non-maintenance of MAB w.e.f 01.10.2017.

| Area | Existing Monthly Average Balance | Area | Proposed Monthly Average Balance |
|---|---|---|---|
| Metro | Rs 5,000/- | Metro & Urban | Rs 3,000/- |
| Urban | Rs 3,000/- | | |
| Semi Urban | Rs 2,000/- | Semi Urban | Rs 2,000/- |
| Rural | Rs 1,000/- | Rural | Rs 1,000/- |

**Penalty for Non- maintenance of MAB**

| **Metro** | **Existing Charges / p.m.** | **Proposed Charges / p.m.** |
|---|---|---|
| Shortfall < = 50% (MAB ≥ Rs1500/- and < Rs3000/-) | Rs. 50/- +GST | Shortfall <=50% = Rs 30/-<br>Shortfall > 50-75% = Rs 40/-<br>Shortfall > 75% = Rs. 50/-<br>**plus GST** |
| Shortfall > 50 – 75% (MAB ≥ Rs 750 and < Rs 1500/-) | Rs. 75/- +GST | |
| Shortfall > 75% (MAB < Rs750/-) | Rs. 100/- +GST | |
| **Urban** | | |
| Shortfall < = 50% (MAB ≥ Rs1500/- and < Rs 3000/-) | Rs. 40/- +GST | |
| Shortfall > 50 – 75% (MAB ≥ Rs 750 and < Rs 1500/-) | Rs. 60/- +GST | |
| Shortfall > 75% (MAB < Rs750/-) | Rs. 80/- +GST | |
| **Semi-Urban** | | Shortfall <=50% = Rs 20/-<br>Shortfall > 50-75% = Rs 30/-<br>Shortfall > 75% = Rs.40/-<br>**plus GST** |
| Shortfall < = 50% (MAB ≥ Rs1000/- and < Rs 2000/-) | Rs. 25/- +GST | |
| Shortfall > 50 – 75% (MAB ≥ Rs 500 and < Rs 1000/-) | Rs. 50/- +GST | |
| Shortfall > 75% (MAB < Rs500/-) | Rs. 75/- +GST | |
| **Rural** | | |
| Shortfall < = 50% (MAB ≥ Rs500/- and < Rs 1000/-) | Rs. 20/- +GST | |
| Shortfall > 50 – 75% (MAB ≥ Rs 250 and < Rs 500/-) | Rs. 30/- +GST | |
| Shortfall > 75% (MAB < Rs250/-) | Rs. 50/- +GST | |

| Shortfall Range (Rs) | Charges Range (Rs) | Average Charge (Rs) |
|---|---|---|
| 1–1500 | 30-30 | 30 |
| 1501–2250 | 40-40 | 40 |
| 2251–3000 | 50-50 | 50 |

## OBC

| S.No | Service | Minimum Balance | Minimum Balance Charges | | Remarks |
|---|---|---|---|---|---|
| | | | Non - Indiv. | Individuals | |
| D | Savings Bank Account-Other (SB Unnati) | | | | Min bal charges shall be calculated based on monthly average balance |
| I | R/Semi U Branches) | Rs.1000/- | Rs.50/- pm | | |
| ii | U/M branches | Rs.2500/- | Rs. 100/- pm | | |

| Shortfall Range (Rs) | Charges Range (Rs) | Average Charge (Rs) |
|---|---|---|
| 1-2500 | 100–100 | 100 |

## IOB

3. **Maintenance of Minimum Balance -**

| S.No. | Description | Proposed |
|---|---|---|
| a) | **SB Public with cheque Book** | |
| | Metro and Urban | □. 1000/- |
| | Rural and Semi Urban | □. 500/- |
| | Pensioners | □. 250/- |
| b) | **SB Public without cheque Book** | **Proposed** |
| | Metro and Urban | □. 500/- |
| | Rural and Semi Urban | □. 100/- |
| | Pensioners | □. 5/- |
| c) | **Current Account** | **□. 2,000/-** |

4. **Charges per month for Non – Maintenance of Monthly Average Balance -RBI has advised Banks to charge minimum balance charges to the extent of shortfall**

| | **SB Account -non maintenance of minimum balance charge** | | | |
|---|---|---|---|---|
| | **CHARGES** | | | |
| a) | **Extent of Shortfall -SB PUBLIC** | **Metro and Urban** | **Rural and Semi Urban** | **Pensioners with cheque book** |
| | Short fall < 50 % | □. 75/- | □. 50/- | □. 25/- |
| | Short fall >50 -75% | □. 85/- | □. 60/- | □. 30/- |
| | Short fall >75 % | □. 100/- | □. 70/- | □. 40/- |
| | (These charges are not applicable to PMJDY ,Corporate salary , BSBDA, Small A/cs, SB DEFCOM,SB DEFNON IN-OPERATIVE ACCOUNTS ) | | | |

| Shortfall Range (Rs) | Charges Range (Rs) | Average Charge (Rs) |
|---|---|---|
| 1–500 | 75-75 | 75 |
| 501–750 | 85-85 | 85 |
| 751–1000 | 100-100 | 100 |

## Axis Bank

| | |
|---|---|
| Average Balance Required (Metro) | Average Monthly Balance (AMB) of Rs. 10,000 |
| Account Service Fee (Metro) | Monthly Service Fee (MSF) of Rs.10 for every Rs.100 shortfall in required balance or Rs.500, whichever is lower, with a minimum charge of Rs. 100. Waived off if AMB is maintained. |
| Average Balance Required (Urban) | Average Monthly Balance (AMB) of Rs. 10,000 |
| Account Service Fee (Urban) | Monthly Service Fee (MSF) of Rs.10 for every Rs.100 shortfall in required balance or Rs.500, whichever is lower, with a minimum charge of Rs. 100. Waived off if AMB is maintained. |
| Average Balance Required (Semi Urban) | Average Monthly Balance (AMB) of Rs. 5,000 |
| Account Service Fee (Semi Urban) | Monthly Service Fee (MSF) of Rs.10 for every Rs.100 shortfall in required balance or Rs.250, whichever is lower, with a minimum charge of Rs. 100. Waived off if AMB is maintained. |
| Average Balance Required (Rural) | Half Yearly Average Balance (HAB) of Rs. 2,500 or Total Relationship Value (TRV) Rs.25,000 across Savings A/c and TD (Min 6mnths) |
| Account Service Fee (Rural) | Half yearly Service Fee (HSF) of Rs.10 for every Rs.100 shortfall in required balance or Rs.250, whichever is lower, with a minimum charge of Rs. 100. Waived off if AMB is maintained. |

| Shortfall Range (Rs) | Charges Range (Rs) | Average Charge (Rs) |
|---|---|---|
| 1–1000 | 100-100 | 100 |
| 1000–5000 | 100-500 | 300 |
| 5000–10000 | 500-500 | 500 |

## HDFC Bank

| Description of Charges | Regular Savings Account |
|---|---|
| Minimum Average Balance Requirements | Metro / Urban branches: AMB Rs.10,000/-,<br>Semi-Urban Branches: AMB Rs.5,000/- ,<br>Rural Branches: AQB Rs.2,500/- or Fixed Deposit of Rs. 10,000 for minimum 1 year 1 day period |
| Charges applicable on non-maintenance | (see tables below) |

| Balance Non-Maintenance Charges* | | |
|---|---|---|
| AMB Slabs (in Rs.) | Metro & Urban | Semi Urban |
| | AMB Requirement -Rs 10,000/- | AMB Requirement –Rs. 5,000/- |
| >=7,500 to < 10,000 | Rs. 150/- | NA |
| >=5,000 to < 7,500 | Rs. 300/- | NA |
| >=2,500 to < 5,000 | Rs. 450/- | Rs. 150/- |
| 0 to < 2,500 | Rs. 600/- | Rs. 300/- |

*Service Tax + plus taxes as applicable
AMB – Average Monthly Balance

| AQB Slabs (in Rs.) | Balance Non-Maintenance Charges* (per quarter) - Rural Branches |
|---|---|
| >= 1000 < 2,500 | Rs. 270/- |
| 0 - <1000 | Rs. 450/- |

| Shortfall Range (Rs) | Charges Range (Rs) | Average Charge (Rs) |
|---|---|---|
| 1-2500 | 150-150 | 150 |
| 2501-5000 | 300-300 | 300 |
| 5001-7500 | 450-450 | 450 |
| 7501-10000 | 600-600 | 600 |

## Kotak Mahindra Bank

**Fees & Charges** Effective from 01 July, 2017

| **Particulars** | | **Edge / Nova** |
|---|---|---|
| Average Monthly Balance (AMB) | | Rs. 10,000 / 5,000 |
| ^# Applicable also to the various versions of Edge/ Pro/Ace/Platina/Nova /Classic from erstwhile ING Vysya Bank sourced after 31st March 2015. For details of these variants refer footnotes. | | |
| Non Maintenance Charge (NMC) - Monthly | If AMB. <=50% of required Product AMB | Rs. 450 / 350 |
| | If AMB >50% of required Product AMB but less than product AMB | Rs. 350 / 250 |

| Shortfall Range (Rs) | Charges Range (Rs) | Average Charge (Rs) |
|---|---|---|
| 1-2499 | 350-350 | 350 |
| 2500-5000 | 450-450 | 450 |

## Citibank

| Citigold Account - Schedule of Charges | |
|---|---|
| Monthly fee, if avg. net monthly relationship value falls below ₹ 1 lakh [waived for corporate salary account customers] | 1% of shortfall^ or ₹ 600, whichever is lower |

| Shortfall Range (Rs) | Charges Range (Rs) | Average Charge (Rs) |
|---|---|---|
| 50-60000 | 1-600 | 300 |
| 60000-100000 | 600-600 | 600 |

## Yes Bank

| Minimum Average Balance Maintenance | INR |
|---|---|
| Average Monthly Balance (AMB) | ₹ 5,000* |
| FD requirement for Nil AMB** | ₹ 50,000 |

| AMB Maintained | Non-Maintenance Charge per Month |
|---|---|
| If balance maintained is >=100% of the requirement | Nil |
| If balance maintained is >50% of the requirement | 5% of balance shortfall |
| If balance maintained is <=50% of the requirement | 10% of balance shortfall |
| Maximum AMB non-maintenance charge | INR 500/- per Month |

| Shortfall Range (Rs) | Charges Range (Rs) | Average Charge (Rs) |
|---|---|---|
| 10-2499 | 1-122 | 62 |
| 2500-5000 | 250-500 | 375 |

# IndusInd Bank

| IndusInd Bank Ltd. | | | |
|---|---|---|---|
| SCHEDULE OF SERVICE CHARGES | | | |
| **Balance Requirement** | **Indus Classic C & C1** | **Indus Classic A & B** | **Indus Privilege /Privilege Active** |
| **Minimum Balance (Average Monthly/ Quarterly Requirement)** | **Monthly Average Balance (MAB) Requirement (Effective 1st May, 2015)** | **Monthly Average Balance (MAB) Requirement (Effective 1st May, 2015)** | **Monthly Average Balance (MAB) Requirement (Effective 1st May, 2015)** |
| | C Category Branches – Rs. 2,500/- | A Category Branches – Rs. 10,000/- | A Category Branches – Rs.10,000/- |
| | Rural/C1 Category Branches - Rs. 1,500/- | B Category Branches – Rs. 10,000/- | B Category Branches – Rs.10,000/- |
| | | | C Category Branches – Rs. 5,000/- |
| **Charges for Balance Non Maintenance####** | (i) If balance maintained is < 50% of the balance requirement,NMC will be 5% of the balance shortfall * (ii) If balance maintained is >= 50% of the balance requirement ,NMC will be 10% of the balance shortfall* <br><br> * subject to maximum of Rs 450 per month | (i) If balance maintained is < 50% of the balance requirement,NMC will be 5% of the balance shortfall * (ii) If balance maintained is >= 50% of the balance requirement ,NMC will be 10% of the balance shortfall* <br><br> * subject to maximum of Rs 600 per month | **Privilege:** (i) If balance maintained is < 50% of the balance requirement,NMC will be 5% of the balance shortfall * (ii) If balance maintained is >= 50% of the balance requirement ,NMC will be 10% of the balance shortfall* <br><br> * subject to maximum of Rs 600 per month in A& B category branches & Rs 450 per month for C category branches <br><br> **Privilege Active:** Inactivity/Non transaction will attract a charge of Rs 350/- p.m in the month where there is no transaction as per the enrollment. |

| Shortfall Range (Rs) | Charges Range (Rs) | Average Charge (Rs) |
|---|---|---|
| 5–5000 | 1-500 | 250 |
| 5001–10000 | 250-500 | 375 |

## ICICI Bank

### Savings Account

| Available to | All Cities |
|---|---|
| Eligibility | Resident Indian, >18yrs |
| Minimum monthly average balance (MAB)* | Metro and Urban locations - Rs.10,000<br>Semi-urban locations - Rs.5,000<br>Rural locations - Rs.2,000<br>Gramin locations - Rs.1,000 |
| Charges for non maintenance of minimum monthly average balance (NMMAB) | Metro/Urban/Semi-Urban/Rural locations :<br>Rs. 100 + 5% of the shortfall in required MAB<br>Gramin locations : 5% of the shortfall in required MAB |

| Shortfall Range (Rs) | Charges Range (Rs) | Average Charge (Rs) |
|---|---|---|
| 1-10000 | 100-600 | 350 |

## Standard Chartered Bank

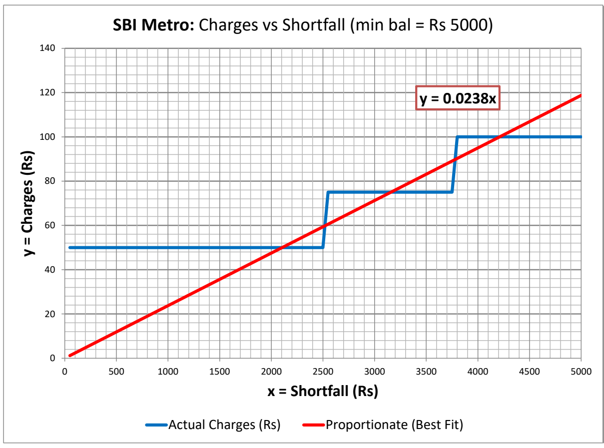
Standard Chartered

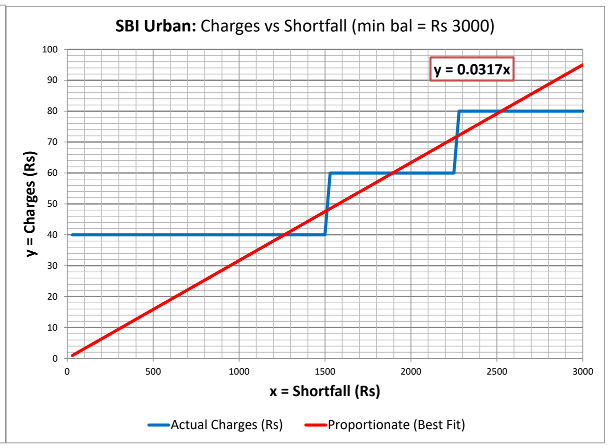
| | eSaver 10k 10k Savings Account^ | 2 in 1 Savings Account |
|---|---|---|
| MINIMUM BALANCE REQUIREMENT | | |
| Monthly Average Balance (MAB)^ | ₹10,000 | ₹10,000* |
| Account Maintenance Charges | 5% of shortfall** in MAB with Max cap of ₹500 | 5% of shortfall** in MAB with Max cap of ₹500 |

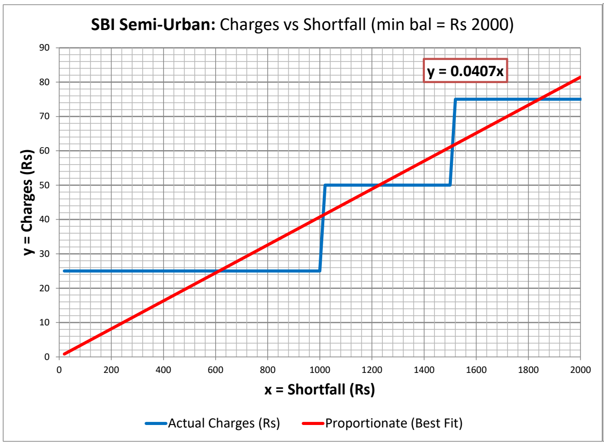
* If Term Deposit > 10,000 then MAB requirement is Nil
** Shortfall is calculated based on difference between required minimum MAB & actual MAB in a given month.
^For Employee Banking account, MAB requirement is Nil

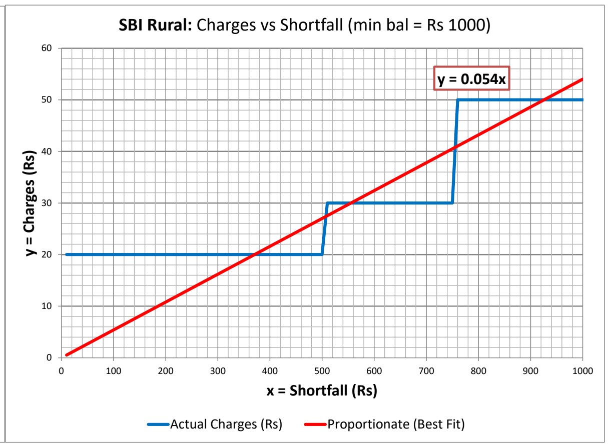
| Shortfall Range (Rs) | Charges Range (Rs) | Average Charge (Rs) |
|---|---|---|
| 10-10000 | 1-500 | 250 |

# Appendix C: SBI's penal charges during April-September 2017




| **SBI** | | Shortfall Slab Mean Rs $x$ | $k$ | Proportionate Fit Rs $y = kx$ | Actual Charge Rs $z$ | Excess Charge Rs $(z\text{-}y)$ |
|---|---|---|---|---|---|---|
| Metro | Slab 1 | 1250 | 0.0238 | 29.75 | 50 | 20.25 |
| | Slab 2 | 3125 | 0.0238 | 74.38 | 75 | 0.63 |
| | Slab 3 | 4375 | 0.0238 | 104.13 | 100 | -4.13 |
| Urban | Slab 1 | 750 | 0.0317 | 23.78 | 40 | 16.23 |
| | Slab 2 | 1875 | 0.0317 | 59.44 | 60 | 0.56 |
| | Slab 3 | 2625 | 0.0317 | 83.21 | 80 | -3.21 |
| Semi-Urban | Slab 1 | 500 | 0.0407 | 20.35 | 25 | 4.65 |
| | Slab 2 | 1250 | 0.0407 | 50.88 | 50 | -0.88 |
| | Slab 3 | 1750 | 0.0407 | 71.23 | 75 | 3.78 |
| Rural | Slab 1 | 250 | 0.054 | 13.50 | 20 | 6.50 |
| | Slab 2 | 625 | 0.054 | 33.75 | 30 | -3.75 |
| | Slab 3 | 875 | 0.054 | 47.25 | 50 | 2.75 |

Assuming that the debit entries Rs 50, Rs 40, Rs 25 and Rs 20 have equal frequencies, an average excessive charge of about Rs (20+16+5+6) = Rs 47 was collected for every four debit entries corresponding to Slab 1. Since Slab 1 would give rise to about 12 crore penal entries, the total excessive charge under Slab 1 due to improper cross subsidisation is Rs (12×47/4) = Rs 141 crore.

# Appendix D: Excessive penal charges in relative terms (Metro/Urban)

| Name of Bank | Minimum Balance (Rs) | Constant of Proportionality (*k*) | Five Parameters | Slab 1 | Slab 2 | Slab 3 | Slab 4 |
|---|---|---|---|---|---|---|---|
| SBI | 3000 | 0.0208 | Shortfall Mean | 750 | 1875 | 2625 | - |
| | | | Fitted value y (Rs) | 16 | 39 | 55 | - |
| | | | Actual Charge z (Rs) | 30 | 40 | 50 | - |
| | | | Excess Charge z-y (Rs) | 14 | 1 | -5 | - |
| | | | Excess (1-y/z)*100 (%) | 48 | 3 | -9 | - |
| OBC | 2500 | 0.0597 | Shortfall Mean | 1250 | - | - | - |
| | | | Fitted value y (Rs) | 75 | - | - | - |
| | | | Actual Charge z (Rs) | 100 | - | - | - |
| | | | Excess Charge z-y (Rs) | 25 | - | - | - |
| | | | Excess (1-y/z)*100 (%) | 25 | - | - | - |
| IOB | 1000 | 0.1329 | Shortfall Mean | 250 | 625 | 875 | - |
| | | | Fitted value y (Rs) | 33 | 83 | 116 | - |
| | | | Actual Charge z (Rs) | 75 | 85 | 100 | - |
| | | | Excess Charge z-y (Rs) | 42 | 2 | -16 | - |
| | | | Excess (1-y/z)*100 (%) | 56 | 2 | -16 | - |
| Axis Bank | 10000 | 0.0685 | Shortfall Mean | 500 | 3000 | 7500 | - |
| | | | Fitted value y (Rs) | 34 | 206 | 514 | - |
| | | | Actual Charge z (Rs) | 100 | 300 | 500 | - |
| | | | Excess Charge z-y (Rs) | 66 | 95 | -14 | - |
| | | | Excess (1-y/z)*100 (%) | 66 | 32 | -3 | - |
| HDFC Bank | 10000 | 0.0698 | Shortfall Mean | 1250 | 3750 | 6250 | 8750 |
| | | | Fitted value y (Rs) | 87 | 262 | 436 | 611 |
| | | | Actual Charge z (Rs) | 150 | 300 | 450 | 600 |
| | | | Excess Charge z-y (Rs) | 63 | 38 | 14 | -11 |
| | | | Excess (1-y/z)*100 (%) | 42 | 13 | 3 | -2 |
| Kotak Mahindra Bank | 10000 | 0.0635 | Shortfall Mean | 2500 | 7500 | - | - |
| | | | Fitted value y (Rs) | 159 | 476 | - | - |
| | | | Actual Charge z (Rs) | 350 | 450 | - | - |
| | | | Excess Charge z-y (Rs) | 191 | -26 | - | - |
| | | | Excess (1-y/z)*100 (%) | 55 | -6 | - | - |
| Yes Bank | 5000 | 0.0940 | Shortfall Mean | 1250 | 3750 | - | - |
| | | | Fitted value y (Rs) | 118 | 353 | - | - |
| | | | Actual Charge z (Rs) | 63 | 375 | - | - |
| | | | Excess Charge z-y (Rs) | -55 | 23 | - | - |
| | | | Excess (1-y/z)*100 (%) | -88 | 6 | - | - |
| IndusInd Bank | 10000 | 0.0563 | Shortfall Mean | 2500 | 7500 | - | - |
| | | | Fitted value y (Rs) | 141 | 422 | - | - |
| | | | Actual Charge z (Rs) | 250 | 375 | - | - |
| | | | Excess Charge z-y (Rs) | 109 | -47 | - | - |
| | | | Excess (1-y/z)*100 (%) | 44 | -13 | - | - |
| ICICI Bank | 10000 | 0.0649 | Shortfall Mean | 5000 | - | - | - |
| | | | Fitted value y (Rs) | 325 | - | - | - |
| | | | Actual Charge z (Rs) | 350 | - | - | - |
| | | | Excess Charge z-y (Rs) | 26 | - | - | - |
| | | | Excess (1-y/z)*100 (%) | 7 | - | - | - |
| Citibank | 100000 | 0.0079 | Shortfall Mean | 30000 | 80000 | - | - |
| | | | Fitted value y (Rs) | 237 | 632 | - | - |
| | | | Actual Charge z (Rs) | 300 | 600 | - | - |
| | | | Excess Charge z-y (Rs) | 63 | -32 | - | - |
| | | | Excess (1-y/z)*100 (%) | 21 | -5 | - | - |
| Standard Chartered Bank | 10000 | 0.0500 | Shortfall Mean | 5000 | - | - | - |
| | | | Fitted value y (Rs) | 250 | - | - | - |
| | | | Actual Charge z (Rs) | 250 | - | - | - |
| | | | Excess Charge z-y (Rs) | 0 | - | - | - |
| | | | Excess (1-y/z)*100 (%) | 0 | - | - | - |

Under the proportionality model, the best fit values are shown in green. Excessive penal charges, in relative terms, have been highlighted in yellow. For most banks, these are predominant in the lower slabs, with Yes Bank being an exception. The excess charges expressed as percentage of the actual charges have been shown in red.

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