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RBI releases Report of the Working Group to formulate a Scheme for ensuring Reasonableness of Bank Charges

The Reserve Bank of India (RBI) today placed on its website (www.rbi.org.in) the report of the Working Group to formulate a Scheme for ensuring Reasonableness of Bank Charges. Views/suggestions on the recommendations of the Working Group may please be sent to the Reserve Bank by email at kzasudhakar@rbi.org.in or can be faxed to 022-22630482.

The practice of Indian Banks' Association fixing the benchmark service charges on behalf of the member banks was discontinued in 1999 and the decision to prescribe service charges was left to the discretion of the boards of individual banks. Banks were then advised that they should ensure that the charges were reasonable and not out of line with the average cost of providing the services and that the customers with low volume of activities were not penalised. However, the Reserve Bank has continued to receive representations from the public regarding unreasonable and non-transparent service charges. The plethora of complaints received indicated that the issue of fairness in fixing the service charges by the banks needed to be examined.

Accordingly, as announced in the Annual Policy Statement 2006-07, the Reserve Bank constituted a Working Group to formulate a scheme for ensuring reasonableness of bank charges, and to incorporate it 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, chaired by Shri N.Sadasivan, Banking Ombudsman, Maharashtra and Goa had, among others, Shri H.N.Sinor Chief Executive Officer, Indian Banks' Association and Shri S. Divakara, Joint Secretary, All India Bank Depositors' Association and Member, Governing Council of BCSBI as members.

The Working Group examined various issues, such as, basic banking/financial services to be rendered to individual customers, the methodology adopted by banks for fixing the charges and the reasonableness of such charges. It also examined the possibility of making suitable additions in this regard to the Fair Practices Code and also the measures needed for monitoring compliance by the Banking Codes and Standards Board of India.

The Working Group has enumerated twenty-seven services related to deposit accounts, loan accounts, remittance facilities and cheque collection as basic banking services and has defined low value transactions for cheque collection and remittance upto Rs. 10,000 in each case and upto \$500 for forex transactions. The Working Group has concluded that the reasonableness of service charges of banks cannot be

tested on the basis of cost as, in general, banks were not using cost to fix their charges. The cost as a pricing methodology is confined only to a small number of banks that do not represent a significant share of the banking business. A few banks that use 'cost' tend to offer 'bundled' products (accounts with add-on services) that require a higher level of average minimum balance maintenance in the account and this methodology implies an element of financial exclusion (though not by design). The Working Group has, accordingly, recommended that the Reserve Bank may take suitable steps to determine and evaluate the costs to banks for providing basic services.

The Working Group has indicated broad principles of reasonableness for bank charges. For basic charges rendered to individuals, banks will levy charges ad valorem subject to a cap. It has recommended fixing of lower rates for individuals as compared to non-individual entities, lower rates for special categories of individuals such as senior citizens, rural customers, pensioners and the like.

The Working Group has also recommended banks should provide to individual customers complete information on all charges applicable to basic services and any proposed changes in charges in a timely manner. Banks may be required to inform the customers in an appropriate manner recovery of service charges. Banks may also be required to inform customers in all cases when a transaction initiated by the bank itself results in or likely to lead to a shortfall in the minimum balance required to be maintained.

As regards monitoring of compliance to the Code by banks, the Working Group has recommended that BCSBI may collect from the member banks details of complaints relating to the service charges. The Working Group also suggests that BCSBI may track the changes in the levels of the service charges to identify any abnormal increases. BCSBI may look to feedback from consumer organisations and customer surveys to identify areas of significant non-compliance.

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