A note on demand draft charges levied by banks in India

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Abstract

In this paper we study the service charges levied by banks on demand drafts in India. Though RBI advocated reasonability of service charges for demand drafts as early as February 2007, it did not prescribe any explicit thresholds or measures of reasonability. We try to propose a rationalization of such charges by looking into the demand draft charges of 37 select banks comprising 89% of the network of bank branches in India. It is observed that among the select banks the highest service charge for issue of demand draft (having value upto Rs. 10,000) is Rs. 550 while the same is Rs. 1000 for cancellation. Similarly, for issue of demand drafts, having value more than Rs. 10,000, such charges range from 0% to 0.45% of the draft amount. After more than 36 months of RBI's advice to banks on reasonability of service charges for demand draft issue, we find that more than 10% of the banks have not prescribed a ceiling for demand draft charges. Also, among those who have set a cap, the maximum demand draft charge has been set as high as Rs. 30,000. The analysis carried out here has an underlying premise that competitive market pricing is required to safeguard consumer interest, and if market fails to have a pricing structure which is competitive, it becomes imperative to take recourse to public policy to protect consumer interest. Focusing at the reasonability of service charges levied by banks for issuing demand drafts, the study provides benchmarks and concludes that there is a need to rationalize and bring in uniformity in the amount of service charges for demand drafts.

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1. Introduction

The Reserve Bank of India (RBI) has set a vision to establish safe, secure, sound and efficient payment and settlement systems in the country. Existence of an efficient payment system is a pre-requisite to boost economic activity in the country. Towards this endeavour, over the years RBI has taken several measures to bring about changes in the service delivery levels, including the cost of services. With a vision to foster competition and to provide better services to customers, RBI, in November 2004, had liberalised the process of cheque collections and advised banks to frame their own cheque collection policies and give wide publicity to the same. Banks were permitted to have their own policy on service charges for such cheque based payment system. It was expected that through such a deregulation, the paper based payment system would achieve improved standards, enhanced efficiency as well as bring down costs. Subsequently, in consonance with the Payment and Settlement Systems Act, 2007[4], in order to set standards, RBI recently issued directions benchmarking the outstation cheque collection's time frame and charges (see, references [7] and [3]). Thus RBI aimed to ensure that charges are reasonable and are decided by market forces and competition. However, RBI did not set standards on demand draft charges and left it to the banks' board to decide on the same.

Earlier, a Working Group to formulate a scheme for ensuring reasonableness of bank charges was set up by RBI that submitted its report in September 2006. The recommendations of this Working Group were generally accepted by RBI (see, reference [6]). RBI mentions that issue of demand drafts and pay orders are basic services. Such services are therefore meant to be essential and low-cost services.

The demand drafts are preferred mode of payment vis-à-vis cheques since they ensure guaranteed funds for the recipient. A typical need for demand draft is seen in many situations. Just to illustrate consider a recent announcement for a job**… "***APPLICATION FEE (NON-REFUNDABLE): Rs.100/- (Rupees one hundred only) for each application. No fee is payable by SC/ST/PH candidates. Fee is payable by Demand Draft favouring Reserve Bank of India and payable at Mumbai only. However, candidates from un-banked areas may pay fee by crossed Indian Postal Orders in favour of Reserve Bank of India payable at GPO, Mumbai.*" Most applications for jobs, examinations, admissions, services, high amount purchases, etc. require such demand drafts. A demand draft is issued against cash or debiting ones account in the bank.

[4] To provide for the regulation and supervision of payment systems in India and to designate the RBI as the authority for that purpose and for matters connected therewith or incidental thereto, the Parliament passed '*The Payment and Settlement Systems Act, 2007*' (the Act, in short) which has come into force with effect from August 2008. Under the said Act, RBI is required to provide regulations and supervision as stated in Section 10 of the Act. Further, under Section 18 of the Act, the RBI may, if it is satisfied that for the purpose of enabling it to regulate the payment systems or in the interest of management or operation of any of the payment systems or in public interest, it is necessary so to do, lay down policies relating to the regulation of payment systems. Finally, under Section 38 of the Act, RBI is also required to make regulations, *inter alia*, for the format of payment instructions and other matters relating to determination of standards to be complied with by the payment systems under sub-section (1) of section 10 (see, reference [5]).

Till the demand draft is not presented for encashing, the funds are available for short term use with the issuing bank. Furthermore, banks charge a fee for issuing such demand drafts.

The present study is an approach paper for rationalisation of service charges levied by banks on demand drafts and pay orders. It is felt that there is a need to rationalize and bring in uniformity in the amount of service charges for such instruments.

2. Preliminaries

Other than demand drafts, it is common to find pay orders being issued by banks. The difference between demand drafts (DD) and pay orders (PO) is not much. A DD is a pre-paid negotiable instrument, wherein the drawee bank undertakes to make payment in full when the instrument is presented by the payee for payment. The DD is made payable at a specified branch of a bank at a specified centre. In order to obtain payment, the beneficiary has to either present the instrument directly to the branch concerned or have it collected by his bank through the clearing mechanism. A PO is another payment instrument which is used by the banks to settle payment obligations on behalf of their customers. This instrument is guaranteed by the bank for its full value and is similar to a demand draft. In practice, these instruments are payable at the branch of issue and are used for payment within the local clearing jurisdiction.

As of now, banks do not have any direct charges for processing local cheques. Banks also provide outstation cheque collection service as a part of their deposit taking activity. RBI recently (see, reference [3]) benchmarked the collection charges for outstation cheques. The all inclusive charges[5] recommended by RBI are:

– Up to Rs. 10,000	– not exceeding Rs. 50 per instrument
– Rs. 10,000 to Rs. 1 lakh	– not exceeding Rs. 100 per instrument
– Rs. 1,00,000 and above	– not exceeding Rs. 150 per instrument

As regards charges levied by banks towards DD issue, in a recent communication RBI states that in the context of granting greater functional autonomy to banks, operational freedom has been given to scheduled commercial banks on all matters pertaining to banking transactions. With effect from September 1999 banks have been given freedom to fix service charges for various types of services rendered by them. While fixing service charges, banks should ensure that the charges are reasonable and not out of line with the average cost of providing these services. Further, in terms of paragraph 6.2 of the Master Circular dated July 1, 2009 on Customer Service

[5] No additional charges such as courier charges, out of pocket expenses, etc., are to be levied from the customers. However, RBI, through a later communiqué, has clarified that service tax is not included in the above threshold limits set by them.

(see, reference [4]), banks have been advised that they should make basic banking services (which includes DD issue/cancellation, etc.) available at reasonable charges to customers. The Master Circular indicates categorically that for DD issue/cancellation, etc., banks will levy charges only if the charges are just and supported by reason. Moreover, for services to individuals, the banks will levy service charges ad-valorem only to cover any incremental cost and subject to a cap. Though RBI advocated reasonability of service charges for DD as early as February 2007, it did not prescribe any explicit thresholds or measures of reasonability. The banks are, therefore, left to fix charges that suit their needs and this resulted in arbitrariness.

Das and Ramarao (2009) (see, reference [9]) recently carried out a study on rationalisation of charges levied by banks on returned cheques. RBI also conducted two studies (see, references [1], [2]) related to postal charges and outstation cheque collection charges. RBI had set a rationale that competitive market pricing is required to safeguard consumer interest, and if market fails to have a pricing structure which is competitive, it becomes imperative to take recourse to public policy to protect consumer interest. Emphasizing that cheque collections is a basic banking service, RBI, by setting ceilings of Rs. 50/100/150 for outstation cheque collection charges, tried to protect consumer interest.

In this connection, the present study, in a related fashion, proposes a rationale to highlight the need for cogent pricing policy for demand drafts and pay orders.

3. A Survey for Demand Draft Charges in India

A survey of the banks was conducted during January-February 2010, on the cost being levied for demand drafts and pay orders. We consider 37 major banks in our sample so as to account for 89% of all bank branches in India. Our study constitute 20 public sector banks, 11 private sector banks and 6 foreign banks. The details are given in Table 1.

Table 1: Coverage of sample

Bank Group	Total # of offices	% of Total # of offices	# of offices in Sample	% of Total Sample Size	Sample %
Public Sector Bank (20)	55438	85.81	50338	87.69	90.80
Private banks (11)	8877	13.74	6847	11.93	77.13
Foreign Banks (6)	293	0.45	220	0.38	75.09
Total (37)	64608	100.00	57405	100.00	88.85

Source: RBI (http://www.rbi.org.in/scripts/PublicationsView.aspx?id=11921)

The results of the survey, based on DD charges as it stood during January-February 2010, are furnished below in Tables 2 and 3. In Table 2, column under charges for DD less than Rs. 1000 is indicated as '<1K'. Similarly columns are indicated for DD charges corresponding to DD value of Rs. 1000 to less than Rs. 5000 (i.e., 1-5K) and DD charges corresponding to DD value of Rs. 5000 to less than Rs. 10,000 (i.e., 5-10K). We give the minimum and maximum charges under each of the three categories. Also, columns corresponding to the average of the minimum and maximum charges for each bank are given. Furthermore, for every bank in the sample, a yellow highlight indicates that the DD charge is more than the median DD charge of all the banks under each column. At the bottom of Table 2 is provided summary statistics of minimum, maximum, mean and median of the DD charges. It is striking to observe that DD charges vary from as low as Rs. 9 to as high as Rs. 550 when we restrict to DD's having value less than Rs. 10,000. From Table 2, it is observed that in case of DD having value less than Rs. 1000, the mean DD charges is Rs. 45.7 as against the median being Rs. 25. Similarly, for DD having value in the range of Rs. 1000 - Rs. 5000, the mean DD charges is Rs. 49.6 as against the median being Rs. 34; for DD having value in the range of Rs. 5000 - Rs. 10,000, the mean DD charges is Rs. 53 as against the median being Rs. 35. These trends indicate that the distribution of the DD charges is highly skewed to the right.

Table 3 provides the DD charges for DD value more than Rs. 10,000 and is indicated as '>10K' (for every additional 1K). The table also provides the ceiling set by banks for such charges. Four banks have not set any ceiling for which we have set a ceiling of Rs. 80,000. In Table 3 we also give the DD cancellation charges with maximum, minimum and average figures for each bank. As in Table 2, for every bank in the sample, a yellow highlight indicates that the DD charge is more than the median DD charge of all the banks under each column. At the bottom of Table 3 is provided summary statistics of minimum, maximum, mean and median of the DD charges. It is striking to observe that the DD charges vary from as low as Rs. 0 to as high as Rs. 4.50 for every Rs. 1000 of the DD value (restricting to DDs more than Rs. 10,000). Also, the DD cancellation fees ranges from Rs. 0 to Rs. 1000.

What could be the reason for such a trend? Could costing considerations explain this scenario? Assuming that it actually costs more to handle high denomination DDs, it would be interesting to check as to how some banks (to name a few like, Citibank, Standard Chartered Bank (among foreign banks) and Indian Overseas Bank (among public sector banks)) are having a minimal ceiling for DD charges. One may argue that most of the banks may be fixing higher charges for high denomination DD in order to penalize customers for not using cheaper and efficient electronic modes of money transfer, for example NEFT or RTGS. However, banks may not be given this liberty since DD issue is a basic service. The standards for judging the thresholds for penalty, if any, should desirably lie with RBI in line with the Payment and Settlement Systems Act, 2007. In summary, from Tables 1 and 2 (looking at the variability) there appears to be no uniformity either in the amount or basis for levy of DD charges.

Table 2: **Demand Draft Charges in Rs**

S.No	Bank name	Category	<1K			1-5K			5-10K		
			min	max	avg	min	max	avg	min	max	avg
1	Allahabad Bank	Public	25	25	25	35	35	35	40	40	40
2	Andhra Bank	Public	15	30	22.5	20	30	25	25	30	27.5
3	Bank of Baroda	Public	20	20	20	35	35	35	35	35	35
4	Bank of India	Public	25	40	32.5	35	50	42.5	35	50	42.5
5	Bank of Maharashtra	Public	25	25	25	30	30	30	35	35	35
6	Canara Bank	Public	20	30	25	30	50	40	30	50	40
7	Central Bank of India	Public	20	25	22.5	30	35	32.5	30	35	32.5
8	Corp. Bank	Public	30	30	30	30	30	30	40	40	40
9	Dena Bank	Public	30	40	35	30	40	35	30	40	35
10	Indian Bank	Public	30	30	30	30	30	30	30	30	30
11	Indian Overseas Bank	Public	9	11	10	14	17	15.5	18	22	20
12	Oriental Bank of Commerce	Public	15	20	17.5	15	20	17.5	20	25	22.5
13	Punjab National Bank	Public	30	40	35	30	40	35	30	40	35
14	Punjab & Sind Bank	Public	25	25	25	25	25	25	25	25	25
15	State Bank of India	Public	30	30	30	30	30	30	30	30	30
16	Syndicate Bank	Public	15	30	22.5	30	40	35	30	40	35
17	UCO Bank	Public	35	40	37.5	35	40	37.5	35	40	37.5
18	Union Bank of India	Public	18.75	25	21.88	18.75	25	21.88	37.5	50	43.75
19	United Bank of India	Public	17	22	19.5	28	39	33.5	34	51	42.5
20	Vijaya Bank	Public	20	29	24.5	29	39	34	29	39	34
21	Axis Bank Limited	Private	50	50	50	50	50	50	50	50	50
22	Catholic Syrian Bank	Private	10	15	12.5	20	20	20	30	30	30
23	Dhanlakshmi-B	Private	10	15	12.5	20	20	20	25	25	25
24	Federal Bank Ltd.	Private	25	25	25	25	25	25	25	25	25
25	HDFC Bank Ltd.	Private	50	50	50	50	50	50	50	50	50
26	ICICI Bank Ltd.	Private	50	50	50	50	50	50	50	50	50
27	ING Vysya Bank Limited	Private	50	100	75	50	100	75	50	100	75
28	Karnataka Bank Ltd.	Private	12	15	13.5	22	25	23.5	25	30	27.5
29	Kotak Mahindra Bank	Private	40	50	45	40	50	45	40	50	45
30	The Bank of Rajasthan Ltd.	Private	35	35	35	35	35	35	35	35	35
31	The South Indian Bank Ltd.	Private	25	25	25	25	25	25	25	25	25
32	ABN-AMRO Bank N.V.	Foreign	50	50	50	50	50	50	50	50	50
33	Abu Dhabi Commercial Bank	Foreign	15	15	15	25	25	25	40	40	40
34	Citibank N.A.	Foreign	20	20	20	20	20	20	50	50	50
35	DBS India bank	Foreign	550	550	550	550	550	550	550	550	550
36	HSBC Ltd.	Foreign	100	100	100	100	100	100	100	100	100
37	Standard Chartered Bank	Foreign	50	50	50	50	50	50	50	50	50

	Minimum	9	11	10	14	17	15.5	18	22	20
	Maximum	550	550	550	550	550	550	550	550	550
	Mean	43.16	48.16	45.66	47.07	52.03	49.55	50.36	55.59	52.98
	Median	25	30	25	30	35	34	35	40	35

Table 3: **Demand Draft Charges in Rs**

S.No	Bank name	Category	>10K (for every additional 1K)			Max	Cancel fees		
			min	max	avg	Charge	min	max	avg
1	Allahabad Bank	Public	3	3	3	15000	100	100	100
2	Andhra Bank	Public	1.5	2.5	2	20000	100	100	100
3	Bank of Baroda	Public	3	3	3	12000	75	75	75
4	Bank of India	Public	3.5	4.5	4	30000	30	75	52.5
5	Bank of Maharashtra	Public	3	3	3	12000	100	100	100
6	Canara Bank	Public	3	3.5	3.25	12000	50	1000	525
7	Central Bank of India	Public	3.5	3.5	3.5	10000	50	100	75
8	Corp. Bank	Public	2.5	2.5	2.5	10000	100	100	100
9	Dena Bank	Public	3	3.5	3.25	12000	70	100	85
10	Indian Bank	Public	3	3	3	11140	25	60	42.5
11	Indian Overseas Bank	Public	1.35	2.25	1.8	2240	0	0	0
12	Oriental Bank of Commerce	Public	2	2.5	2.25	10000	35	50	42.5
13	Punjab National Bank	Public	3	4	3.5	12000	100	100	100
14	Punjab & Sind Bank	Public	3	3	3	12000	0	0	0
15	State Bank of India	Public	2.5	2.5	2.5	12500	100	100	100
16	Syndicate Bank	Public	2	2.5	2.25	12000	40	500	270
17	UCO Bank	Public	2.75	3	2.88	17500	100	100	100
18	Union Bank of India	Public	3.85	3.85	3.85	12500	11.25	100	55.63
19	United Bank of India	Public	1.7	2.8	2.25	80000	50	50	50
20	Vijaya Bank	Public	2	2.5	2.25	12000	29	49	39
21	Axis Bank Limited	Private	2.5	2.5	2.5	10000	60	50	55
22	Catholic Syrian Bank	Private	2	2.5	2.25	10000	50	50	50
23	Dhanlakshmi-B	Private	1	1.5	1.25	80000	10	10	10
24	Federal Bank Ltd.	Private	2.5	2.5	2.5	80000	75	100	87.5
25	HDFC Bank Ltd.	Private	2.5	2.5	2.5	10000	40	50	45
26	ICICI Bank Ltd.	Private	3	3	3	15000	100	100	100
27	ING Vysya Bank Limited	Private	1	2.5	1.75	6000	50	50	50
28	Karnataka Bank Ltd.	Private	1	1.5	1.25	20000	13	35	24
29	Kotak Mahindra Bank	Private	1	2.5	1.75	10000	100	100	100
30	The Bank of Rajasthan Ltd.	Private	1	2.5	1.75	10000	20	20	20
31	The South Indian Bank Ltd.	Private	2	2	2	80000	50	50	50
32	ABN-AMRO Bank N.V.	Foreign	2	2.5	2.25	8000	50	50	50
33	Abu Dhabi Commercial Bank	Foreign	2.5	2.5	2.5	25000	100	100	100
34	Citibank N.A.	Foreign	0	0	0	50	0	50	25
35	DBS India bank	Foreign	1	1	1	2500	100	100	100
36	HSBC Ltd.	Foreign	1	3	2	2500	200	200	200
37	Standard Chartered Bank	Foreign	1.5	1.5	1.5	1500	225	225	225
	Minimum		0	0	0	50	0	0	0
	Maximum		3.85	4.5	4	80000	225	1000	525
	Mean		2.18	2.62	2.40	18849.46	65.09	113.49	89.29
	Median		2.5	2.5	2.5	12000	50	100	75

In what follows, Table 4 provides the overall banking sector-wise scenario of demand draft charges in India. This is followed by some bar charts.

Table 4: **Demand Draft Charges in Rs**

	<1k		1-5k		5-10k		>10K (for every additional 1K)		Cancellation fee	
	min	max	min	max	min	max	min	max	min	max
ALL BANKS										
Minimum	9	11	14	17	18	22	0	0	0	0
Maximum	550	550	550	550	550	550	3.85	4.5	225	1000
Mean	43.16	48.16	47.07	52.03	50.36	55.59	2.18	2.62	65.09	113.49
Mean	**45.66**		**49.55**		**52.98**		**2.40**		**89.29**	
PUBLIC										
Minimum	9	11	14	17	18	22	1.35	2.25	0	0
Maximum	35	40	35	50	40	51	3.85	4.5	100	1000
Mean	22.74	28.35	27.99	34.00	30.93	37.35	2.66	3.05	58.26	142.95
Mean	**25.54**		**30.99**		**34.14**		**2.85**		**100.61**	
PRIVATE										
Minimum	10	15	20	20	25	25	1	1.5	10	10
Maximum	50	100	50	100	50	100	3	3	100	100
Mean	32.45	39.09	35.18	40.91	36.82	42.73	1.77	2.32	51.64	55.91
Mean	**35.77**		**38.05**		**39.77**		**2.05**		**53.77**	
FOREIGN										
Minimum	15	15	20	20	40	40	0	0	0	50
Maximum	550	550	550	550	550	550	2.5	3	225	225
Mean	130.83	130.83	132.50	132.50	140.00	140.00	1.33	1.75	112.50	120.83
Mean	**130.83**		**132.50**		**140.00**		**1.54**		**116.67**	

Distribution of mean across ownership category of banks for different size of DD is shown in the Bar-Chart below.

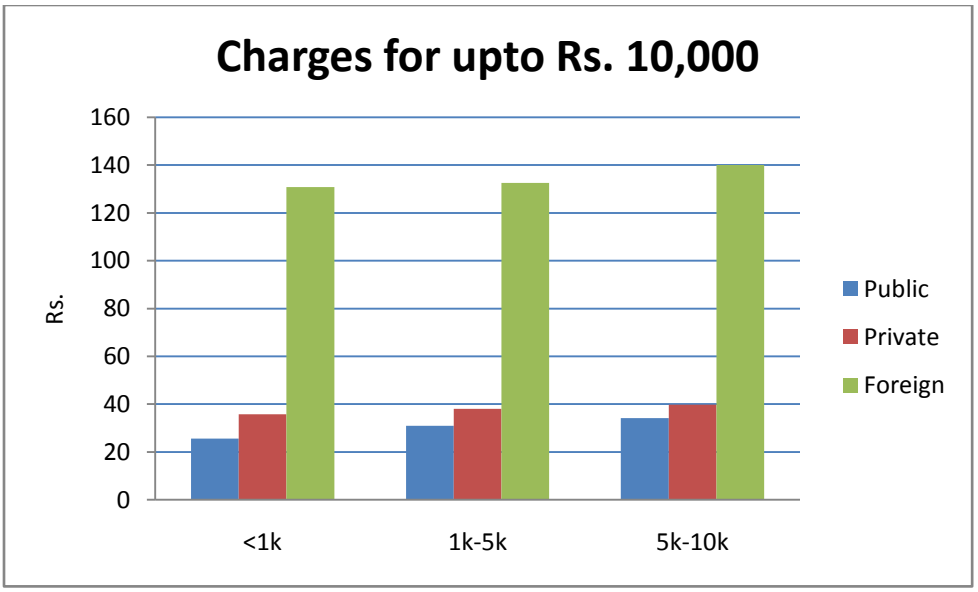


Figure 1

The following Bar-Chart shows the mean charge per Rs. 1000 for making a DD.

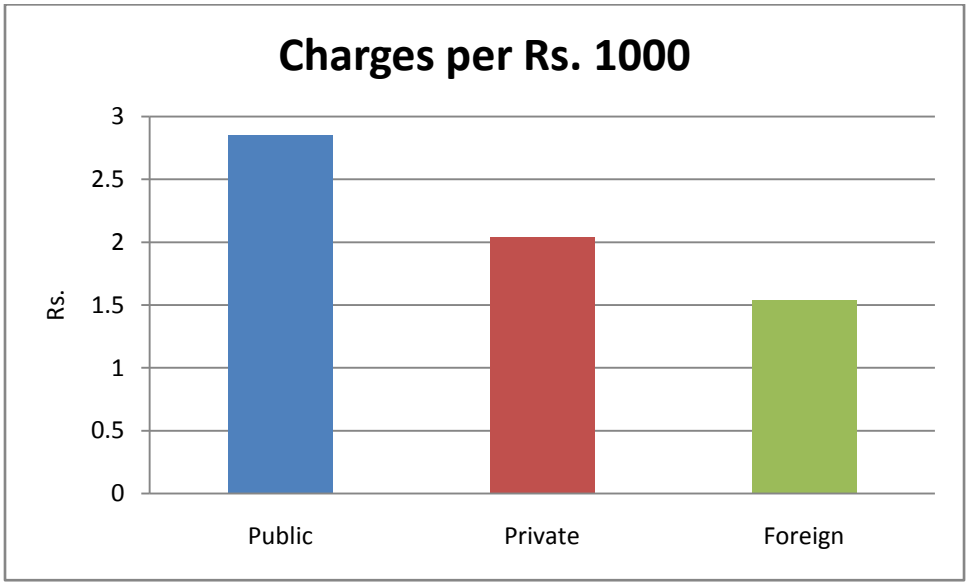


Figure 2

The average cancellation charges according to bank type are presented in the Bar-Chart below.

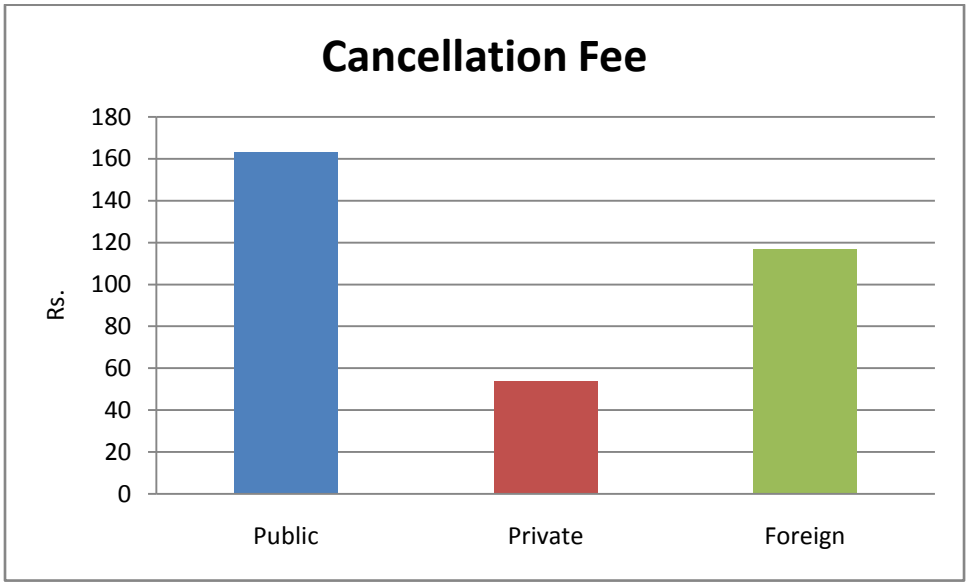


Figure 3

It is interesting to observe that the mean charges for DD having value of less than Rs. 10,000 are least for public sector banks and are maximum for foreign banks. In case of DDs having value of more than Rs. 10,000, the mean charges are least for foreign banks and are highest for public sector banks.

Based on the median of each variable, we divided the data into two halves, namely Lower half and Upper half. Lower half consists of data values which are less than or equal to the median DD

charges while the Upper half consists of the data values which are greater than the median DD charges. For the median DD charges refer to the last row of Tables 2 and 3. The details of Lower and Upper halves of the data for each variable are provided in Table 5. Also, for both the halves, the average of each variable is given in the form of bar charts.

Table 5: **Lower half and Upper half details**

Lower Half	<1K		1-5K		5-10K		>10K/per 1K		Cancel fees	
	min	max	min	max	min	max	min	max	min	max
Average	18.42	23.35	25.08	26.85	28.96	32.87	1.67	2.15	30.16	68.91
	20.89		25.97		30.92		1.91		49.54	
Frequency	21	23	23	20	23	23	24	22	20	33

Upper Half	<1K		1-5K		5-10K		>10K/per 1K		Cancel fees	
	min	max	min	max	min	max	min	max	min	max
Average	75.63	88.93	83.21	81.65	85.54	92.93	3.12	3.31	106.18	481.25
	82.28		82.43		89.24		3.22		293.71	
Frequency	16	14	14	17	14	14	13	15	17	4

The bank-group wise distribution of banks in the Lower and Upper halves is given below.

Table 6: **Lower half and Upper half bank distribution**

Lower Half	<1K		1-5K		5-10K		>10K/per 1K		Cancel fees	
	min	max	min	max	min	max	min	max	min	max
Public	14	16	16	12	17	16	8	7	11	18
Private	5	5	5	6	6	6	10	10	7	11
Foreign	2	2	2	2	0	1	6	5	2	4
Total	21	23	23	20	23	23	24	22	20	33

Upper Half	<1K		1-5K		5-10K		>10K/per 1K		Cancel fees	
	min	max	min	max	min	max	min	max	min	max
Public	6	4	4	8	3	4	12	13	9	2
Private	6	6	6	5	5	5	1	1	4	0
Foreign	4	4	4	4	6	5	0	1	4	2
Total	16	14	14	17	14	14	13	15	17	4

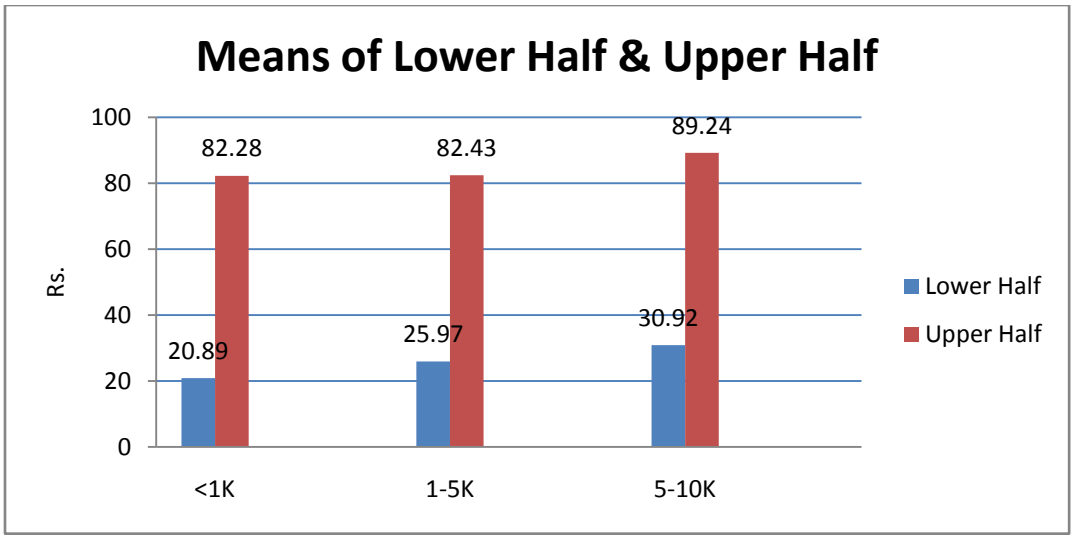


Figure 4

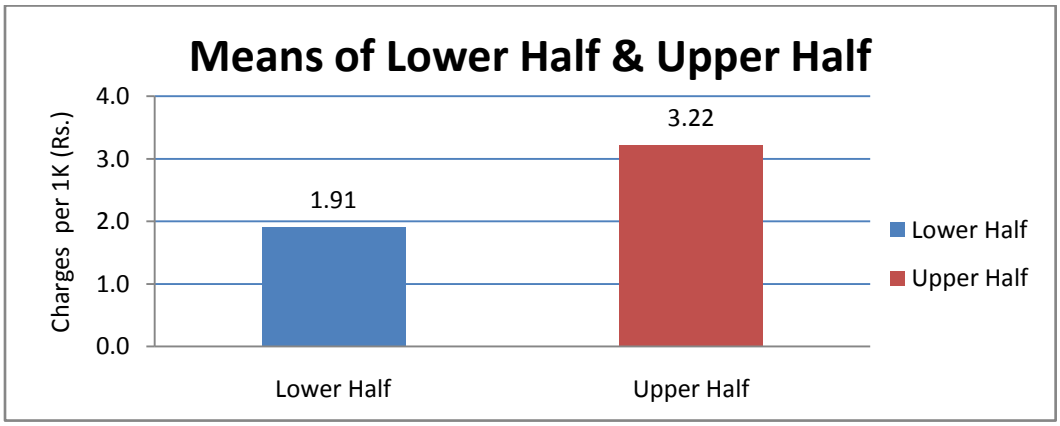


Figure 5

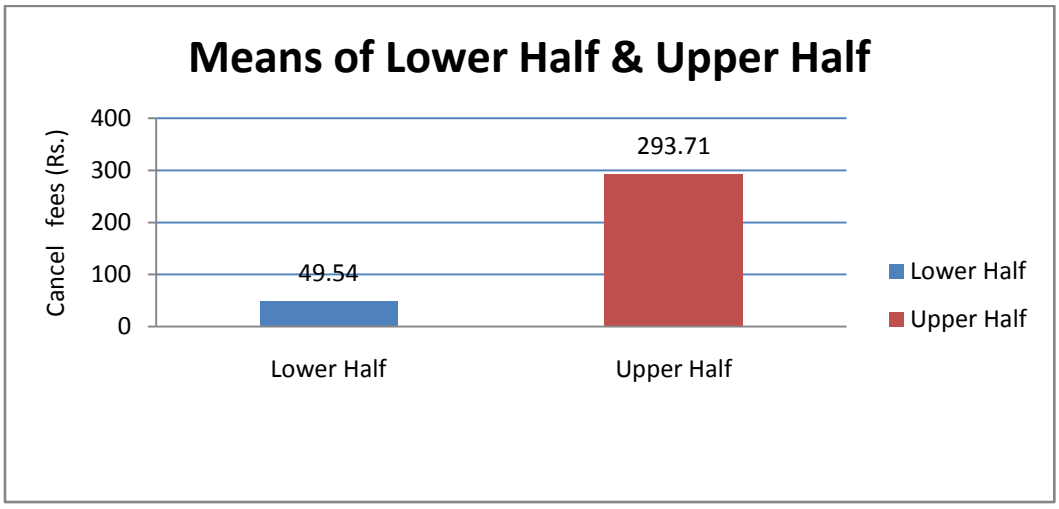


Figure 6

Next we provide a sectioned bar chart for the bank-wise distribution (for each half) for DD issue and cancellation charges.

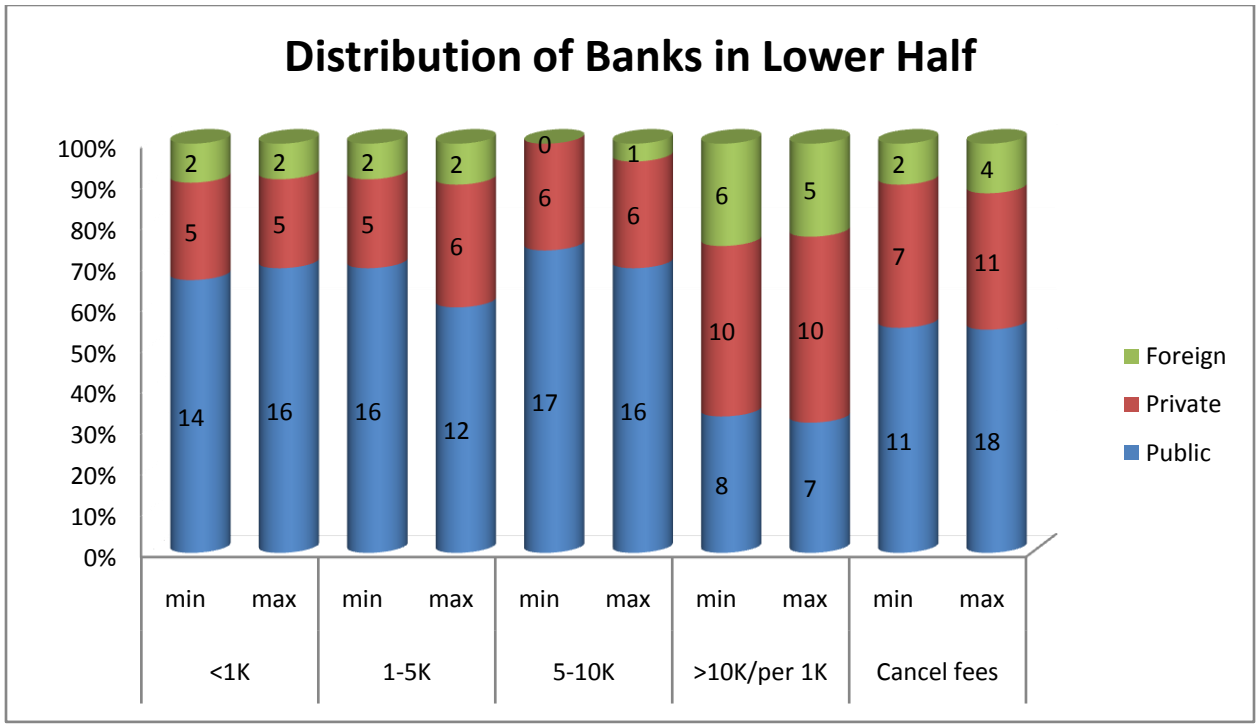


Figure 7

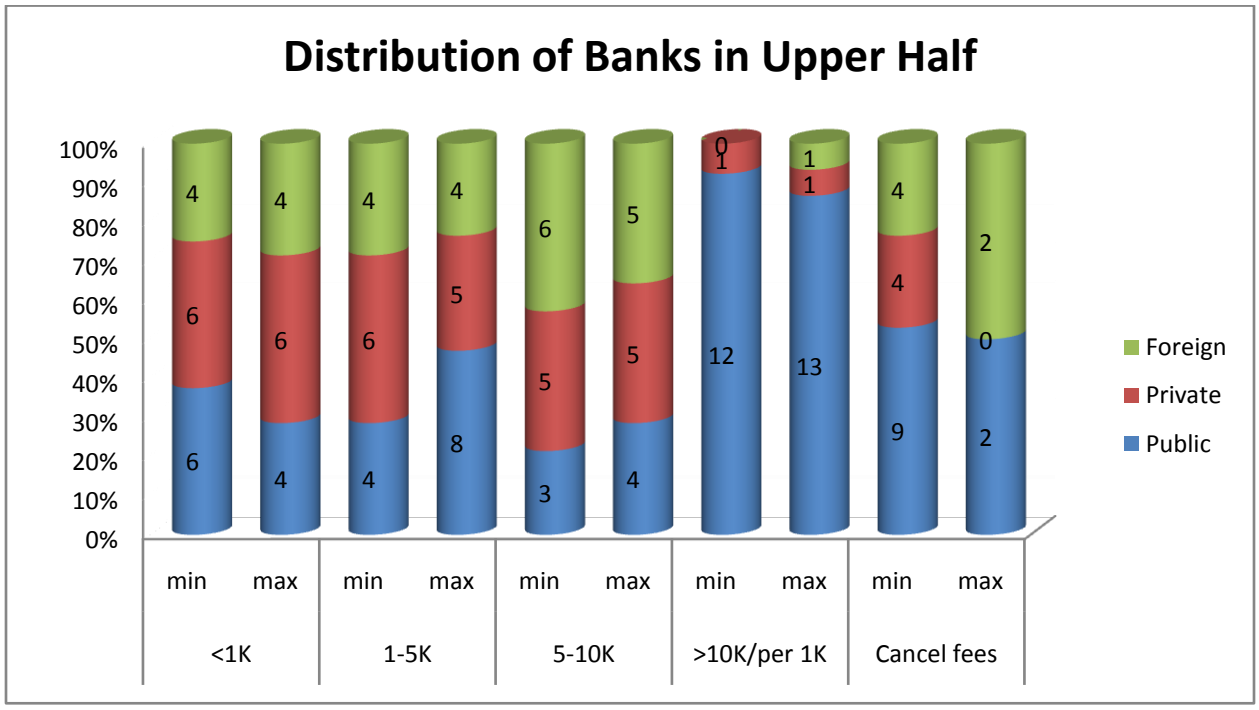


Figure 8

The above tables and charts indicate that for DDs having value upto Rs. 10,000 most of the private and foreign banks are placed in the upper half and the average charges for upper half are three to four times of the average charges for lower half. In contrast, for DDs having value more than Rs. 10,000 almost all the private and foreign banks are placed in the lower half and majority of public sector banks are placed in the upper half. The average charges for upper half are 1.7 times of the average charges for lower half for such DDs. For DD cancellations, the average charges for upper half are about six times of the average charges for lower half. Furthermore, it is seen that none of the private banks fall in the upper half with respect to the maximum cancellation fees.

4. Detection of Outliers using Box plot

A box plot can be used to find the outliers in the data. For each of the 11 variables, we first draw the box-plots. In the plots, any observation farther than 1.5 times the Quartile Deviation (QD) from the closest fourth is an outlier. An outlier is extreme if it is more than 3 times QD from the nearest fourth and it is mild otherwise. The quartile deviation or inter quartile range is the difference between the 75th and 25th percentiles. In the box-plots provided here, we draw a whisker out from each end of the box to the smallest and largest observations that are not outliers. i.e., box-plots have whiskers drawn from the edges of the box to the most extreme observation within 1.5 times QD. Extreme points outside this boundary are plotted individually and are represented by a rectangle.

In what follows we provide box-plots corresponding to DD charges. Chart 1 gives box plots for the 6 variables on DD charges upto Rs. 10,000. Chart 2 gives box plots for the DD charges for every Rs. 1000. Chart 3 gives the box plots for the cancellation charges. Finally Chart 4 gives the box plot for DD maximum charges. The charts indicate that primarily the six banks DBS India Bank, HSBC Limited, ING Vysya Bank Limited, Bank of India, Punjab National Bank and Union Bank of India have set DD issue charges way above the average charges prevailing among banks in India. For DD cancellations, Canara Bank, Syndicate Bank, Standard Chartered Bank and HSBC Limited get detected as outliers.

CHART 1

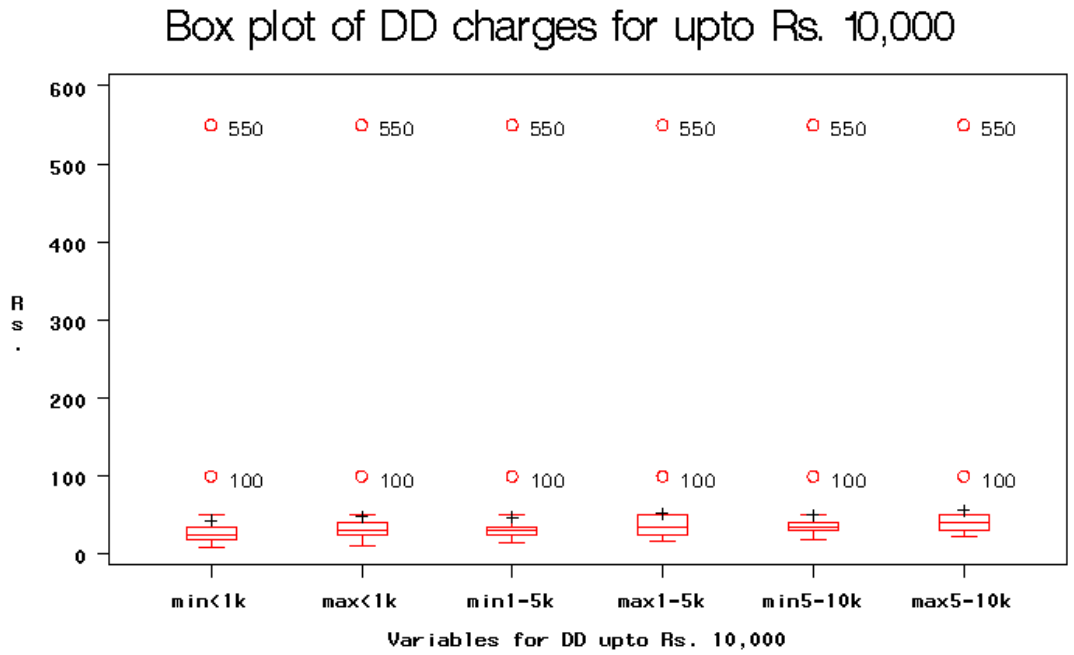


CHART 2

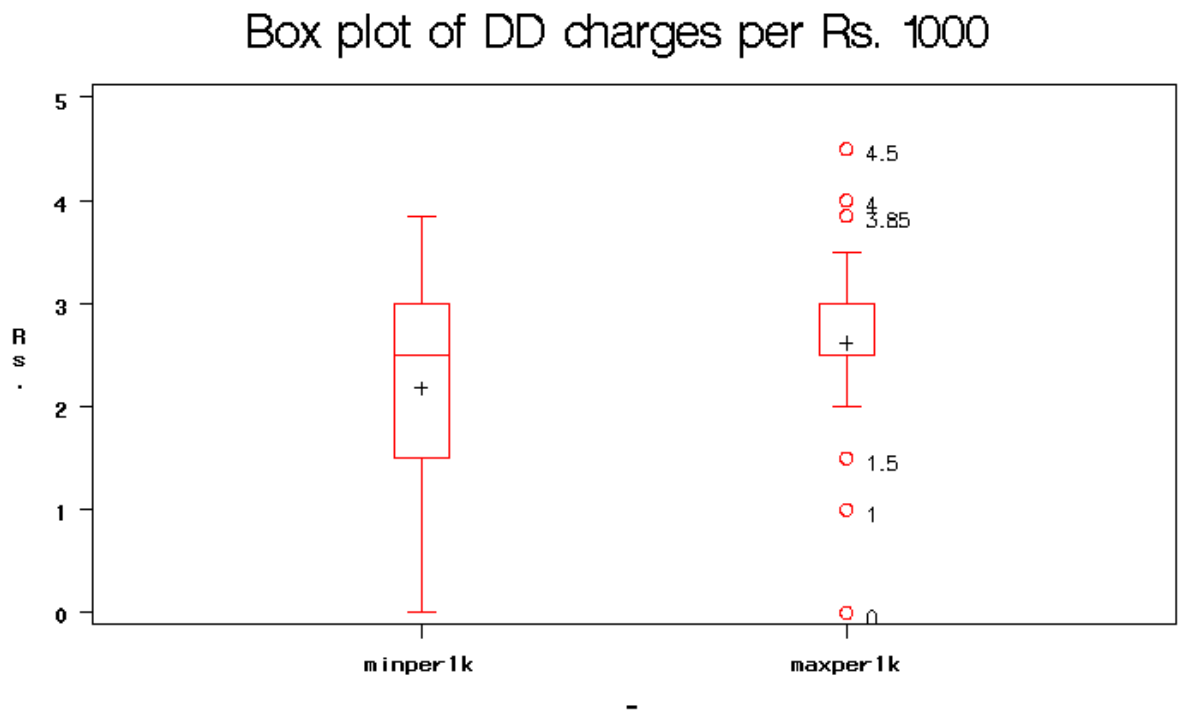


CHART 3

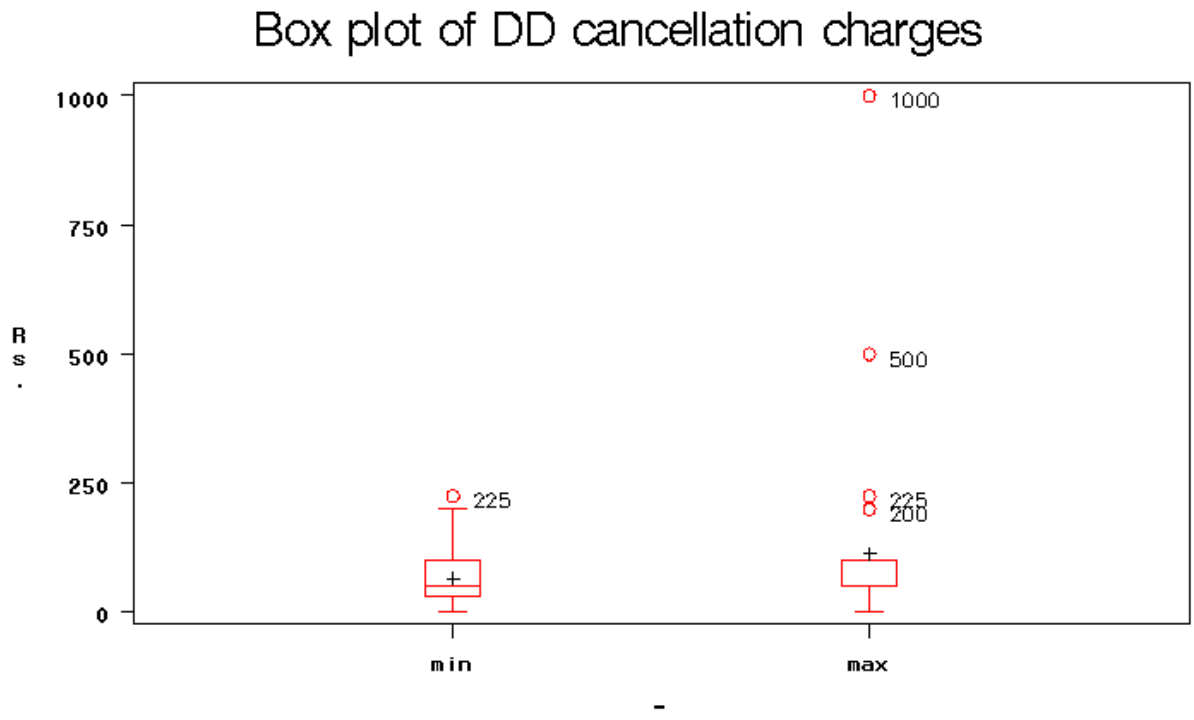
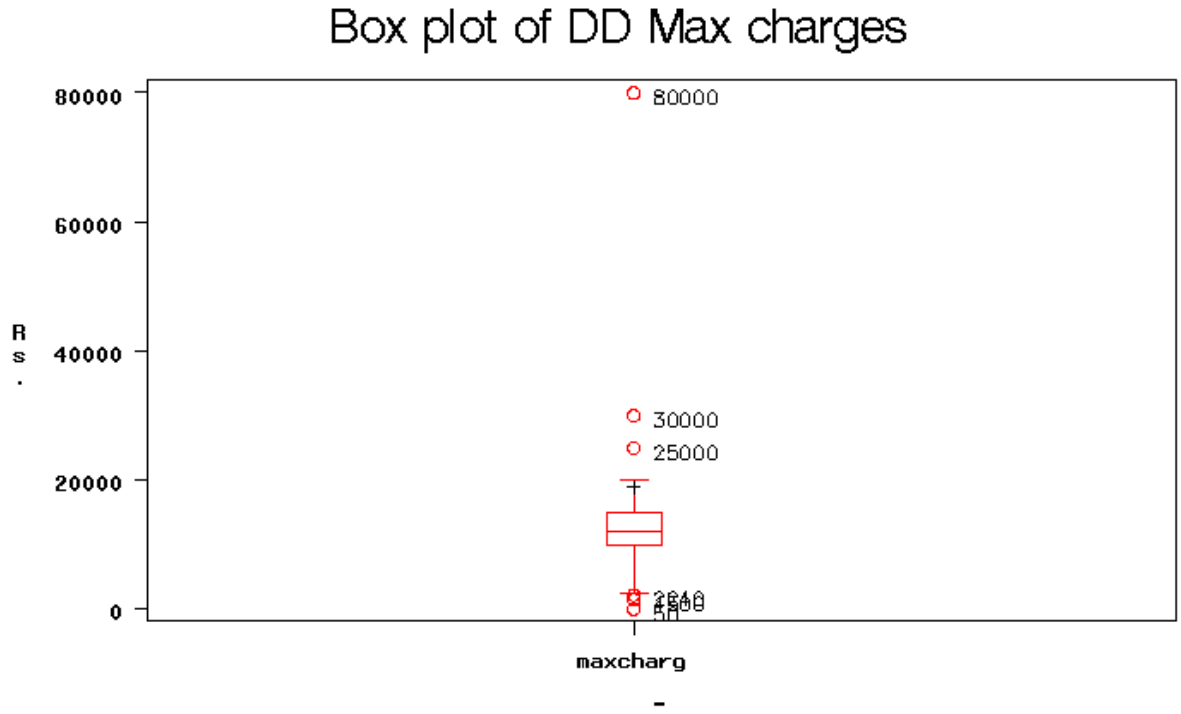


CHART 4



5. Inference based on weighted means (weights as number of bank branches)

Based on ancillary information on the number of branches (see, reference [8]), we obtain the weighted mean of DD charges. The weights considered are the number of branches since it is closely related to the number of DD issued by the banks. The details are provided in Appendix. In addition to the summary statistics, Table 7 below provides values of the weighted means along with standard deviation of the means for the banks. It is observed that the weighted means are significantly lower than the simple means for DD charges having values upto Rs. 10,000. However, the charges for DDs having value more than Rs. 10,000, the simple mean rates (per Rs. 1000) are lower than the weighted means. Thus, there is a tendency for banks with large number of branches to charge less (relative to banks with fewer branches) for DDs upto Rs. 10,000. On the contrary, for DDs having value more than Rs. 10,000, banks with large number of branches (vis-à-vis banks with fewer branches) charge more. A 95% upper bound is obtained, with respect to the weighted means, which allows one to detect banks which have fixed the DD charges significantly higher than the rest of the banks. This is used as a measure of lack of reasonableness since it is based on DD charges fixed by all the banks. Some of the banks detected as having unreasonable DD charges are DBS India Bank, HSBC Limited, ING Vysya Bank Limited, Bank of India and Union Bank of India.

Table 7: **(In Rs.)**

	<1K			1-5K			5-10K		
	min	max	avg	min	max	avg	min	max	avg
Minimum	9	11	10	14	17	15.5	18	22	20
Maximum	550	550	550	550	550	550	550	550	550
Mean (M)	43.16	48.16	45.66	47.07	52.03	49.55	50.36	55.59	52.98
Median	25	30	25	30	35	34	35	40	35
Weighted Mean (WM)	26.12	31.02	28.57	30.49	35.71	33.10	32.48	38.05	35.27
Weighted Standard Deviation (SDw)			11.87			11.06			10.53
M-WM	17.04	17.15	17.09	16.58	16.32	16.45	17.88	17.54	17.71
WM + 1.64 x SDw (95% upper bounds)			48.03			51.23			52.54

6. Odds Ratios and Concluding Remarks

Odds are simply a ratio of the probability that an event will occur versus the probability that the event will not occur, or *probability / (1-probability)*. Odds ratios, therefore, are simply a ratio of odds; in general they refer to the ratio of the odds of an event occurring in one group (public sector banks) versus the other group (private & foreign banks).

The Table below provides the odds ratios for DD issue charges when DD amount is less than or equal to Rs. 10,000 and DD amount is more than Rs. 10,000. We divided all the banks into two categories, namely, (1) Public and (2) Private & Foreign. Based on the median (of the means of the three categories of DD charges upto Rs. 10,000) we divided the charges into two categories namely, (1) Charges ≤ Rs. 31 and (2) Charges > Rs. 31. Similarly, for DDs having value more than Rs. 10,000 the charge categories are (1) Charges per 1K ≤ Rs. 2.5 and (2) Charges per 1K > Rs. 2.5. Finally, we classified each bank into the above categories based on the category of the bank and category of the amount that they charge. The classified frequency distribution is presented below in the form of a 2×2 table.

Contingency Tables

DD upto Rs. 10,000	≤ 31	> 31
Public	11	9
Private & Foreign	7	10
Total	18	19
ODDS RATIO	1.75	

DD more than Rs. 10,000	≤ 2.5	> 2.5
Public	8	12
Private & Foreign	16	1
Total	24	13
ODDS RATIO	0.04	

It is observed that in case of DD more than Rs. 10,000, odds ratio is very low. More specifically, for a bank charging more than Rs. 2.5, the odds for it being a public sector bank is 24 times that of it being a private or foreign bank. In other words, there is a significant difference in the charges between the two categories of banks namely the public and the private & foreign. In case of DD upto Rs. 10,000, odds ratio is closer to one which implies that the two categories of banks are comparable with respect to their charges.

Based on the data gathered comprising 89% representation of the total bank branches, **it is concluded that**

a) There appears to be no uniformity either in the amount or basis for levy of charges for DD issue. This has led to arbitrariness and lack of harmony for the DD charges.

b) The charges for DD issue among the public sector banks are relatively on the lower side than their private and foreign counterparts for DDs having value upto Rs. 10,000. However, for DDs having value more than Rs. 10,000, the charges imposed by public sector banks are unreasonably high (0.29% of the DD amount) as compared with private and foreign banks. In general, such charges range from 0% to 0.45% of the DD amount.

c) After more than 36 months of RBI's advice to banks on reasonability of service charges for DD issue, we find that more than 10% of the banks have not prescribed a ceiling for DD charges.

Also, among those who have set a cap, the maximum DD charge has been set as high as Rs. 30,000. Thus there is a lack of reason when banks, while levying service charges ad-valorem, charge more than what is required (on high denomination DDs) to cover any incremental cost.

d) Based on earnings of Scheduled Commercial Banks in India during 2008-09 (see, reference [10]), the banks earned Rs. 37,060 crore on commission, exchange and brokerage. Even if we consider that only 10% of such earnings come from DD issue, during 2008-09, the banking sector generated a revenue of around Rs. 3,700 crore from DD issue alone from their customers.

e) The service being a basic service, in accordance with maintaining standards in the payment system, it is felt that there is no need for only competition to guide such pricing.

f) The analysis carried out here has an underlying premise that competitive market pricing is required to safeguard consumer interest, and if market fails to have a pricing structure which is competitive, it becomes imperative to take recourse to public policy to protect consumer interest. RBI, by setting ceilings of Rs. 50/100/150 for outstation cheque collection charges, tried to protect consumer interest. It is felt that the RBI may like to bring out a rational pricing policy for DD charges as well.

g) RBI has mentioned that for the basic services rendered to individuals, banks will levy charges only if the charges are just and supported by reason. Issuing a DD falls under the basic services of banks. It needs to be kept in mind that banks enjoy float money during the period of DD issue and DD payoff**.** This float money adds to a bank's demand liability and thus banks have the freedom to use these funds for short terms gains (after meeting the 5.75% CRR requirement). RBI may like to estimate the systemic average float that the banks enjoy unintentionally. Such an estimate could help in arriving at more precise pricing of DD fees. Thus for RBI, it should not be difficult to benchmark the charges keeping cost considerations in mind.

h) Based on the weighted means and the distribution of charges in the lower half (Table 5), it is suggested that **the DD charges may be fixed with upper ceiling at Rs. 30 for DDs upto Rs, 10,000.** Keeping in view that there is no additional cost to issue a DD having a value more than Rs. 10,000 (as against smaller denomination DD issue), **the DD charges may in fact be fixed with upper ceiling at Rs. 30 for DDs of any denomination.**

i) There can be no justification for charging for a DD cancellation since had it not been cancelled, the bank would have anyway paid the DD amount (without any charge) on demand from some collecting bank. However, to bring in a sense of deterrent there should be a token charge and this **DD cancellation charge may be fixed with upper ceiling at Rs. 30.**

Acknowledgement

The present study was motivated by few correspondences one of the authors had with RBI. Part of the work is a culmination of an Applied Statistics and Informatics project undertaken at Department of Mathematics, IIT Bombay.

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Appendix

Weighted Average of Return Charges in Rs. (with number of branches as weights)

S.No	Bank name	Category	Total No. Branches	<1K			1-5K			5-10K			>10K (for every additional 1K)		
				min	max	avg	min	max	avg	min	max	avg	min	max	avg
1	Allahabad Bank	Public	2217	25	25	25	35	35	35	40	40	40	3	3	3
2	Andhra Bank	Public	1425	15	30	22.5	20	30	25	25	30	27.5	1.5	2.5	2
3	Bank of Baroda	Public	2915	20	20	20	35	35	35	35	35	35	3	3	3
4	Bank of India	Public	2935	25	40	32.5	35	50	42.5	35	50	42.5	3.5	4.5	4
5	Bank of Maharashtra	Public	1407	25	25	25	30	30	30	35	35	35	3	3	3
6	Canara Bank	Public	2740	20	30	25	30	50	40	30	50	40	3	3.5	3.25
7	Central Bank of India	Public	3533	20	25	22.5	30	35	32.5	30	35	32.5	3.5	3.5	3.5
8	Corp. Bank	Public	1035	30	30	30	30	30	30	40	40	40	2.5	2.5	2.5
9	Dena Bank	Public	1093	30	40	35	30	40	35	30	40	35	3	3.5	3.25
10	Indian Bank	Public	1612	30	30	30	30	30	30	30	30	30	3	3	3
11	Indian Overseas Bank	Public	1927	9	11	10	14	17	15.5	18	22	20	1.35	2.25	1.8
12	Oriental Bank of Commerce	Public	1422	15	20	17.5	15	20	17.5	20	25	22.5	2	2.5	2.25
13	Punjab National Bank	Public	4327	30	40	35	30	40	35	30	40	35	3	4	3.5
14	Punjab & Sind Bank	Public	858	25	25	25	25	25	25	25	25	25	3	3	3
15	State Bank of India	Public	11472	30	30	30	30	30	30	30	30	30	2.5	2.5	2.5
16	Syndicate Bank	Public	2246	15	30	22.5	30	40	35	30	40	35	2	2.5	2.25
17	UCO Bank	Public	2058	35	40	37.5	35	40	37.5	35	40	37.5	2.75	3	2.88
18	Union Bank of India	Public	2570	18.75	25	21.88	18.75	25	21.88	37.5	50	43.75	3.85	3.85	3.85
19	United Bank of India	Public	1445	17	22	19.5	28	39	33.5	34	51	42.5	1.7	2.8	2.25
20	Vijaya Bank	Public	1101	20	29	24.5	29	39	34	29	39	34	2	2.5	2.25
21	Axis Bank Limited	Private	786	50	50	50	50	50	50	50	50	50	2.5	2.5	2.5
22	Catholic Syrian Bank	Private	360	10	15	12.5	20	20	20	30	30	30	2	2.5	2.25
23	Dhanlakshmi-B	Private	181	10	15	12.5	20	20	20	25	25	25	1	1.5	1.25
24	Federal Bank Ltd.	Private	611	25	25	25	25	25	25	25	25	25	2.5	2.5	2.5
25	HDFC Bank Ltd.	Private	1408	50	50	50	50	50	50	50	50	50	2.5	2.5	2.5
26	ICICI Bank Ltd.	Private	1409	50	50	50	50	50	50	50	50	50	3	3	3
27	ING Vysya Bank Limited	Private	444	50	100	75	50	100	75	50	100	75	1	2.5	1.75
28	Karnataka Bank Ltd.	Private	451	12	15	13.5	22	25	23.5	25	30	27.5	1	1.5	1.25
29	Kotak Mahindra Bank	Private	220	40	50	45	40	50	45	40	50	45	1	2.5	1.75
30	The Bank of Rajasthan Ltd.	Private	458	35	35	35	35	35	35	35	35	35	1	2.5	1.75
31	The South Indian Bank Ltd.	Private	519	25	25	25	25	25	25	25	25	25	2	2	2
32	ABN-AMRO Bank N.V.	Foreign	30	50	50	50	50	50	50	50	50	50	2	2.5	2.25
33	Abu Dhabi Commercial Bank	Foreign	2	15	15	15	25	25	25	40	40	40	2.5	2.5	2.5
34	Citibank N.A.	Foreign	41	20	20	20	20	20	20	50	50	50	0	0	0
35	DBS India bank	Foreign	10	550	550	550	550	550	550	550	550	550	1	1	1
36	HSBC Ltd.	Foreign	47	100	100	100	100	100	100	100	100	100	1	3	2
37	Standard Chartered Bank	Foreign	90	50	50	50	50	50	50	50	50	50	1.5	1.5	1.5
		Total	57405												
	Minimum		2	9	11	10	14	17	15.5	18	22	20	0	0	0
	Maximum		11472	550	550	550	550	550	550	550	550	550	3.85	4.5	4
	Mean (M)		1551.49	43.16	48.16	45.66	47.07	52.03	49.55	50.36	55.59	52.98	2.18	2.62	2.40
	Median		1101	25	30	25	30	35	34	35	40	35	2.5	2.5	2.5
													0.91	0.82	0.82
	Weighted Mean (WM)			26.12	31.02	28.57	30.49	35.71	33.10	32.48	38.05	35.27	2.66	2.99	2.83
	Weighted Standard Deviation (SDw)					11.87			11.06			10.53			0.62
	M-WM			17.04	17.15	17.09	16.58	16.32	16.45	17.88	17.54	17.71	-0.48	-0.37	-0.43
	WM + 1.64 x SDw (95% upper bounds)					48.03			51.23			52.54			3.84