

Rationalisation of charges levied by banks on returned cheques

Ashish Das and A D Naga Venkata Ramarao

Department of Mathematics
Indian Institute of Technology Bombay
Mumbai-400076, India



Indian Institute of Technology Bombay
Powai, Mumbai-400 076, India

Rationalisation of charges levied by banks on returned cheques*

Ashish Das¹ and A D Naga Venkata Ramarao²

Department of Mathematics, Indian Institute of Technology Bombay, Mumbai-400076, India

September 10, 2009

Abstract

This is an approach paper for rationalisation of service charges levied by banks on returned cheques in India. 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. We look at the reasonability of service charges levied by banks on return cheques. The study concludes that there is a need to rationalize and bring in uniformity in the amount of service charges for return cheques.

1. Introduction

The Reserve Bank of India (RBI) has set the 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.

* The views expressed in the paper are those of the authors and not necessarily of the institution to which they belong.

¹ Dr. Ashish Das is Professor with the Indian Institute of Technology Bombay. E-mail: ashish@math.iitb.ac.in

² Mr. A D Naga Venkata Ramarao is a Statistician at Cytel Statistical Software & Services Pvt. Ltd. and an ex-student of the Indian Institute of Technology Bombay. E-mail: adnvr@gmail.com

However, in consonance with the Payment and Settlement Systems Act, 2007³, in order to set standards, RBI recently issued directions benchmarking the outstation cheque collection's time frame and charges (see, references [7] and [3]). However, RBI did not set standards on cheque return charges and left it to the banks' board to decide on the same.

Though RBI has not set standards on cheque return charges, RBI has advised the banks that they may prescribe charges not higher than cheque return charges for ECS debit returns. Thus RBI aimed to ensure that charges are reasonable and are decided by market forces and competition.

Earlier, the central bank had prepared a report on "reasonableness of bank charges" (see, reference [6]) which states that providing cheque books, pass books or bank statements, and automated teller machine (ATM) cards are basic services. The report also said that apart from collection of local and outstation cheques being treated as a basic service, **Cheque Return-Inward** (cheque received for payment) and **Cheque Return-Outward** (cheque deposited for collection) are also basic banking services. Such services were thus meant to be essential and low-cost services.

Due to present recessionary trends and transition into more modern electronic payments, the cheque usage has been on the decline. Notwithstanding this fact, around 14000 lakh cheques were cleared last year. Considering that 1.5% of the cheques are returned, (based on data available on return cheque charges) the banking sector collects around Rs. 400 crore every year as revenue on returned cheques from their customers.

The present study is an approach paper for rationalisation of service charges levied by banks on returned cheques. It is felt that there is a need to rationalize and bring in uniformity in the amount of service charges for return cheques.

2. Preliminaries

As of now, banks do not have any direct charges for processing local cheques. However, few banks have introduced indirect charges in the form of levying charges for cheque books. Banks also provide outstation cheque collection service as a part of their deposit taking activity. RBI

³ 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]).

recently (see, reference [3]) benchmarked the collection charges for outstation cheque. The all inclusive charges⁴ 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

Before the above standards came into effect, RBI conducted two studies (see, references [1], [2]) related to postal charges and outstation cheque collection charges. A highlight of these two studies is given in Appendix A.

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. Subsequently, the banks did revise the charges; however, almost all banks have fixed their charges at the threshold limits set by RBI, thereby leading to an overall increase in the collection charges for cheques having value of Rs. 10,000 or less.

Though the framework of charges does in no way limits / prohibits the scope for competition and banks are free to fix rates lower than the threshold, the freedom is really not being exercised by them. All banks are setting the charges at the higher threshold points thereby keeping no room for competition. This suggests a possible review of the set thresholds based on the principle of reasonableness and actual costing.

In this connection, the present study, in a related fashion, sets rationale to highlight the need for cogent pricing policy for cheque returns as well.

3. International scenario on charges for cheque returns

The Office of Fair Trading (OFT) in UK has carried out studies on banking charges. In addition to a continuing look into how banks charge for bounced cheques and unauthorized overdrafts, the OFT has announced that it will conduct a wider investigation into other charges banks levy on customers. The OFT says that the study is needed because many people have no idea how

⁴ 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.

much they really pay for “free” banking, and it wants to bring greater transparency to what bank customers are charged for which services. In fact the OFT’s chief executive has said that his organization does not believe that banking is really free, but that charges to some customers merely subsidize the cost of accounts for those who do not overdraw their accounts or write bad cheques.

In UK, the issue of charges levied by banks on bounced cheques has been debated in length. Over the past two years public revolt against leading financial institutions has seen banks besieged by tens of thousands of complaints and court cases. In fact a recent landmark High Court case on charges could see millions of pounds returned to customers after the case of unauthorised overdraft charges conclude. The ruling follows a recent test case between the OFT and eight High Street Banks with regard to charges for unauthorised borrowing and bounced cheques, which concluded they were covered by the Unfair Terms in Consumer Contracts Regulation of 1999. Banks and building societies were charging over £35 for a bounced cheque, standing order or direct debit. However, it is believed that the actual cost incurred by the financial institutions could be as low as £2. The law states that punitive fees should be no higher than costs. The banking industry insists the charges are legally justifiable because they are "service charges" rather than penalty fees and so do not fall under the terms of the regulations. They also say that lowering or capping the charges could end "free" banking enjoyed by millions of customers. The court case resulted in many banks reviewing their charging structure and as such, lowered their fees.

4. A Survey for Cheque Return Charges in India

A survey of the banks was conducted during January-February 2009, on the cost being levied for return cheques. We consider 30 major banks in our sample so as to account for 83% of all bank branches in India. Our study constitute 17 public sector banks, 9 private sector banks and 4 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 %
Foreign (4)	277	0.45	205	0.41	74.01
Private Banks (9)	7975	13.05	5753	11.38	72.14
Public Sector Banks (17)	52880	86.50	44602	88.22	84.35
Total (30)	61132	100	50560	100	82.71

Source: RBI (<http://www.rbi.org.in/scripts/PublicationsView.aspx?id=10991>)

Before providing the details, we give some definitions.

1. **Inward cheque and Inward return:** Cheque coming into the bank through the clearing process is *Inward* Cheque for the bank. *Inward return* means that a person issued a cheque which got returned due to insufficient funds in his account.
2. **Outward cheque and Outward return:** Cheque going out of the bank through the clearing process is *Outward* cheque for the bank. *Outward return* means that a person deposited a cheque received from a third person which bounced.

The results of the survey, based on return charges as it stood during January-February 2009, are furnished below in Table 2. In the Table, column under Inward-Local-min shows the minimum amount charged by each bank for Local inward cheques (over different cheque amounts). Similarly the other columns are defined. Furthermore, for every bank in the sample, a yellow highlight indicates that the charge is more than the median charge value for each of the columns. At the bottom of Table 2 is provided summary statistics of minimum, maximum, mean and median of the cheque return charges. It is striking to observe that return charges vary from as low as Rs. 10 to as high as Rs. 500. From Table 2, it is observed that in case of Inward returns, Local cheque return charges (mean = Rs. 154.75) are more than Outstation cheque return charges (mean = Rs. 134) where as in case of Outward returns, Local cheque return charges (mean = Rs. 86.42) are less than Outstation cheque return charges (mean = Rs. 93.08). Also, it is observed that on an average Local Inward returns charges are about 80% higher than Local Outward returns charges. Similarly, on an average Outstation Inward returns charges are about 45% higher than Outstation Outward returns charges. What could be the reason for such a trend? Could costing considerations explain this scenario? Assuming that it actually costs more to handle Inward returns, it would be interesting to check as to how some banks (to name a few like, SBI, Indian Bank, Dena Bank) are having a reverse trend of charging more for Outward returns. One may argue that most of the banks may be fixing higher charges for Inward returns in order to penalize customers for issuing cheques even when they have insufficient funds in their accounts. However, banks may not be given this liberty since cheque collections 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. The details on the difference of Inward and Outward return charges are given in Appendix B. It is observed that the range of the difference between Inward and Outward charges is Rs. 400 for local cheques and Rs. 375 for outstation cheques. In summary, there appears to be no uniformity either in the amount or basis for levy of return charges.

Table 2:

Cheque Return Charges in Rs.

S.No.	Bank Name	Category	Inward						Outward					
			Local			Outstation			Local			Outstation		
			min	max	mean	min	max	mean	min	max	mean	min	max	mean
1	Allahabad Bank	Public	50	75	62.50	75	100	87.50	50	75	62.50	75	100	87.50
2	Andhra Bank	Public	40	60	50.00	40	60	50.00	25	75	50.00	25	75	50.00
3	Bank of Baroda	Public	75	75	75.00	75	75	75.00	100	100	100.00	75	75	75.00
4	Bank of India	Public	50	75	62.50	100	100	100.00	50	75	62.50	100	100	100.00
5	Bank of Maharashtra	Public	40	40	40.00	40	40	40.00	60	60	60.00	60	60	60.00
6	Canara Bank	Public	40	50	45.00	40	50	45.00	20	25	22.50	20	25	22.50
7	Central Bank of India	Public	50	50	50.00	50	50	50.00	50	50	50.00	50	75	62.50
8	Dena Bank	Public	100	100	100.00	80	100	90.00	200	200	200.00	80	200	140.00
9	Indian Bank	Public	30	30	30.00	30	75	52.50	70	150	110.00	30	75	52.50
10	Indian Overseas Bank	Public	50	50	50.00	20	150	85.00	50	50	50.00	20	150	85.00
11	Oriental Bank of Commerce	Public	30	320	175.00	75	75	75.00	15	25	20.00	75	75	75.00
12	Punjab National Bank	Public	80	225	152.50	80	225	152.50	40	90	65.00	80	100	90.00
13	State Bank of India	Public	75	75	75.00	75	75	75.00	75	75	75.00	150	150	150.00
14	Syndicate Bank	Public	50	100	75.00	50	75	62.50	50	100	75.00	50	75	62.50
15	UCO Bank	Public	200	200	200.00	200	200	200.00	200	200	200.00	200	200	200.00
16	Union Bank of India	Public	75	75	75.00	60	75	67.50	80	80	80.00	60	75	67.50
17	United Bank of India	Public	100	100	100.00	100	100	100.00	100	100	100.00	100	100	100.00
18	Axis Bank Limited	Private	350	350	350.00	100	350	225.00	100	100	100.00	100	100	100.00
19	Catholic Syrian Bank	Private	50	500	275.00	50	75	62.50	10	10	10.00	50	75	62.50
20	Federal Bank Ltd.	Private	75	75	75.00	75	75	75.00	75	75	75.00	75	75	75.00
21	HDFC Bank Ltd.	Private	350	350	350.00	75	75	75.00	50	50	50.00	50	50	50.00
22	ICICI Bank Ltd.	Private	350	350	350.00	350	350	350.00	100	100	100.00	150	150	150.00
23	ING Vysya Bank Limited	Private	200	200	200.00	200	200	200.00	50	50	50.00	50	50	50.00
24	Karnataka Bank Ltd.	Private	50	100	75.00	25	75	50.00	50	100	75.00	25	75	50.00
25	The Bank of Rajasthan Ltd.	Private	100	100	100.00	50	100	75.00	100	100	100.00	50	100	75.00
26	The South Indian Bank Ltd.	Private	50	50	50.00	100	100	100.00	50	50	50.00	100	100	100.00
27	Standard Chartered Bank	Foreign	500	500	500.00	500	500	500.00	200	200	200.00	200	200	200.00
28	HSBC Ltd.	Foreign	275	275	275.00	275	275	275.00	200	200	200.00	200	200	200.00
29	Citibank N.A.	Foreign	275	275	275.00	275	275	275.00	100	100	100.00	100	100	100.00
30	ABN-AMRO Bank N.V.	Foreign	350	350	350.00	350	350	350.00	100	100	100.00	100	100	100.00

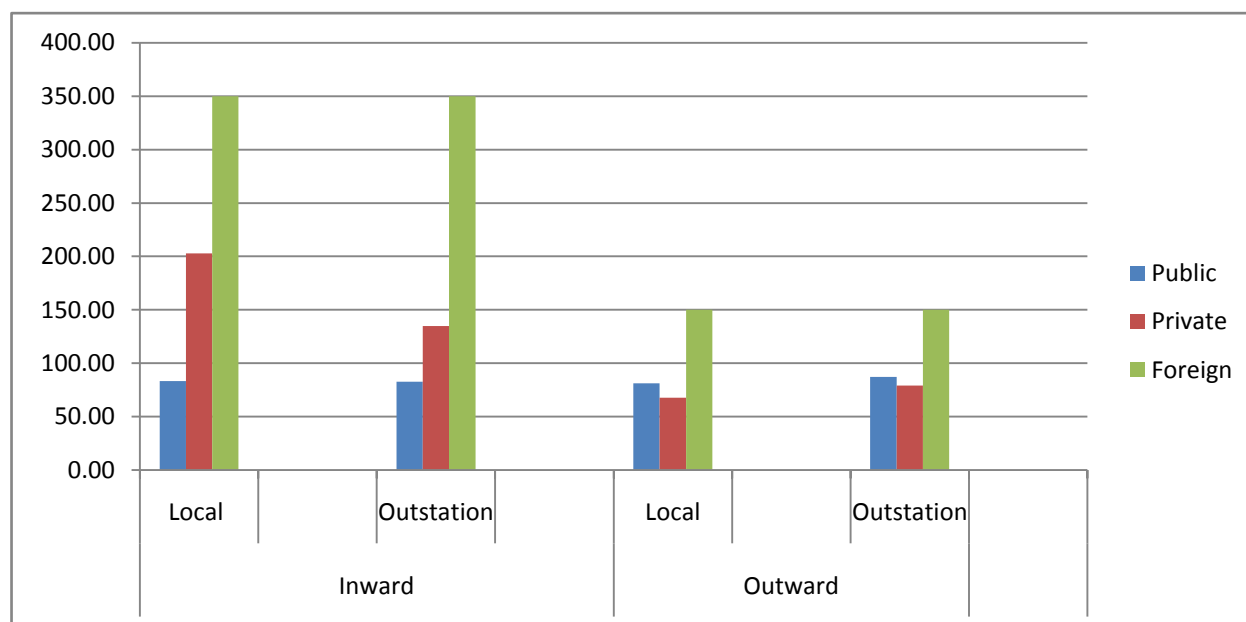
Minimum	30.00	30.00	30.00	20.00	40.00	40.00	10.00	10.00	10.00	20.00	25.00	22.50
Maximum	500.00	500.00	500.00	500.00	500.00	500.00	200.00	200.00	200.00	200.00	200.00	200.00
Mean	137.00	172.50	154.75	120.50	147.50	134.00	80.67	92.17	86.42	83.33	102.83	93.08
Median	75.00	100.00	87.50	75.00	100.00	80.00	65.00	85.00	75.00	75.00	100.00	80.00

In what follows, Table 3 provides the overall banking sector-wise scenario of cheque return charges in India.

Table 3:

	Inward				Outward			
	Local		Outstation		Local		Outstation	
	min	max	min	max	min	max	min	max
For all the banks								
Minimum	30.0	30.0	20.0	40.0	10.0	10.0	20.0	25.0
Maximum	500.0	500.0	500.0	500.0	200.0	200.0	200.0	200.0
Mean	137.0	172.5	120.5	147.5	80.7	92.2	83.3	102.8
Mean	154.8		134.0		86.4		93.1	
For public sector banks								
Minimum	30.0	30.0	20.0	40.0	15.0	25.0	20.0	25.0
Maximum	200.0	320.0	200.0	225.0	200.0	200.0	200.0	200.0
Mean	66.8	100.0	70.0	95.6	72.6	90.0	73.5	100.6
Mean	83.4		82.8		81.3		87.1	
For private sector banks								
Minimum	50.0	50.0	25.0	75.0	10.0	10.0	25.0	50.0
Maximum	350.0	500.0	350.0	350.0	100.0	100.0	150.0	150.0
Mean	175.0	230.6	113.9	155.6	65.0	70.6	72.2	86.1
Mean	202.8		134.7		67.8		79.2	
For foreign sector banks								
Minimum	275.0	275.0	275.0	275.0	100.0	100.0	100.0	100.0
Maximum	500.0	500.0	500.0	500.0	200.0	200.0	200.0	200.0
Mean	350.0	350.0	350.0	350.0	150.0	150.0	150.0	150.0
Mean	350.0		350.0		150.0		150.0	

Bar-Chart for means



It is interesting to observe that the mean charges for Outward return are least for private sector banks and are maximum for foreign banks. In case of Inward returns, the mean charges are least for public sector banks and are maximum for foreign 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 return charges while the Upper half consists of the data values which are greater than the median return charges. For the median return charges refer to the last row of Table 2. The details of Lower and Upper halves of the data for each variable are provided in Table 4. Also, for both the halves, the average of each variable is given in the form of a bar chart.

Table 4:

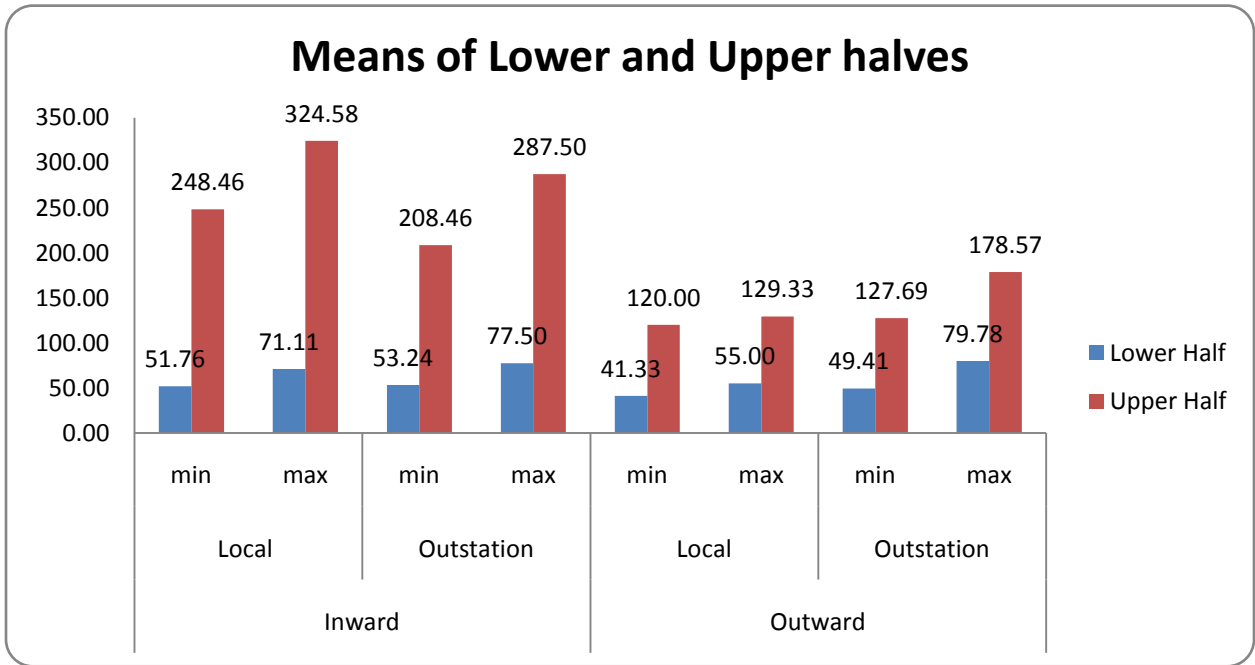
Lower Half	Inward				Outward			
	Local		Outstation		Local		Outstation	
	min	max	min	max	min	max	min	max
Average	51.76	71.11	53.24	77.50	41.33	55.00	49.41	79.78
	61.44		65.37		48.17		64.60	
Frequency	17	18	17	20	15	15	17	23

Upper Half	Inward				Outward			
	Local		Outstation		Local		Outstation	
	min	max	min	max	min	max	min	max
Average	248.46	324.58	208.46	287.50	120.00	129.33	127.69	178.57
	286.52		247.98		124.67		153.13	
Frequency	13	12	13	10	15	15	13	7

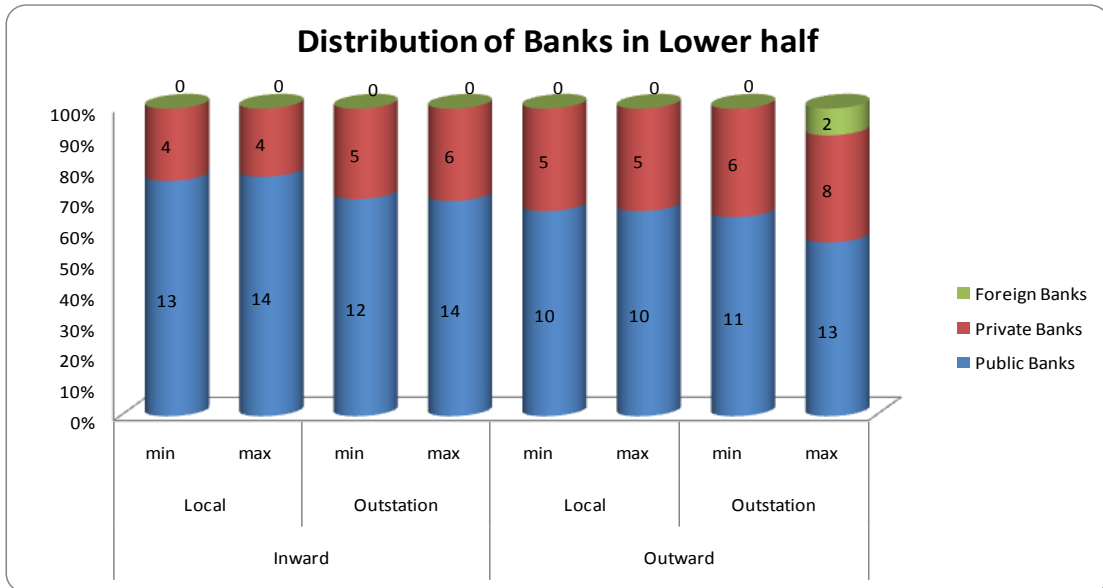
The bank-group wise distribution of banks in the Lower and Upper halves is given below.

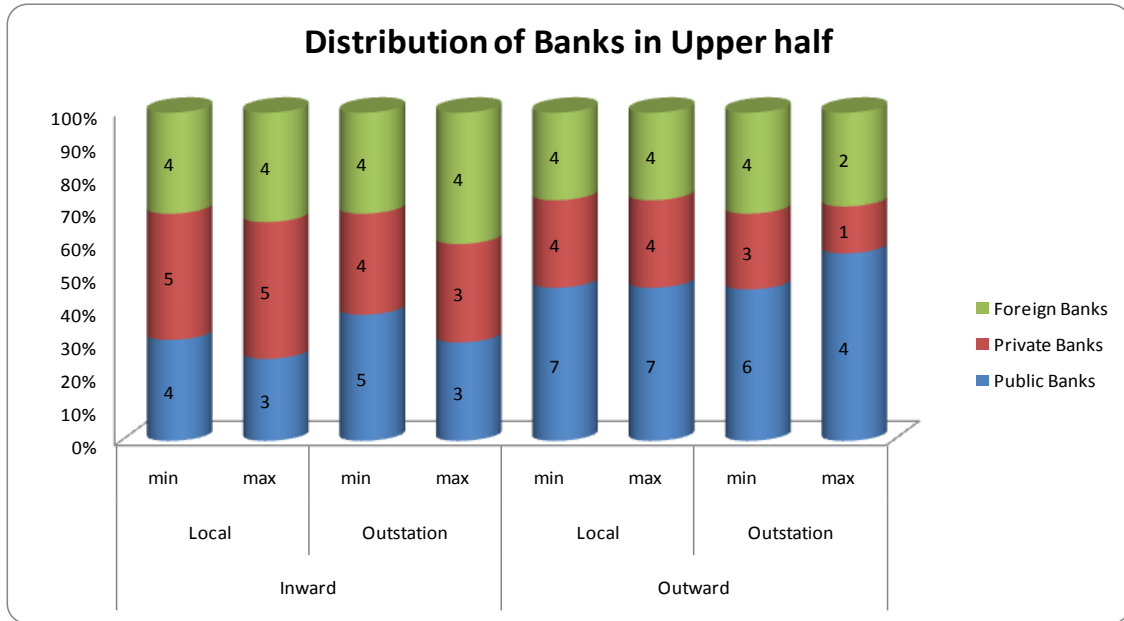
Lower Half	Inward				Outward			
	Local		Outstation		Local		Outstation	
	min	max	min	max	min	max	min	max
Public	13	14	12	14	10	10	11	13
Private	4	4	5	6	5	5	6	8
Foreign	0	0	0	0	0	0	0	2
Total	17	18	17	20	15	15	17	23

Upper Half	Inward				Outward			
	Local		Outstation		Local		Outstation	
	min	max	min	max	min	max	min	max
Public	4	3	5	3	7	7	6	4
Private	5	5	4	3	4	4	3	1
Foreign	4	4	4	4	4	4	4	2
Total	13	12	13	10	15	15	13	7



Below we provide a sectioned bar chart for the bank-wise distribution (for each half).





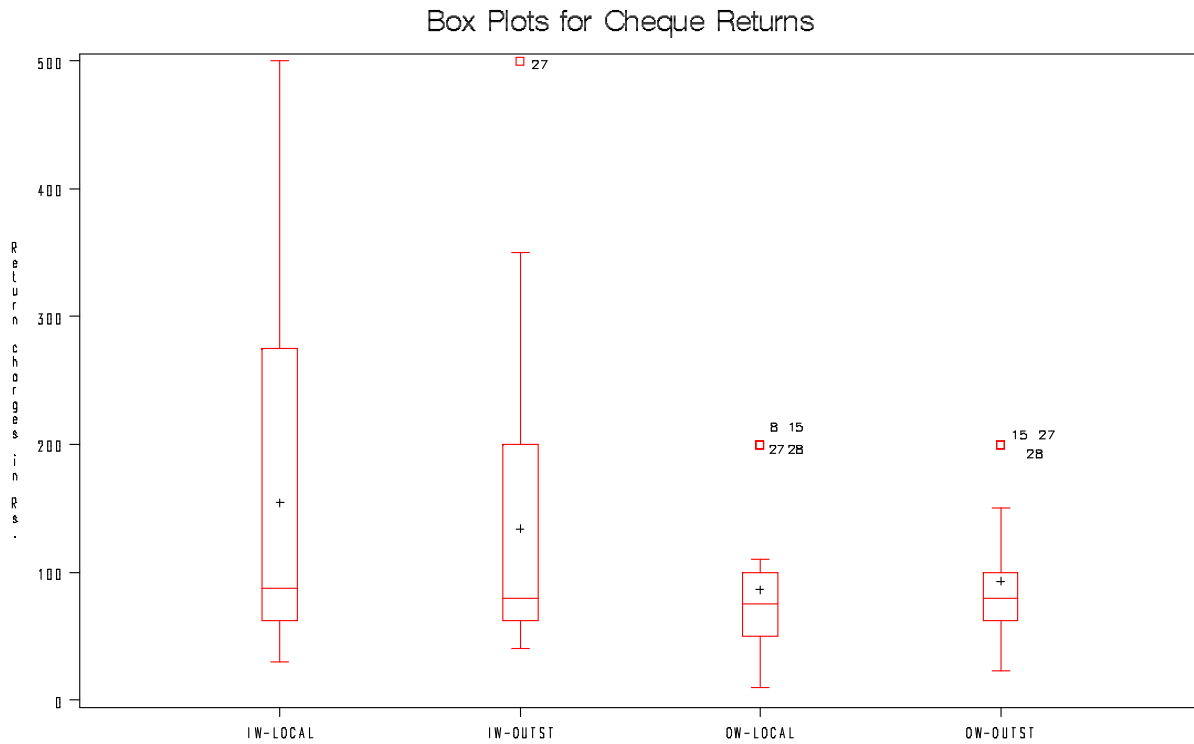
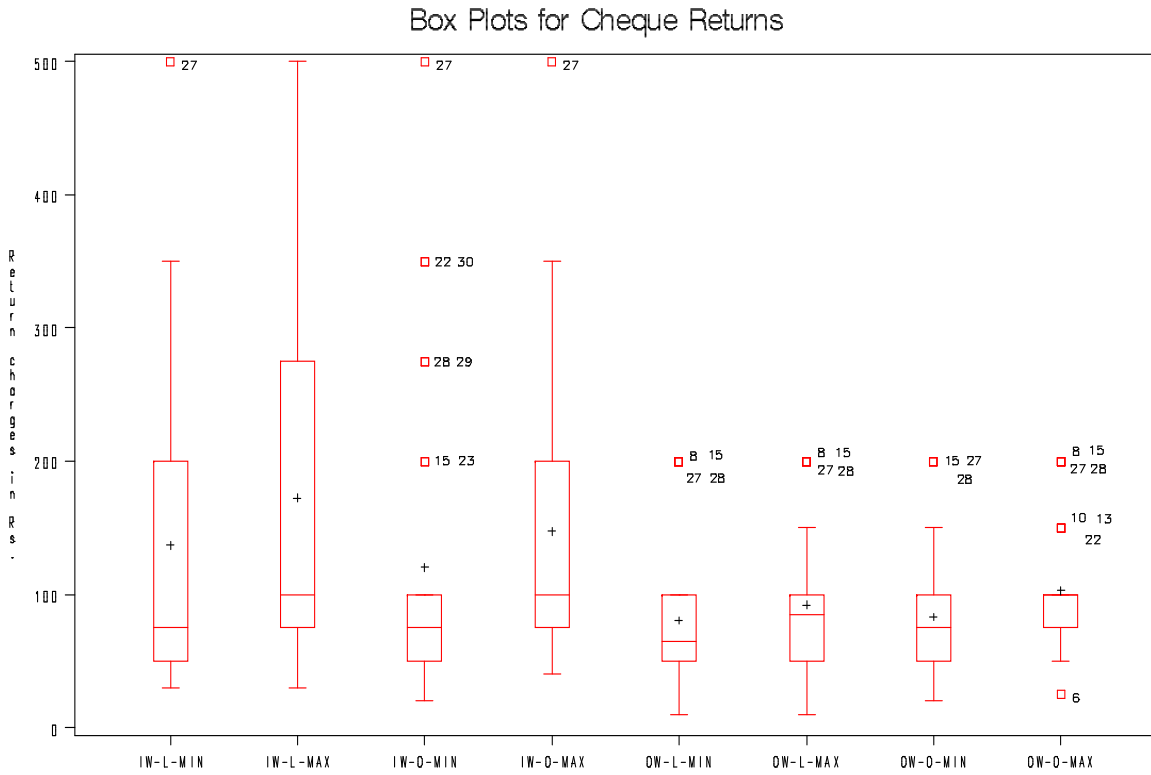
The above tables and charts indicate that most of the private and foreign banks are placed in the upper half and the average charges for upper half are two to five times of the average charges for lower half. Furthermore, in case of public sector banks, the average charge for Inward returns is similar to the average charge for Outward returns. This is not the case with private and foreign banks where Inward return charges are, on an average, higher than Outward return charges.

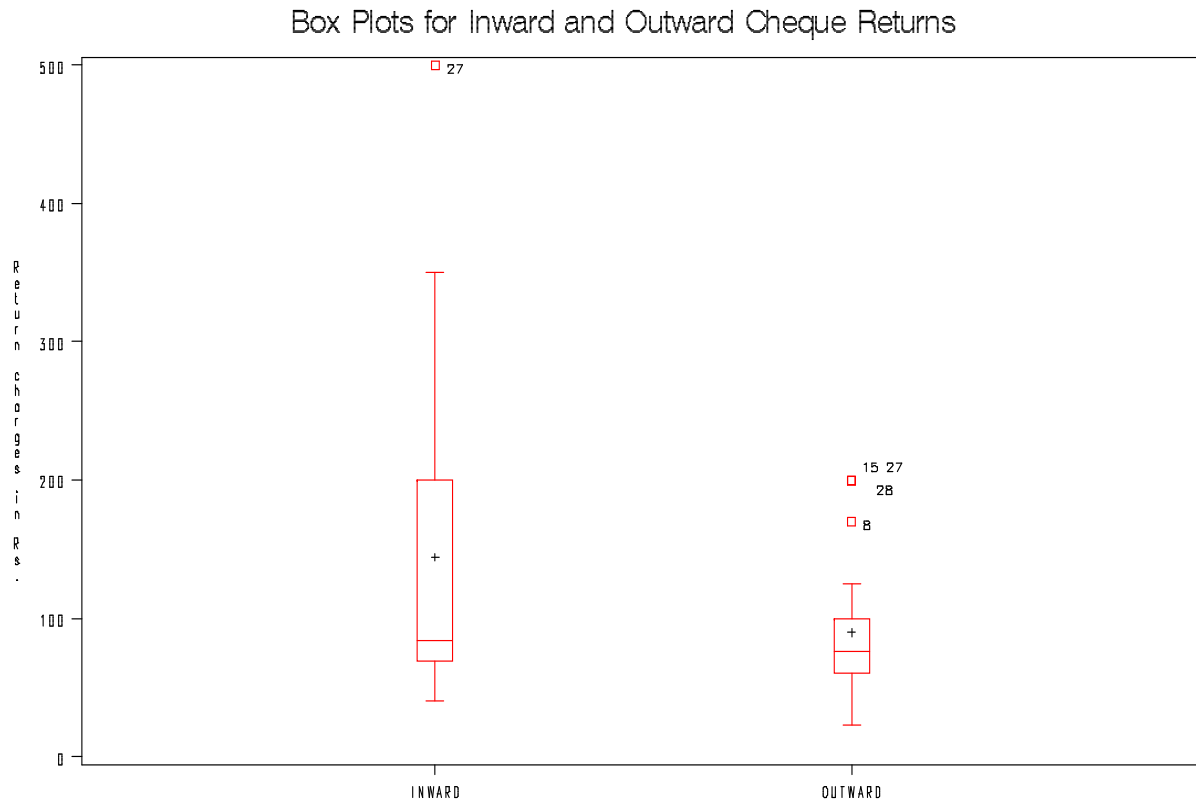
5. Detection of Outliers using Box plot

A box plot can be used to find the outliers in the data. For each of the 8 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 return cheque charges. Chart 1 gives box plots for the 8 variables on Inward and Outward returns. Chart 2 gives box plots for the average of minimum and maximum for Inward and Outward return charges. Chart 3 gives the box plots for the average of Inward return charges and average of Outward return charges. The charts indicate that primarily the four banks UCO Bank, Standard Chartered Bank, HSBC and Dena

Bank have set Outward return charges way above the average charges prevailing among banks in India.





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

Based on ancillary information on the number of branches (see, reference [9]), we obtain the weighted mean of return charges. The weights considered are the number of branches since it is closely related to the number of cheques handled by the banks. The details are provided in Appendix C. In addition to the summary statistics, Table 5 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 Inward cheques. However, for Outward returns, the figures are relatively comparable. A 95% upper bound is obtained, with respect to the weighted means, which allows one to detect banks which have fixed the return charges significantly higher than the rest of the banks. This is used as a measure of lack of reasonableness since it is based on return charges fixed by all the banks. Some of the banks detected as having unreasonable cheque return charges are Standard Chartered Bank, HSBC, Citibank, UCO Bank, ABN-AMRO Bank, ICICI Bank, Axis Bank, HDFC Bank, ING Vysya Bank, Catholic Syrian Bank and Dena Bank.

Table 5:

(In Rs.)

	Inward						Outward					
	Local			Outstation			Local			Outstation		
	min	max	mean	min	max	mean	min	max	mean	min	max	mean
Minimum	30.00	30.00	30.00	20.00	40.00	40.00	10.00	10.00	10.00	20.00	25.00	22.50
Maximum	500.00	500.00	500.00	500.00	500.00	500.00	200.00	200.00	200.00	200.00	200.00	200.00
Mean (M)	137.00	172.50	154.75	120.50	147.50	134.00	80.67	92.17	86.42	83.33	102.83	93.08
Median	75.00	100.00	87.50	75.00	100.00	80.00	65.00	85.00	75.00	75.00	100.00	80.00
Weighted Mean (WM)	87.31	116.21	101.76	80.61	107.26	93.93	69.21	82.69	75.95	87.22	104.74	95.98
Weighted Standard Deviation (SDw)			79.26			60.70			38.55			43.48
M - WM	49.69	56.29	52.99	39.89	40.24	40.07	11.46	9.48	10.47	-3.89	-1.91	-2.90
WM + 1.64 x SDw (95% upper bounds)			231.74			193.48			139.16			167.29

7. 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 Inward and Outward return charges. We divided all the banks into two categories, namely, (1) Public and (2) Private & Foreign. Based on the median value obtained, for Inward returns we divided the charges into two categories namely, (1) Charges \leq Rs. 85 and (2) Charges $>$ Rs. 85. Similarly, for Outward returns the charge categories are (1) Charges \leq Rs. 75 and (2) Charges $>$ Rs. 75. 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 2x2 table.

Contingency Tables

INWARD	≤ 85	> 85
Public	12	5
Private & Foreign	3	10
Total	15	15
ODDS RATIO	8	

OUTWARD	≤ 75	> 75
Public	9	8
Private & Foreign	6	7
Total	15	15
ODDS RATIO	1.3125	

It is observed that in case of Inward returns, odds ratio is very high. More specifically, for a bank charging less than Rs. 85, the odds for it being a public sector bank is 8 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 Outward return charges, odds ratio is not high which implies that the two categories of banks are comparable with respect to their charges.

In order to keep track of latest changes, the survey was carried out again in the second week of August 2009. Except for significant decrease in the return charges by Dena bank and UCO bank, other banks have retained the same return charges or marginally increased or decreased the charges. However, HSBC and Citibank have significantly increased the Outward return charges. Working on August 2009 data on return charges, apart from Dena bank, the same banks (as identified in Section 6) got detected as having unreasonable cheque return charges.

Based on the data gathered comprising 83% 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 return charges. This has led to lack of harmony and consistency for the return charges.

b) The return charges among the public sector banks are relatively on the lower side than their private and foreign counterparts. However, in case of private banks the Outward return charges are lower than the other bank groups.

c) Around 14000 lakh cheques were cleared during 2008-09. Considering that 1.5% of the cheques are returned, based on the weighted mean of cheque return charges, during 2008-09 the banking sector collected around Rs. 400 crore as revenue on returned cheques alone from their customers.

d) 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.

e) 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 cheque returns as well.

f) Based on the weighted means and the distribution of charges in the lower half (Table 4), it is suggested that **the return charges may be fixed with upper ceiling at Rs. 50 for Outward as well as for Inward returns**. However, incase RBI feels it prudent, in order to add a component of deterrent, **the Inward return charges may be fixed with upper ceiling at Rs. 100**.

Acknowledgement

The authors thank Dr. Praggya Das for going through an earlier draft and for offering comments, which significantly improved the presentation of the paper. The authors also thank Dr. R. B. Barman for his valuable comments. Part of the work is a culmination of an Applied Statistics and Informatics project undertaken at Department of Mathematics, IIT Bombay.

References

- [1] Courier / Postal Charges Levied by Commercial Banks in India. RBI. June 09, 2008.
http://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=18416
- [2] Approach Paper for Rationalisation of Service Charges levied by banks on Outstation Cheque Collection. RBI. September 11, 2008.
<http://rbidocs.rbi.org.in/rdocs/Content/PDFs/86901.pdf>
- [3] Levy of Service Charges for Electronic Payment Products and Outstation Cheque Collection. RBI/2008-09/207 DPSS.CO.No. 611/03.01.03(P)/2008-09 dated October 08, 2008.
<http://rbidocs.rbi.org.in/rdocs/notification/PDFs/87656.pdf>
- [4] Office of Fair Trading.
<http://www.offt.gov.uk>
- [5] Payment and Settlement Systems Act, 2007.
<http://www.rbi.org.in/Scripts/OccasionalPublications.aspx?head=Payment%20and%20Settlement%20Systems%20Act,%202007>
- [6] Report of the Working Group to formulate a scheme for ensuring reasonableness of bank charges. RBI/2006-2007/245 DBOD.No.Dir.BC.56 /13.03.00/2006-2007 dated February 02, 2007.
<http://www.rbi.org.in/scripts/NotificationUser.aspx?Id=3268&Mode=0>
- [7] Delays in Cheque Clearing - Case before National Consumer Disputes Redressal Commission. DPSS.CO. (CHD) No. 873 / 03.09.01/ 2008-09 dated November 24, 2008.
<http://www.rbi.org.in/scripts/NotificationUser.aspx?Id=5008&Mode=0>
- [8] Reserve Bank of India Bulletin, July 2009.
http://rbidocs.rbi.org.in/rdocs/Bulletin/PDFs/BUPRD0709_FULL.pdf
- [9] Trend and Progress of Banking in India. RBI Publication, December 2008.
<http://www.rbi.org.in/scripts/AnnualPublications.aspx?head=Trend%20and%20Progress%20of%20Banking%20in%20India>
- [10] Indexing Banks With respect to Cheque Collection Policy by A D Naga Venkata Ramarao, ASI project, Department of Mathematics, IIT Bombay, April 2009.

Appendix A

RBI study on postal charges and outstation cheque collection charges

A. The study on postal charges

The survey carried out by RBI indicated that for services such as mailing a cheque book, monthly accounts statement or collection of outstation cheques, most public sector banks are charging their customers more than their private sector counterparts.

The study stated that most of the public sector banks recover actual costs from their customers for delivery of cheque books and account statements at their homes and some banks for instance, Chennai-based Indian Bank has extra charges for sending a statement. Bank charges Rs 23 to send a statement to its customers' homes in addition to the actual postage. It even charges Rs 12 for emailing a statement. Leading private banks such as ICICI Bank Ltd., HDFC Bank Ltd., Axis Bank Ltd. and Kotak Mahindra Bank Ltd. are providing such services free. Even Citibank NA, Hongkong and Shanghai Banking Corp. Ltd. (HSBC) and Standard Chartered Bank do not charge a fee to send statements to customers' homes.

The public sector banks such as State Bank of Bikaner and Jaipur, levies a courier charge on customers for collection of outstation cheques. The public sector banks' charging fees for the service also vary according to the denomination of cheques.

B. The study on outstation cheque collection charges

The charges levied for outstation cheque collection service were not uniform and each bank followed its own policy. Most of the bank's policies were on *ad valorem* basis. The charges (in Rs.) levied by banks were,

For cheques of value upto Rs.10,000 –

Amount Range	1-1000	1001-5000	5001-10,000	Overall 1-10,000
Minimum	12.36	18	30	12.36
Maximum	100	100	100	100
Average	36	41.46	50	42

For amounts between Rs.10,000 and Rs. 1,00,000 most banks charged as a percentage of cheque value. Also, for amounts above Rs.1,00,000 all banks charged as a percentage of cheque value.

Amount Range	10,001-1,00,000	1,00,001-10,00,000
Minimum	0.1% of cheque value	0.1% of cheque value
Maximum	0.6% of cheque value	0.6% of cheque value
Average	0.4% of cheque value	0.4% of cheque value

The study also revealed that:

- There is no uniformity either in the amount or basis for levy of charges.
- With the passage of time, banks have reduced the charges.
- Multiplicity of slabs levied by banks and lack of transparency in norms adopted by them for various segments of customers has led to confusion in minds of customers, acting as a hindrance to financial education.
- Given the cost and risks involved in handling paper instruments, banks need to favourably price electronic products and a situation where electronic products are costlier than paper products is inexplicable.

The RBI study proposed to set thresholds, for the three slabs (based on cheque amounts, i.e., {up to Rs. 10,000}, {Rs. 10,000 to Rs. 1 lakh}, {Rs. 1 lakh and above}) at Rs. 25, 50 and 100, respectively.

Appendix B

Inward and outward Difference table

S.No	Bank Name	Inward - Outward					
		Local			Outstation		
		min	max	mean	min	max	mean
1	Allahabad Bank	0.00	0.00	0.00	0.00	0.00	0.00
2	Andhra Bank	15.00	-15.00	0.00	15.00	-15.00	0.00
3	Bank of Baroda	-25.00	-25.00	-25.00	0.00	0.00	0.00
4	Bank of India	0.00	0.00	0.00	0.00	0.00	0.00
5	Bank of Maharashtra	-20.00	-20.00	-20.00	-20.00	-20.00	-20.00
6	Canara Bank	20.00	25.00	22.50	20.00	25.00	22.50
7	Central Bank of India	0.00	0.00	0.00	0.00	-25.00	-12.50
8	Dena Bank	-100.00	-100.00	-100.00	0.00	-100.00	-50.00
9	Indian Bank	-40.00	-120.00	-80.00	0.00	0.00	0.00
10	Indian Overseas Bank	0.00	0.00	0.00	0.00	0.00	0.00
11	Oriental Bank of Commerce	15.00	295.00	155.00	0.00	0.00	0.00
12	Punjab National Bank	40.00	135.00	87.50	0.00	125.00	62.50
13	State Bank of India	0.00	0.00	0.00	-75.00	-75.00	-75.00
14	Syndicate Bank	0.00	0.00	0.00	0.00	0.00	0.00
15	UCO Bank	0.00	0.00	0.00	0.00	0.00	0.00
16	Union Bank of India	-5.00	-5.00	-5.00	0.00	0.00	0.00
17	United Bank of India	0.00	0.00	0.00	0.00	0.00	0.00
18	Axis Bank Limited	250.00	250.00	250.00	0.00	250.00	125.00
19	Catholic Syrian Bank	40.00	490.00	265.00	0.00	0.00	0.00
20	Federal Bank Ltd.	0.00	0.00	0.00	0.00	0.00	0.00
21	HDFC Bank Ltd.	300.00	300.00	300.00	25.00	25.00	25.00
22	ICICI Bank Ltd.	250.00	250.00	250.00	200.00	200.00	200.00
23	ING Vysya Bank Limited	150.00	150.00	150.00	150.00	150.00	150.00
24	Karnataka Bank Ltd.	0.00	0.00	0.00	0.00	0.00	0.00
25	The Bank of Rajasthan Ltd.	0.00	0.00	0.00	0.00	0.00	0.00
26	The South Indian Bank Ltd.	0.00	0.00	0.00	0.00	0.00	0.00
27	Standard Chartered Bank	300.00	300.00	300.00	300.00	300.00	300.00
28	HSBC Ltd.	75.00	75.00	75.00	75.00	75.00	75.00
29	Citibank N.A.	175.00	175.00	175.00	175.00	175.00	175.00
30	ABN-AMRO Bank N.V.	250.00	250.00	250.00	250.00	250.00	250.00
	Mean	56.33	80.33	68.33	37.17	44.67	40.92
	SD	109.50	144.35	118.33	86.52	99.59	89.13
	Range			400.00			375.00

Appendix C

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

S.No.	Bank Name	Category	No. of Branches	Inward						Outward					
				Local			Outstation			Local			Outstation		
				min	max	mean	min	max	mean	min	max	mean	min	max	mean
1	Allahabad Bank	Public	2135	50	75	62.50	75	100	87.50	50	75	62.50	75	100	87.50
2	Andhra Bank	Public	1363	40	60	50.00	40	60	50.00	25	75	50.00	25	75	50.00
3	Bank of Baroda	Public	2845	75	75	75.00	75	75	75.00	100	100	100.00	75	75	75.00
4	Bank of India	Public	2845	50	75	62.50	100	100	100.00	50	75	62.50	100	100	100.00
5	Bank of Maharashtra	Public	1365	40	40	40.00	40	40	40.00	60	60	60.00	60	60	60.00
6	Canara Bank	Public	2690	40	50	45.00	40	50	45.00	20	25	22.50	20	25	22.50
7	Central Bank of India	Public	3324	50	50	50.00	50	50	50.00	50	50	50.00	50	75	62.50
8	Dena Bank	Public	1071	100	100	100.00	80	100	90.00	200	200	200.00	80	200	140.00
9	Indian Bank	Public	1524	30	30	30.00	30	75	52.50	70	150	110.00	30	75	52.50
10	Indian Overseas Bank	Public	1879	50	50	50.00	20	150	85.00	50	50	50.00	20	150	85.00
11	Oriental Bank of Commerce	Public	1344	30	320	175.00	75	75	75.00	15	25	20.00	75	75	75.00
12	Punjab National Bank	Public	4178	80	225	152.50	80	225	152.50	40	90	65.00	80	100	90.00
13	State Bank of India	Public	10183	75	75	75.00	75	75	75.00	75	75	75.00	150	150	150.00
14	Syndicate Bank	Public	2188	50	100	75.00	50	75	62.50	50	100	75.00	50	75	62.50
15	UCO Bank	Public	1945	200	200	200.00	200	200	200.00	200	200	200.00	200	200	200.00
16	Union Bank of India	Public	2324	75	75	75.00	60	75	67.50	80	80	80.00	60	75	67.50
17	United Bank of India	Public	1399	100	100	100.00	100	100	100.00	100	100	100.00	100	100	100.00
18	Axis Bank Limited	Private	626	350	350	350.00	100	350	225.00	100	100	100.00	100	100	100.00
19	Catholic Syrian Bank	Private	346	50	500	275.00	50	75	62.50	10	10	10.00	50	75	62.50
20	Federal Bank Ltd.	Private	601	75	75	75.00	75	75	75.00	75	75	75.00	75	75	75.00
21	HDFC Bank Ltd.	Private	1150	350	350	350.00	75	75	75.00	50	50	50.00	50	50	50.00
22	ICICI Bank Ltd.	Private	1249	350	350	350.00	350	350	350.00	100	100	100.00	150	150	150.00
23	ING Vysya Bank Limited	Private	398	200	200	200.00	200	200	200.00	50	50	50.00	50	50	50.00
24	Karnataka Bank Ltd.	Private	436	50	100	75.00	25	75	50.00	50	100	75.00	25	75	50.00
25	The Bank of Rajasthan Ltd.	Private	458	100	100	100.00	50	100	75.00	100	100	100.00	50	100	75.00
26	The South Indian Bank Ltd.	Private	489	50	50	50.00	100	100	100.00	50	50	50.00	100	100	100.00
27	Standard Chartered Bank	Foreign	90	500	500	500.00	500	500	500.00	200	200	200.00	200	200	200.00
28	HSBC Ltd.	Foreign	47	275	275	275.00	275	275	275.00	200	200	200.00	200	200	200.00
29	Citibank N.A.	Foreign	40	275	275	275.00	275	275	275.00	100	100	100.00	100	100	100.00
30	ABN-AMRO Bank N.V.	Foreign	28	350	350	350.00	350	350	350.00	100	100	100.00	100	100	100.00
Total			50560												
Minimum				30.00	30.00	30.00	20.00	40.00	40.00	10.00	10.00	10.00	20.00	25.00	22.50
Maximum				500.00	500.00	500.00	500.00	500.00	500.00	200.00	200.00	200.00	200.00	200.00	200.00
Mean (M)				137.00	172.50	154.75	120.50	147.50	134.00	80.67	92.17	86.42	83.33	102.83	93.08
Median				75.00	100.00	87.50	75.00	100.00	80.00	65.00	85.00	75.00	75.00	100.00	80.00
Weighted Mean (WM)				87.31	116.21	101.76	80.61	107.26	93.93	69.21	82.69	75.95	87.22	104.74	95.98
Weighted Standard Deviation (SDw)						79.26			60.70			38.55			43.48
M - WM				49.69	56.29	52.99	39.89	40.24	40.07	11.46	9.48	10.47	-3.89	-1.91	-2.90
WM + 1.64 x SDw (95% upper bounds)						231.74			193.48			139.16			167.29