

Public Money: Resistance against Arbitrary Bank Charges

Banks act as financial intermediaries between depositors and borrowers. It is the public money, deposited in the form of term deposit (fixed deposits) and time deposit (saving accounts) which banks use for lending to borrowers. Since, public money is important for the banking sector as a whole, banks also have a responsibility towards the owners of that money. Over the past few decades, there has been a shift in policies of the banking sector and gradually moving away from social banking i.e. banks for the people – the then goal of the nationalisation of banks in India, to profit making. Consequently, the increase in the charges of banking services has affected a large number of people and are acting against the interests of the depositors. In the debate of regulatory powers, autonomy of RBI, rising non-performing assets (NPAs) and ongoing banking crisis; the issue of bank charges has been ignored completely.

The practice of Indian Banks' Association (IBA) fixing the benchmark service charges on behalf of the banks was discontinued in 1999 and the decision to prescribe the service charges was left to individual banks. Now, service charges are decided by individual banks with the approval of their respective boards and the only instruction RBI has given in this regard is to keep the charges in line with the average cost of providing these services. In regard to penal charges for non-maintenance of minimum balance in saving bank accounts RBI issued guidelines on July 1, 2015, where it asked banks to keep the charges reasonable and in proportion to the extent of the shortfall observed. Due to these steps taken by RBI, there has been a sharp increase in service charges levied by banks.

Bank charges imposed on saving account holders hurt the poor most who probably hesitantly adopted banks and do not have much knowledge about banking system. On the one hand, government is forcing people to enter into banking system (as a part of financial inclusion drive) to receive direct benefit transfers like MNREGA wages, LPG subsidy, pensions, etc. while on the other they are being penalised for not able to maintain minimum balance in their accounts and in the form of various other bank charges. Basic Saving Bank Deposit Account (BSBDA) and Pradhan Mantri Jan Dhan Yojna (PMJDY) accounts which were part of government's financial inclusion drive and do not charge account holders for banking services, have many restrictions in availing banking services such as limitations on number of withdrawals (maximum 4 debit transactions are allowed including cash, ATM, online etc.). PMJDY accounts also have limit on the amount that can be withdrawn and deposited as Rs. 10,000 per month and Rs. 50,000 per month respectively. A study¹ conducted by Prof Ashish Das, IIT Bombay, has found that banks are converting no-fee saving accounts (BSBDA and PMJDY) to fee-based regular saving accounts silently when a customer carries out 5th

¹ <https://www.moneylife.in/article/banks-harass-no-frills-account-holders-by-freezing-or-converting-their-account-to-regular-ones-iit-study/54171.html>

debit transaction in a month. This will lead people away from banks and they would probably look for alternatives to keep their savings.

Minister of State in Ministry of Finance, Shiv Pratap Shukla reported² in Lok Sabha that Rs 4,990 crore were collected by 21 public sector banks and 3 leading private banks from customers for non-maintenance of monthly average balance in savings accounts in the financial year 2017-18. State Bank of India being the largest among all public sector banks and having more deposits from working class people than any other bank, has collected a whopping Rs 2,434 crore, almost half of what all the other banks collected. Moreover, if we put together the data for last four years, then the bank charges for non-maintenance of minimum balance turn out to be a whopping amount of Rs 11,500 crore.³ To put it in better perspective, this amount (Rs 11,500 crore) collected in 4 years for not maintaining minimum balance, is only around 1% of total gross NPAs (as of March, 2018). At the same time, the amount written off by 21 public sector banks alone was Rs 3,16,500 crore for the last 4 years (between April 2014 and April 2018) which equals to approximate 30% of total gross NPAs (as of March, 2018).

Apart from rising non-performing assets due to misgovernance and lack of accountability and transparency in the banking sector, frequent changes in RBI regulations and government policies are putting banks in a position – where they also have to facilitate services which are not part of traditional banking services. Cross-selling of third party products by banks has put additional burden on banks' resources. Consequently, it has shifted the business priorities to selling of insurance and mutual funds products due to individual incentives affecting the core banking business. Now, the government has also asked banks to open Aadhar centres for enrolment/update activities.

Last year, SBI Managing Director Rajnish Kumar said⁴ that SBI was planning to raise Rs 2000 crore as a penalty for non-compliance of minimum balance in saving accounts, part of which would be used to compensate the extra costs incurred to banks due to linking of 40 crore savings accounts to Aadhaar. Additionally, the imposing of Demonetisation by central government had put tremendous pressure on banks, leading to erosion of already scarce resources.

Apart from penalty charges for not maintaining minimum balance in saving accounts, over a year ago banks had started charging customers for having cash transactions at branches (irrespective of home branch or non-home branch). Number of cash deposits and withdrawals, without any charge, are limited up to five to six times a month and an amount ranging from Rs 10 to Rs 150 per transaction is being charged by different banks. As part of digitalisation process in banking sector, ATM services were introduced with the aim of reducing burden on bank branches and to provide the choice

² <http://164.100.47.190/loksabhaquestions/annex/15/AU2976.pdf>

³ <https://www.thehindubusinessline.com/money-and-banking/minimum-balance-banks-penalised-customers-11500-cr/article24595830.ece>

⁴ <https://www.firstpost.com/business/minimum-balance-sbi-looks-to-amass-rs-2000-cr-penalty-to-partly-use-it-for-aadhaar-pan-linking-4054269.html>

to customers of having transactions as per their needs. When people have adopted this technological change, which was not easy for all customers, most of the banks have put limitation on number of free transactions (financial and non-financial) through ATMs. Customers are also paying for banking services which earlier had no charges like changes in address or mobile number, SMS alert service, update of KYC-related documents etc. The charges for banking services have risen without any reasonable basis behind them. The Reserve Bank of India which formulates the guidelines for banks to operate, has asked banks to charge customers *reasonably*, even for having a bank account and withdrawal of one's own money, which should have been provided without any charge.

The Indian Banks are facing a huge NPA crisis (gross NPAs of all Scheduled Commercial Banks was Rs 10,35,528 crore by March 2018). It has been established that around 50% (Rs 4,98,790 crore) of total NPAs has been caused solely by top 100 corporate borrowers and that bad debts of over Rs 5 crore make up as much as 88% of total NPAs. Though the public sector banks have been posting operational profits every quarter, the necessity for provisioning has resulted into net loss for the banks. So far, the government and the RBI has been focusing on every other form of reforms than focusing on recovery from large borrowers.

Recently, Chief Minister of Kerala, urged⁵ banks to withdraw this 'anti-people' policy of minimum balance requirement in the saving bank accounts and not to loot the poor man's deposit in the name of service charges. Chief Minister said while referring to bank charges- "This plundering of the assets of the common man and the poor is happening at a time when the banks, saddled by bad debts of over Rs 10 lakh crore, are continuously providing relief to defaulting big shots. The poorest of the poor are being plundered to make up for the losses inflicted on banks by the super rich". C.H. Venkatachalam, General Secretary, All India Bank Employees' Association in a memorandum to RBI governor Urjit Patel, sought⁶ action on protecting bank customers' against unfair practises such as arbitrary and one sided increase in banking charges and miss-selling of products.

Both the RBI and the government have changed their stance during the past few years with respect to the banking sector. The late realisation of cleaning up stressed assets after years of ever-greening of large corporate debts has put banks in a position where they are looking for alternative avenues to compensate their losses. High level of non-performing assets due to loans provided without any due diligence and proper assessment of viability of projects and poor recovery from big defaulters even with the help of Insolvency and Bankruptcy Code (IBC) have resulted into negative balance sheets of the banks. Introduction of new schemes by government and use of banks to provide these non-banking services, and cross selling of third party products have changed banks' functioning model completely. The burden of all the above stated

⁵ <http://www.uniindia.com/cm-urges-banks-to-withdraw-minimum-balance-conditions-and-debiting-service-charges/states/news/1312092.html>

⁶ <https://www.moneycontrol.com/news/business/personal-finance/bank-union-to-rbi-guv-protect-consumers-from-hidden-charges-push-bank-account-portability-2559877.html>

changes in policies has been shifted to saving account holders of the country. Though the amount collected from charges on banking services is negligible when compared to NPAs of the banks.

It is time for the RBI to come up with guidelines to remove all the existing banking charges for the ordinary account holders and provide them banking services free of cost. It is arbitrary for the banks to charge the account holders for banking services when there is already a huge difference between the rate of interest on deposits and rate of interest on lending. RBI and the government need to recover large corporate debts by taking stringent actions against defaulters and making the lending policies more transparent and accountable, not by passing the burden of corporate debts to poor and working class people.