



SBI's charges for non-maintenance of minimum balance in 2017-18 were unreasonable¹

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0. In a recent speech³ at the launch of UPI 2.0, Dr. Urjit R. Patel, Governor, Reserve Bank of India (RBI), reverberates the recent concerns on reasonableness in service charges. He mentions “*While the Reserve Bank will continue to pay focused attention to appropriate enabling regulation, strong infrastructure, apposite supervision and customer centricity, due attention must be paid by operators towards cyber security, effective customer grievance redress arrangements and reasonableness of customer charges.*” With respect to customer charges for non-maintenance of minimum balance requirements in savings bank (SB) accounts, 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. At the bank level, scientific costing is not available at disaggregate level since most of the operational expenses relate to bank as a whole. With this backdrop, we look at the reasonability of SBI's service charges, in 2017-18, towards their customers for not maintaining minimum monthly average balances in SB accounts.

1. After some severe criticism of SBI penalizing its SB account customers Rs 2434 crore in the financial year 2017-18, for non-maintenance of the bank's required minimum balances, the bank has quickly come out with justifications to mitigate possible reputational risks. SBI claims that just about 60% of their 42.5 crore SB accounts are required to maintain minimum monthly average balances. This means SBI collected Rs 2434 crore from less than 25.5 crore SB accounts. Surely, not all SB accounts of SBI, which required minimum balances to be maintained, faulted. This follows from the fact that for the month of April 2017, SBI recovered Rs 235.06 crore as penalty from only 3.89 crore of the 25.5 crore SB accounts in question for not maintaining minimum monthly average balance. Thus, it would be quite revealing for SBI to state the number of distinct SB accounts which were subjected to any penalty during the full financial year 2017-18. On a very conservative side if only 30% of the 25.5 crore SB accounts

¹ The views expressed are those of the author and not and not necessarily of the institution to which he belongs. For a more detailed mathematical reasoning see IIT Technical Report “Fault Lines in Implementation of Minimum Balance Rule for Savings Bank Accounts in India”, December 2017.

<http://dspace.library.iitb.ac.in/jspui/handle/100/22127>

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³ Innovation in Retail Payments: Urjit R. Patel, Governor, Reserve Bank of India, August 16, 2018 - Address at the Launch of Unified Payments Interface (UPI) Version 2.

https://rbi.org.in/Scripts/BS_SpeechesView.aspx?id=1060



were subjected to penalty, it would mean that not more than 8 crore distinct SB accounts were subjected to penalty during 2017-18. One can, thus, infer that Rs 2434 crore was collected from about 8 crore SB accounts. In other words, during 2017-18, on an average about Rs 300 was charged from such SB accounts, which could not maintain the required minimum balance set by the bank.

2. In the second half of the financial year 2017-18, SBI had set minimum balance requirement in the range of Rs 1000-3000, with Rs 1000 for rural, Rs 2000 for semi-urban and Rs 3000 for metro/urban region.⁴ Considering on an average that the accounts had a shortfall of Rs 1000 during the year, SBI charged Rs 300 for the same, which is an exorbitant 30% of the shortfall amount for the year. Even a loan of Rs 1000 for one year does not cost Rs 300, though such a loan has a potential risk of turning into NPA. And here SBI considers it reasonable to charge on the risk-free shortfall-money at the rate of 30% per annum (when even RBI has been readily lending money to the banks at a repo rate of no more than 6.25% per annum).

3. Coming to the argument of SBI that those who cannot maintain minimum balance can convert their account to a Basic Savings Bank Deposit (BSBD) account or Pradhan Mantri Jan Dhan Yojana (PMJDY) account, which have no minimum balance requirement, SBI should also be upfront in mentioning that such BSBD/PMJDY accounts would not allow any debit during a month beyond four debits from the beginning of the month. This means that such an account holder would not be able to use his money in the account until the month is over and a new month starts. The four debits in a month that are allowed include the totality of cash withdrawals and digital payments. Furthermore, such digital payments include usage of BHIM-UPI and RuPay debit cards for day to day purchases at shops. The government's digital payment drive over the past 20 months has resulted in RuPay debit cards gaining popularity in Metro/Urban regions and even in Semi-Urban regions for non-cash digital transactions. However, such a positive development is no good if SBI creates bottlenecks by freezing accounts for the whole month once four debits are encountered in a month. SBI attributes the reason for their doing so to RBI's latent guidelines.

4. SBI, during 2017-18, should have set their charges, for the non-maintenance of minimum balance, much more reasonably. On realising that the charges are not reasonable, the bank took corrective action through reduction of the charges by over 75% (See Annex). Therefore, though from April 2018 SBI has set very reasonable charges for non-maintenance of minimum balances (though some private banks continue to impose unreasonable charges), nevertheless, the fact

⁴ For the period April-September 2017, SBI had set minimum balance requirement in the range of Rs 1000-5000, with Rs 1000 for rural, Rs 2000 for semi-urban, Rs 3000 for urban and Rs 5000 for metro region.



SBI's charges for non-maintenance of minimum balance

remains that SBI had excessively charged during the last financial year 2017-18. SBI may like to correct itself retrospectively so as not to get portrayed as exploitative for the past year.

Annex

SBI's monthly penal charges in Rs						
Region	Shortfall in minimum balance	Apr17-Sep17	Oct17-Mar18	Apr17-Mar18 (Average)	Apr18 onwards	% reduction in charges (present over 2017-18)
Metro	greater than 75%	100	50	75	15	80
	between 50-75%	75	40	57.5	12	79
	less than 50%	50	30	40	10	75
Urban	greater than 75%	80	50	65	15	77
	between 50-75%	60	40	50	12	76
	less than 50%	40	30	35	10	71
Semi-Urban	greater than 75%	75	40	57.5	12	79
	between 50-75%	50	30	40	10	75
	less than 50%	25	20	22.5	7.5	67
Rural	greater than 75%	50	40	45	10	78
	between 50-75%	30	30	30	7.5	75
	less than 50%	20	20	20	5	75
Average		54.6	35	44.8	10.5	76.6