

RBI/2006-2007/245
DBOD.No.Dir.BC. 56 /13.03.00/2006-2007

February 2, 2007

All Scheduled Commercial Banks
(excluding RRBs)

Dear Sir,

**Report of the Working Group to formulate a scheme for ensuring
reasonableness of bank charges**

As banks may be aware, as announced in the Annual Policy Statement for the year 2006-2007, in order to ensure fair practices in banking services, Reserve Bank of India had constituted a Working Group to formulate a scheme for ensuring reasonableness of bank charges and to incorporate the same in the Fair Practices Code, the compliance of which would be monitored by the Banking Codes and Standards Board of India (BCSBI). The Working Group has since submitted its report and the same has been placed on our website (www.rbi.org.in). The recommendations of the Working Group have been examined and accepted by Reserve Bank of India **with certain modifications**.

2. Action required to be taken by banks is indicated under the column 'action points for banks' in the Annex to this circular.

Yours faithfully,

(P.Vijaya Bhaskar)
Chief General Manager

Recommendations of the Working Group to formulate a scheme for ensuring reasonableness of bank charges

Sl. No.	Recommendations of the Working Group as accepted by RBI	Action points for banks																						
1	<p>Identification of basic banking services</p> <p>Banks have to follow two broad parameters for identifying the basic banking services:</p> <p>(A) Nature of transactions</p> <p>(a) Banking services that are ordinarily availed by individuals in the middle and lower segments, will be the first parameter. These will comprise services related to deposit/loan accounts, remittance services and collection services.</p> <p>(b) When the above transactions occur in different delivery channels, for the purpose of pricing, they may be treated on a separate footing.</p> <p>(B) Value of transactions</p> <p>Low value of transactions with customers/public up to the ceiling as given below will be the second parameter:</p> <p>(i) Remittances up to Rs.10,000/- in each instance</p> <p>(ii) Collections below Rs.10,000/- in each instance.</p> <p>(Foreign exchange transactions valued up to \$ 500/-)</p> <p>Based on the two parameters, the Working Group recommends enumeration of the following as the basic banking services:</p> <table border="1" data-bbox="337 1329 1062 1917"> <thead> <tr> <th data-bbox="342 1329 451 1409">Sr. No.</th> <th data-bbox="456 1329 1057 1409">Service</th> </tr> </thead> <tbody> <tr> <td colspan="2" data-bbox="342 1415 1057 1495">Relating to deposit accounts</td> </tr> <tr> <td data-bbox="342 1501 451 1539">1</td> <td data-bbox="456 1501 1057 1539">Cheque book facility</td> </tr> <tr> <td data-bbox="342 1545 451 1604">2</td> <td data-bbox="456 1545 1057 1604">Issue of Pass Book (or Statement)/Issue of Balance Certificate</td> </tr> <tr> <td data-bbox="342 1610 451 1648">3</td> <td data-bbox="456 1610 1057 1648">Issue of duplicate pass book or statement</td> </tr> <tr> <td data-bbox="342 1654 451 1692">4</td> <td data-bbox="456 1654 1057 1692">ATM Cards</td> </tr> <tr> <td data-bbox="342 1698 451 1736">5</td> <td data-bbox="456 1698 1057 1736">Debit cards (electronic cheque)</td> </tr> <tr> <td data-bbox="342 1743 451 1780">6</td> <td data-bbox="456 1743 1057 1780">Stop payment</td> </tr> <tr> <td data-bbox="342 1787 451 1824">7</td> <td data-bbox="456 1787 1057 1824">Balance enquiry</td> </tr> <tr> <td data-bbox="342 1831 451 1869">8</td> <td data-bbox="456 1831 1057 1869">Account closure</td> </tr> <tr> <td data-bbox="342 1875 451 1913">9</td> <td data-bbox="456 1875 1057 1913">Cheque Return – Inward (cheque received for payment)</td> </tr> </tbody> </table>	Sr. No.	Service	Relating to deposit accounts		1	Cheque book facility	2	Issue of Pass Book (or Statement)/Issue of Balance Certificate	3	Issue of duplicate pass book or statement	4	ATM Cards	5	Debit cards (electronic cheque)	6	Stop payment	7	Balance enquiry	8	Account closure	9	Cheque Return – Inward (cheque received for payment)	<p>Banks are advised to identify the basic banking services on the basis of broad parameters indicated by the Working Group.</p> <p>The list of services identified by the Working Group is only an indicative one and banks may, at their discretion, include within the category of basic services such additional services as they may consider appropriate.</p>
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	10	Signature verification	
	Relating to Loan Accounts		
	11	No dues certificate	
	Remittance Facilities (including through other banks) (Rupee or foreign exchange)		
	12	Demand Draft- Issue	
	13	Demand Draft- Cancellation	
	14	Demand Draft- Revalidation	
	15	Demand Draft- Duplicate Issuance	
	16	Payment Order – Issue	
	17	Payment Order – Cancellation	
	18	Payment Order – Revalidation	
	19	Payment Order – Duplicate Issuance	
	20	Telegraphic Transfer – Issue	
	21	Telegraphic Transfer-Cancellation	
	22	Telegraphic Transfer – Duplicate Issuance	
	23	Payment by Electronic Clearing Services (ECS)	
	24	Transfer by National Electronic Fund Transfer (NFET) and Electronic Funds Transfer (EFT)	
	Collection facilities		
	25	Collection of Local cheques	
	26	Collection of Outstation cheques	
	27	Cheque Return-Outward (cheque deposited for collection)	
	The above list is compiled only as a guide and the list may not be treated as exhaustive. Banks, may at their discretion, include within the category of basic services such additional services as they consider appropriate.		
2	Offering basic banking services outside the scope of bundled products		
	Some of the banks do not levy charges on each individual product or service. Products and services are bundled and offered to a customer as a composite offering. The bank recovers the cost of these operations through net interest income. The bank achieves break-even levels through higher average balances in customer accounts which yield healthy interest margins or by imposing charges for keeping inadequate balances. In so far as the basic services are concerned, the banks' objective should be to ensure that these are made available to the users at reasonable prices/charges and towards this, the basic services should be delivered outside the scope of		Banks may implement the recommendations of the Working Group on making available the basic banking services at reasonable prices/ charges and towards this, delivering the basic services outside the scope of the bundled products.

	the bundled products.	
3	<p>Principles for ensuring reasonableness in fixing and communicating the service charges</p> <p>(a) For basic services to individuals, the banks will levy charges at the rates that are lower than the rates applied when the same services are given to non-individuals.</p> <p>(b) For basic services rendered to special category of individuals (such as individuals in rural areas, pensioners and senior citizens), banks will levy charges on more liberal terms than the terms on which the charges are levied to other individuals.</p> <p>(c) For the basic services rendered to individuals, banks will levy charges only if the charges are just and supported by reason.</p> <p>(d) For the basic services to individuals, the banks will levy services charges ad-valorem only to cover any incremental cost and subject to a cap.</p> <p>(e) Banks will provide to the individual customers upfront and in a timely manner, complete information on the charges applicable to all basic services.</p> <p>(f) Banks will provide advance information to the individual customers about the proposed changes in the service charges.</p> <p>(g) Banks will collect for services given to individuals only such charges which have been notified to the customer.</p> <p>(h) Banks will inform the customers in an appropriate manner recovery of service charges from the account or the transaction.</p> <p>Banks will without fail inform the customers in all cases when a transaction initiated by the bank itself results in or is likely to lead to a shortfall in the minimum balance required to be maintained.</p>	<p>The principles for ensuring reasonableness in fixing and communicating the service charges, as enunciated by the Working Group, may be adopted/ followed by banks.</p>
4	<p>Disclosure and notification of service charges</p> <p>It is imperative that the customers are made aware of the service charges upfront and the changes in services charges are implemented only with prior notice to the customers. For changes made in the charges, the notice to customers need not necessarily be to each individual customer, as it would be costly and impractical. The Working Group finds that for proper disclosure, the banks would do well to fully recognize the following needs of the customers and take steps to ensure that these are met:</p>	<p>Banks may take steps to ensure that customers are made aware of the service charges upfront and changes in the service charges are implemented only with the prior notice to the customers.</p>

	<p>these are met:</p> <p>(A) Disclosure of the service charges:</p> <ul style="list-style-type: none"> ▪ Banks may consider the option of carrying out a one-time publicity of the service charges so that all customers are made aware of the charges; ▪ The need for communicating the service charges to the new customers at the time of beginning of the relationship. ▪ The need for displaying the charges in the notice board at the branch and advertising in newspapers, so as to disseminate information to the customers/public, in addition to display on the website as per Reserve Bank instructions. ▪ The need for using appropriate method for communicating the service charges to customers of different profiles. <p>(B) Notifying the changes effected in the charges</p> <ul style="list-style-type: none"> ▪ The need for effecting any change in the charges only with prior notification to the customers of at least 30 days. ▪ The need for providing an option to the customer to accept the change and if not accepted, to exit from the relationship with the bank within the above 30 days without any cost. ▪ Banks may consider the option of advertising the changes in newspapers. ▪ The need for including the information regarding the changes in any communication sent to the customer. ▪ The need for displaying prominently in the notice board as well as the website all the changes effected in the preceding 30 days. 	
5	<p>Other recommendations</p> <p>(i) Deficiencies in the redressal of grievances about service charges</p> <p>Deficient grievance redressal in the banks, including a process of prolonged correspondence, always leads to complaints being escalated to the Banking Ombudsman/Reserve Bank of India. Banks are therefore required to have a robust grievance redressal structure and processes, to ensure prompt in-house redressal of all their customer complaints.</p>	<p>The recommendations of the Working Group relating to redressal of grievances and financial education, as brought out in column 2, may be implemented by banks.</p>

	<p>(ii) Financial Education</p> <p>The Working Group recommends that full-fledged information on bank products and their implications are to be disclosed to the customers so that the customers can make an informed judgment about their choice of products.</p>	
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