BENCHMARKING REASONABLENESS OF SERVICE CHARGES BY BANKS

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Study Proposed by MONEYLIFE FOUNDATION

RBI – ON SERVICE CHARGES

1999 : RBI gives freedom to banks to fix service charges.

Conditions:

- Banks should ensure that the charges are reasonable and not out of line with the average cost of providing these services
- Board of Directors of banks are vested with the responsibility to approve the same
- Banks should also take care to ensure that customers with low volume of activities are not penalised

BANKS AND SERVICES - SCOPE OF THE STUDY



- The study covers 23 SCBs and two Co-op banks
- 14 basic services considered
  - *Non-maintenance of required Min Bal*
  - *Duplicate passbook; Account closure; Cheque usage; Demand draft*
  - *Debit card; ATM; SMS alert; Cash transaction; Electronic payments;*
  - *ATM/POS trans. decline; Standing Instructions; NACH; Doorstep banking*
- Leading to **44** (expanded) service-charge **variables**
  - We may not have covered all services as there is no clear definition of what is a chargeable service
- Charges pertain to simplest savings account product

BROAD FINDINGS

- For each of the 44 variables, 95 percentile threshold is used to detect outliers
- Most SCBs have at least one variable as an outlier
- Most variables have at least one SCB as an outlier

Service	SCB	Extreme charges (Rs)	Mean charge (Rs)
Cheque Returned due to technical reasons	YES Bank	350	58.70
DD Cancellation (Average)	Canara Bank	250	83.95
Doorstep Banking - Non-financial Txn	Federal Bank	250	53.70
Self-Generation of ATM PIN on phone/ATM	Canara Bank	50	3.04
Non-financial Off Us ATM transactions	Indian Overseas Bank	21	9.87
	Standard Chartered	20	

SPECIFIC CHARGES (1/4): DEBIT CARD/ ATM/ NEFT/ RTGS/ IMPS

Charges that are apparently unreasonable

- Debit card annual fees: Charges range Rs 100 – 300.
  - Annual/membership fees imposed by banks/card-schemes even when debit card is not used throughout the year
- ATM: Banks charge at RBI-cap of Rs 20 for cash drawn (≤ Rs 10 own-bank ATM)
  - Same charge of Rs 20 for balance enquiry and cash withdrawal (*Indian Overseas Bk and Standard Chartered)*
    - despite ATM interchange : Rs 6 (balance enquiry) and Rs 17 (cash withdrawal)
- Self-gen. ATM PIN on phone/ATM: High Rs 50 (*Canara Bk and Indian Overseas Bk)*
- IMPS: Most banks charge the same for at-branch and online IMPS
- NEFT/RTGS: Contrary to RBI advice, banks have not given at-branch service charge benefits to customers (*Centl Bk of India, Bk of Maha, Bk of Ind and IDBI Bk)*

SPECIFIC CHARGES (2/4): ATM/POS DECLINE DUE TO INSUFFICIENT BALANCE

- Most banks charge Rs 10-25 for ATM/POS decline due to insufficient balance
- However, card-issuer banks do not pay any interchange (fees) to ATM/POS-acquirer banks (NPCI) for such declined transactions
- Unreasonable to charge for ATM/POS decline, that too when it is more than a successful-cash-withdrawal charge
  - Can banks' boards ensure reasonableness for such charges?
  - Interestingly, these charges do not apply when instead of card decline at POS, there are UPI declines at POS
  - Unlike a charge for cheque bounce, which involves third parties and create distrust in the payment mode, POS/ATM declines do not involve such distrust
- During 2018 – 2022 Canara Bank collected Rs 162 cr towards ATM decline alone (charged @ Rs 23.60)

SPECIFIC CHARGES (3/4): ON MANDATORY-SMS ALERTS

- RBI has mandated SMS alerts for account debits through withdrawal channels
- Such SMS alerts become part of the product features of the debit channels
- Lack of clarity : A separate charge for something that is part of the product feature of a transaction-mode
  - *Bk of India* charge even for SMS alerts that are OTPs
  - Most banks charge for mandatory-SMS alert
  - five banks : No monthly cap (charge as high as Rs 75 / month)
- The government introduced a law, whereby banks are prohibited from imposing any **direct or indirect** charge for making UPI payments.
  - Accordingly, *SMS alert in UPI*, **being a guaranteed consequence of an UPI transaction**, cannot be charged – else it would result in an **indirect** charge for using UPI.

PENAL CHARGES (4/4): NON-MAINTENANCE OF MIN BAL

- RBI mandates penal charges to be a **fixed percentage** of the shortfall amount
  - The mandate provides flexibility for a suitable slab structure for such charges
- 14 banks have slab structure for shortfalls
  - For each slab, charges are constant in rupee terms, i.e., the **charges are not a fixed percentage of the shortfall**
  - In percentage terms, the average penal charges of the banks are at least 5% of shortfall amount, per month
- RBI, Annual Report 2018-19, proposed to review the guidelines on Min Bal requirements and penalty for non-maintenance
  - *("VI.46 Guidelines on minimum balance requirements for savings bank accounts and penalty for non-maintenance will be reviewed.")* … RBI inarticulate, thereafter…

BANK RANKINGS BASED ON THE ANALYSIS (1/2)

- Using a scientific method of rank aggregation, we rank the banks, with respect to 44 service-charge variables taken together
- Banks are ranked in four categories A (best), B, C and D (worst)
- The two Co-op banks, *Saraswat Co-op Bk and SVC Co-op Bk* perform reasonably well and get placed under Category A banks

BANK RANKINGS BASED ON THE ANALYSIS (2/2)

- The bank rankings for the SCBs

Category A	Category B	Category C	Category D
IDFC First Bank	State Bank of India	Central Bank of India	Axis Bank
AU SF Bank	RBL Bank	IDBI Bank	Canara Bank
Bandhan Bank	Ujjivan SF Bank	Bank of India	
	HDFC Bank	Kotak Mahindra Bank	
	Bank of Maharashtra	Federal Bank	
	Punjab National Bank	ICICI Bank	
	IndusInd Bank	Indian Overseas Bank	
	Union Bank of India	YES Bank	
	Bank of Baroda		

SELECT CASE STUDIES (1/2)

- RBI has made regulations for banks giving a broad structure for fixing their service charges, while ensuring reasonableness
- Since 2017, Canara Bk charged Rs 20^{+} for ATM decline without board approval and disclosure. RBI allowed retrospective approval in 2023, to charge @ Rs 17^{+}
- Marginalised customers robbed by unreasonable service charge
  - Canara Bk charged Rs 25^{+} for ATM cash withdrawal — Since 2015
  - Canara Bk charged Rs 5^{+} for UPI/NEFT/POS trans.
  - IDBI Bk charged Rs 40^{+} for ATM cash withdrawal — Since 2020
  - IDBI Bk charged Rs 20^{+} for UPI/NEFT/POS trans.
  - SBI charged Rs 15^{+} for UPI/NEFT/POS trans. **Rs 17.70** — Since 2017
- Undue funds: Canara Bk (>Rs 200 cr); IDBI Bk (Rs 12 cr); SBI (~Rs 254 cr)

SELECT CASE STUDIES (2/2)

- Customers have faced **loss due to unreasonable service charges** (Rs 23.60, Rs 17.70, Rs 5.90 for UPI payments)
- **Lapse on part of the regulator** allowed banks to withhold large undue funds (of poor and ignorant customers) for several years
- The refunds made by banks, after a lot of persuasion and push, were **half-hearted and inadequate** (incomplete)
- **Interest** on wrongful withholding of funds have either not been paid or have been grossly small (compared to penalties imposed by banks on delays in payment of bank loans)
- **SBI withholding undue money** (~ Rs 200 cr) from digitally transacting PMJDY/BSBD Account holders' hard earned savings.
  - *SBI **declined to return** the undue collections and enrichments made there from*
  - *Money collected by SBI is **not only unreasonable but also without any authorization**, flouting RBI regulations*

CONCLUDING REMARKS (1/2)

- There is **significant disharmony** in the way banks fix their service charges
- **Ensuring reasonableness** in fixing these charges **lacks** customer centricity, rationality, analytical foundations and also non-adherence to the regulatory guidelines
- Banks' casual approach and supervisor's constraints, hurt the bank depositors, particularly the middle class and the marginalised ones
- RBI may like to review the issues highlighted in this Report relating to:
  - reasonableness in the fixing of service charges, and
  - the regulatory observations made through the three case studies

CONCLUDING REMARKS (2/2)

- This study reflects the banks' policy towards service charges and **NOT** the relentless service being provided by the front- and back-end staff/officers of the banks.

- The bank staff are always there to help but, many-a-times, systems prevailing within the bank make them incapable to address things, making it appear that they are the bottlenecks, while the bottlenecks actually lies much higherup the cadre – in the policies made by the management.

Tarapore 2004 Report

"The banks' offerings are generally opaque - what is not charged is mentioned but what is charged is not mentioned - high hidden costs appear rampant and unjustified, thus banks enjoy undue enrichment. If a small customer goes to a bank and has a technical problem, anecdotal evidence suggests that he runs into enormous difficulties."

Thank you all…