

Approach Paper for Rationalisation of Service Charges levied by banks on –

(a) Electronic Payment Products (RTGS / NEFT / ECS)

(b) Outstation Cheque Collection

Background

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 for better development of economic activity in the country. Towards this endeavour, RBI has taken several measures to bring about changes in the service delivery levels, including the cost of services, over the years. RBI introduced MICR system of cheque processing way back in 1986 heralding a major change in the paper processing systems in the country. As on date MICR cheque processing is available in 60 centres across the country, which process over 82% by volume and 88% by value of all the cheques processed in the country. Adoption of MICR technology brought about efficiency in cheque processing and a change in the realisation time for local cheques at these centres. Now the local cheque clearing system in the country is comparable with the best across the world, including the developed countries.

2. In order to bring home the advantages of electronic transactions and putting to use the advantages of technology in banking, RBI introduced various payment products like ECS, EFT, NEFT and RTGS over a period. The objective behind the introduction of these products was to bring about further reduction in the length of the settlement cycle to enhance the efficiency of payment system. Although RBI has succeeded in bringing about a change in the approach to adoption of technology in payment and settlement systems, the cost of these services is militating against wider adoption of these technological products.

3. To foster competition and better services to customers, RBI, in November 2004, had liberalised the process of cheque collection and advised banks to frame their own cheque collection policies and give wide publicity to the same. The intention behind such a measure was to achieve efficiency in collection of cheques and provide funds to customers through a spirit of competition among banks rather than through issue of guidelines by RBI. The banks were expected to frame their own policies and make them transparent by disseminating the policies among their clientele. Such a wider dissemination of information was expected to bring about a change of approach among banks and thus enhance efficiency as well as bring down costs.

4. In order to ensure larger migration to using electronic payment products by customers, RBI also took a major policy decision to waive the processing charges for all the electronic products. However, banks were permitted to have their policy on service charges. It was expected that this move of RBI would have a bearing on the banks policy on levying service charges. In addition, the

charges levied by banks for various products were also compiled and displayed on the RBI's web-site so that such a move would force banks to change their approach on service charges.

5. A survey was conducted internally in RBI, on the cost being levied for-outstation cheque collection and providing electronic payment products. The results of the survey are furnished below :

Outstation Cheque Collection

Banks provide outstation cheque collection service as a part of their deposit taking activity. The charges levied for this service is not uniform and each bank follows its own policy. Most of the bank's policies are on ad valorem basis. The charges levied by banks are as under :

- For cheques of value upto Rs.10,000 -

(Amount in Rs.)

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 charge as a percentage of cheque value -

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

- For amounts above Rs.1,00,000 all banks charge as a percentage of cheque value -

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

Electronic Payment Products

The study carried out by RBI revealed the following :

- No uniformity either in the amount or basis for levy of charges –
 - While some banks levy based on the number of transactions, some others go by the amount to be transferred.
 - Some banks charge multiple slabs based on amount, with a base minimum stipulation.
 - Quite a few banks have different charges for local and outstation transactions.
 - None of the banks charge for inward NEFT / ECS transactions. However, charges for inward RTGS are being levied by some banks. Destination banks also charge a lump sum amount for ECS (Debit) returns.
 - One public sector bank has made all electronic payments free.

- b) With the passage of time, banks have reduced the charges. Some banks have waived all charges for all outward / inward RTGS / NEFT / ECS transactions.
- c) RBI offers electronic products free of charge to member banks. 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 the overall growth of the electronic payment products.
- d) 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 following conclusions follow from the above information :-

1. There is a need to rationalise and bring in uniformity in the mode and amount of service charges for electronic payment products and outstation cheque collection.
2. The endeavour should be to migrate to electronic modes of payment, more so for large-value and inter-city transactions.
3. The benefit of waiver of charges offered by RBI should get passed on to customers to the extent possible.

Proposed course of action

1. Reserve Bank is therefore considering mandating maximum charges for these services as under :-
 - a) Inward RTGS / NEFT / ECS transactions – Free, no charges to be levied.
 - b) Outward transactions –
 - (i) RTGS – Rs. 1 to 5 lakh – not exceeding Rs. 25 per transaction
 – Rs. 5 lakh and above – not exceeding Rs. 50 per transaction
 - (ii) NEFT – Upto Rs. 1 lakh – not exceeding Rs. 5 per transaction
 – Rs.1 lakh and above – not exceeding Rs. 25 per transaction
 - c) Banks may prescribe charges not higher than cheque return charges for ECS debit returns.
 - d) For outstation cheque collection –
 - Upto Rs. 10,000 – not exceeding Rs. 25 per instrument
 - Rs. 10,000 to Rs. 1 lakh – not exceeding Rs. 50 per instrument
 - Rs.1,00,000 and above – not exceeding Rs. 100 per instrument
2. The above charges will be all inclusive. No additional charges such as courier charges, out of pocket expenses, etc., should be levied to the customers.

3. No bank should refuse to offer the products to its customers or decline to accept outstation cheques deposited by its customers for collection.
4. The revised charges shall be effective from the date of notification.