

RBI/2006-2007/284  
UBD. CO. BPD. (PCB). No. 31/12.05.001 / 2006-07

March 9, 2007

Chief Executive Officers of  
All Primary (Urban) Co-operative Banks

Dear Sir / Madam,

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

Please refer to our circulars UBD. BPD. PCB. Cir. 54 / 09.39.000 / 2005-06 dated May 26, 2006 and UBD.PCB.Cir.No.4 /09.39.000/06-07 dated July 24, 2006 on display of service charges by urban co-operative banks.

2. As announced in the Annual Policy Statement for the year 2006-07, 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. The Working Group has since submitted its report. The recommendations of the Working Group have been examined and accepted by Reserve bank of India with certain modifications.

3. Action required to be taken by urban co-operative banks is indicated under the column "action points for banks" in the Annex to this circular.

Yours faithfully,

(S.S.Barik)  
General Manager

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

Sl. No.	Recommendations of working group as accepted by RBI	Action points for banks																																				
1	<p><b>Identification of basic banking services</b></p> <p>Banks have to follow two broad parameters for identifying the basic banking services:</p> <p><b>(A) Nature of transactions</b></p> <p>(a) Banking services that are ordinarily availed by individuals in the middle and lower segments, will be the first parameter. This 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>(B) Value of transactions</b></p> <p>Low value of transactions with customers / public up to the ceiling as given below will be the second parameter:</p> <p>(i) Remittance upto Rs. 10,000/- in each instance</p> <p>(ii) Collections below Rs. 10,000/- in each instance. (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="313 1247 1050 1927"> <thead> <tr> <th data-bbox="313 1247 683 1283">Sr. No</th> <th data-bbox="683 1247 1050 1283">Service</th> </tr> </thead> <tbody> <tr> <td colspan="2" data-bbox="313 1283 1050 1318" style="text-align: center;"><b>Relating to deposit accounts</b></td> </tr> <tr> <td data-bbox="313 1318 435 1346">1</td> <td data-bbox="435 1318 1050 1346">Cheque book facility</td> </tr> <tr> <td data-bbox="313 1346 435 1409">2</td> <td data-bbox="435 1346 1050 1409">Issue of Pass Book (or Statement)/Issue of Balance Certificate</td> </tr> <tr> <td data-bbox="313 1409 435 1436">3</td> <td data-bbox="435 1409 1050 1436">Issue of duplicate pass book or statement</td> </tr> <tr> <td data-bbox="313 1436 435 1463">4</td> <td data-bbox="435 1436 1050 1463">ATM Cards</td> </tr> <tr> <td data-bbox="313 1463 435 1491">5</td> <td data-bbox="435 1463 1050 1491">Debit cards (electronic cheque)</td> </tr> <tr> <td data-bbox="313 1491 435 1518">6</td> <td data-bbox="435 1491 1050 1518">Stop payment</td> </tr> <tr> <td data-bbox="313 1518 435 1545">7</td> <td data-bbox="435 1518 1050 1545">Balance enquiry</td> </tr> <tr> <td data-bbox="313 1545 435 1572">8</td> <td data-bbox="435 1545 1050 1572">Account closure</td> </tr> <tr> <td data-bbox="313 1572 435 1600">9</td> <td data-bbox="435 1572 1050 1600">Cheque Return – Inward (Cheque received for payment)</td> </tr> <tr> <td data-bbox="313 1600 435 1627">10</td> <td data-bbox="435 1600 1050 1627">Signature verification</td> </tr> <tr> <td colspan="2" data-bbox="313 1627 1050 1663" style="text-align: center;"><b>Relating to loan accounts</b></td> </tr> <tr> <td data-bbox="313 1663 435 1690">11</td> <td data-bbox="435 1663 1050 1690">No dues certificate</td> </tr> <tr> <td colspan="2" data-bbox="313 1690 1050 1726" style="text-align: center;"><b>Remittance facilities (including through other banks) (Rupee or foreign exchange)</b></td> </tr> <tr> <td data-bbox="313 1726 435 1753">12</td> <td data-bbox="435 1726 1050 1753">Demand Draft – issue</td> </tr> <tr> <td data-bbox="313 1753 435 1780">13</td> <td data-bbox="435 1753 1050 1780">Demand Draft – Cancellation</td> </tr> <tr> <td data-bbox="313 1780 435 1808">14</td> <td data-bbox="435 1780 1050 1808">Demand Draft – revalidation</td> </tr> </tbody> </table>	Sr. No	Service	<b>Relating to deposit accounts</b>		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)	10	Signature verification	<b>Relating to loan accounts</b>		11	No dues certificate	<b>Remittance facilities (including through other banks) (Rupee or foreign exchange)</b>		12	Demand Draft – issue	13	Demand Draft – Cancellation	14	Demand Draft – revalidation	<p>As indicated in annex -1 to circular UBD (PCB) Cir. No. 54/09.39.000/05-06 dated May 26, 2006. The list of services identified 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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2	<p><b>Offering basic banking services outside the scope of bundled products</b></p> <p>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 bank's 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 the bundled products.</p>	<p>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.</p>																												
3	<p><b>Principles for ensuring reasonableness in fixing and communicating the service charges</b></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 service charges ad-valorem only to cover any incremental</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>																												

	<p>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>	
4	<p><b>Disclosure and notification of service charges:</b> 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><b>(A) Disclosure of the service charges:</b></p> <ul style="list-style-type: none"> <li>• Banks may consider the option of carrying out a onetime publicity of the service charges so that all customers are made aware of the charges;</li> <li>• The need for communicating the service charges to the new customers at the time of beginning of the relationship.</li> <li>• 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.</li> <li>• The need for using appropriate method for communicating the service charges to customers of different profiles.</li> </ul> <p><b>(B) Notifying the changes effected in the charges</b></p> <ul style="list-style-type: none"> <li>• The need for effecting any change in the charges only with prior notification to the customers of at least 30 days.</li> <li>• 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.</li> </ul>	<p>Banks may take steps to ensure that customers are made aware of the service charges upfront and changes in service charges are implemented only with the prior notice to the customers.</p>

	<ul style="list-style-type: none"> <li>• Banks may consider the option of advertising the changes in newspapers.</li> <li>• The need for including the information regarding the changes in any communication sent to the customer.</li> <li>• The need for displaying prominently in the notice board as well as the website all the changes effected in the preceding 30 days.</li> </ul>	
5	<p><b>Other recommendations</b></p> <p><b>(i) Deficiencies in the redressal of grievances about service charges</b></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><b>(ii) Financial Education</b></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>	<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>