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Moneylife Foundation

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Date: 22 December 2014

Shri Narendra Modi,
Hon. Prime Minister of India
Prime Minister's Office,
152, South Block, Raisina Hill,
New Delhi-110011
Phone +91-11-23012312, 23018939

Dear Prime Minister,

This is to bring to your attention our concern at how banks are charging own customers for various services including withdrawing money from own savings account through ATMs. Nowhere in the world are bank customers charged for depositing or withdrawing money, in or from own account.

We write on behalf of Moneylife Foundation, an NGO involved in advocacy and financial education. We are shocked at banks' claim to levy charges due to technology costs. Introduction of technology is supposed to reduce cost of transaction. If the cost was less five years ago, it cannot have gone up today, when volumes are higher - that is the general philosophy of technology. So in the absence of information provided by banks, we say that costs have gone down dramatically, which is why ATM networks are being expanded every year. Hence, the withdrawal of benefits for account holders is illogical.

Nowhere in the world are customers charged for depositing or withdrawing money. Banks provide this service to customers because of the spread that they earn between the interest paid to depositors and the rate at which they lend money. The spread has to cover transaction charges.

If banks want to start charging on transaction basis, then the spread that they earn on depositor's money has to come down. The transaction charges are all the more illogical because in India, the spread on savings bank is one of the highest in the world. In fact, in India, even generally, spread is one of the highest. So in India, banks cannot charge for transactions.

Savings bank depositors contribute maximum to the revenue of banks. In fact, they are the people who support banks to remain profitable, yet they are being charged. Hence, these charges are not only illogical, but they are against the principle of equity and natural justice.

It is submitted that if banks argue that the charges are based on cost considerations, then there is absolutely no information provided as to the cost or justification of the charges based on costs. Savings bank depositors are paid only 4% interest on their savings while base rate for lending is between 10.00% to 10.25%. These savings accounts contribute to about 30% of the total deposits with banks, worth around Rs24-25 trillion. This savings bank account portfolio alone generates huge profits for banks.

We would submit that because bank depositors are not organised, banks are irresponsibly trying to exploit them with support from the Reserve Bank of India (RBI). In fact, it is the job of the regulator to protect the small depositor. In our country, the opposite is happening, and the regulator is permitting depositors to be fleeced and allowing banks to profiteer from savings bank customers.

Existing regulatory forbearance, which was prohibiting banks from charging customers for such simple transactions as withdrawing their own money - the RBI has withdrawn it and permitted the charges that too without demanding a justification or making it public. That is why the depositor has no other alternative but to come to court.

The Reserve Bank issued a Master Circular RBI/2014-15/72 DBOD No. Leg.BC.21/09.07.006/2014-15 dated July 1, 2014 (<http://rbi.org.in/scripts/NotificationUser.aspx?Id=9008&Mode=0#41>), placing certain restrictions on the number of withdrawals permitted in small/ no frills/ basic savings bank deposit accounts, including ATM withdrawals, during a month. This was a benefit given to existing savings bank account holder. They were allowed to withdraw money free. However, this existing benefit is being withdrawn without any justification.

It is submitted that banks decision to restrict number of free debit transactions in an account will only encourage more cash transactions, which is against the stated objective of the RBI and the government of encouraging electronic transactions and curb the use of cash in the system. If banks are allowed to impose such unfair and unreasonable charges on customers, it would drive people away from banks and in fact lead to more financial exclusion with a consequent impact on the economy. This is against the stated goal of bringing more people into the formal system.

Until recently, the RBI used to ensure that depositors are protected, but increasingly, the RBI is failing in its duty. Banks under the Indian Banks' Association (IBA) have got together to start imposing charges for a host of other services, which depositors kept quiet about - the mobile phone alerts is one example. We argue that the cost of in-bank transactions (withdrawal and deposit) is higher than at the ATM, so if banks are allowed to get away with transaction charges, we should not be surprised if they start imposing a cost on in-bank transactions as well. Or even to enter the bank.

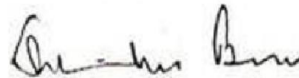
The above mentioned charges have been put in practice and are lopsided change, which affects customers at large. Therefore, we request you immediate intervention and to direct the Reserve Bank to withdraw its Master Circular on bank charges as it is illegal and violative of natural justice to lakhs of savings bank account holders.

We thank you for your attention to this important issue and shall be grateful for a line in acknowledgment.

Yours Sincerely,



Sucheta Dalal
Founding Trustee
Moneylife Foundation



Debashis Basu
Founding Trustee
Moneylife Foundation

<http://foundation.moneylife.in>

Encl:

1. Memorandum sent by Moneylife Foundation to RBI Governor Dr Raghuram Rajan on ATM Charges
2. News report from Moneylife on "Make 'basic' banking services free!"
3. News report from Moneylife on "Compensate bank customers if they fail to get desired service"

CC:

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17th January 2014

Dr. Raghuram Rajan
Governor
Reserve Bank of India
Fort, Mumbai.

Dear Dr. Raghuram Rajan

Sub: Revision in the charges for usage of ATMs proposed by the Indian Banks Association.

Greetings.

We are writing to you as trustees of Moneylife Foundation, the voice of Indian savers with around 28,000 members. We are disturbed to note from the media reports that the Indian Banks Association (IBA), on behalf of the commercial banks, has requested you to modify your guidelines with regard to charges levied by banks for usage of ATMs, without any rhyme or reason to the distinct disadvantage of bank depositors, who, unfortunately, have no voice in deciding the charges levied by banks in our country.

We wish to submit this memorandum to you on behalf of millions of bank depositors of our country that this demand from the IBA is neither fair nor equitable because banks are not only making no attempt to use technology to reduce costs and make banking safer for bank customers, but are making it more expensive and risky.

Moneylife Foundation is a not-for profit organization dedicated to the cause of spreading financial literacy. We have a membership of almost 28,000 members, who benefit from the series of free seminars and workshops we hold on different topics of common interest in the areas of finance, banking and insurance as well as issues affecting the daily lives of common people. We are just completing four years of dedicated service to the community, having held 195 free seminars during these eventful four years

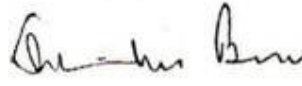
As a part of our advocacy and empowerment programme, we have set up free counseling in different areas like insurance, mutual funds, railway to alleviate the sufferings of hapless consumers, who need help and assistance to solve the problems encountered by them in their daily life. We do hope you will mull over the Memorandum and take decide against hiking ATM charges that the banks are demanding.

We thank you for your attention and shall be grateful for a line in acknowledgment.

Yours sincerely,



**Sucheta Dalal,
Trustee, Moneylife Foundation**



**Debashis Basu,
Trustee, Moneylife Foundation**

**MEMORANDUM TO RBI AGAINST PROPOSED REVISION IN THE CHARGES
BY INDIAN BANKS ASSOCIATION FOR USAGE OF ATMs**

We are concerned to note from the media reports that the Indian Banks Association (IBA), on behalf of commercial banks in our country, has requested the RBI to modify the guidelines with regard to charges levied by banks for usage of ATMs, without any rhyme or reason to the distinct disadvantage of bank depositors, who, unfortunately, have no voice in deciding the charges levied by banks in our country.

MoneyLife Foundation is of the firm opinion on behalf of millions of bank depositors of our country that this demand from the IBA to change the rules for usage of ATMs is neither fair nor equitable, as we are of the firm opinion that the banks have not been taking enough care of the safety of customers in their ATMs so far. The security of banks' customers who venture to draw cash from automated teller machines (ATMs) has been the talk of the country in the wake of a brutal attack on a lady manager of Corporation Bank in an ATM booth in Bangalore late last year. The three concrete reasons why such an attack on a hapless woman took place are the following:

1. The banks have been systematically withdrawing security guards in most of their ATMs to save on cost of maintaining ATMs, which helped these monsters to attack the customers of banks during non-busy hours in those ATMs where security guards were absent. This is blatantly against the ground rules laid down by RBI with regard to the security arrangements required to be followed in all ATMs.
2. Most of the ATMs do not have the system of regulating the entry into the ATM booths through the use of ATM cards. These cards were used for unlocking the doors of the booths, so that entry is restricted only to those holding valid ATM cards. But this system is not prevalent now in most of the ATM kiosks, making it possible for a non-card holder to easily enter the ATM booth and play mischief either with the people inside or even with the ATM machine itself.
3. We do not have a system of locking the shutters after pulling it up, so that no miscreant can pull the shutters down easily and play havoc with the person inside the ATM booth. This is what happened in Bangalore as the attack on a lonely woman took place in broad day light, as the culprit pulled down the shutters from inside, so that the crime was not visible to outsiders.

What is the role of ATMs in spreading banking facility in our country?

With the objective of financial inclusion and to make available the basic banking services in hitherto unbanked areas of our country, RBI has been aggressively propagating setting up of ATMs in different parts of our country. And the RBI in its wisdom has laid down certain guidelines to ensure that these ATMs are used by the banks' customers as freely as possible to ensure their optimum utilization and to encourage more and more people to open bank accounts with a view to bring those who are outside the ambit of banking into the banking fold for the general good of the people of our country.

But the banks have failed to realize that the biggest beneficiaries of proliferation of banking facility through this route of ATMs are none other than banks themselves. If you ask a question as to who has benefited most by the introduction of ATMs, the banks would say, without batting an eyelid, that it is the customer who has benefited most by having access to his account for withdrawing cash 24 hours, 7 days a week, through out the length and breadth of the country.

But does it mean that the banks have not benefited by setting up ATMs? If the banks have not benefited and if it has only added to their costs, why are banks falling head over heels to set up more and more ATMs, more so the private sector banks that are conscious of costs more than the PSU banks? If one goes deeper into the rationale for spreading ATMs, it is the banks that have equally, if not more, benefited for the following reasons:

1. There is keen competition among banks to mobilize Current and Savings accounts (CASA), as they are the cheapest form of deposits for banks. The main reason for banks to open more and more branches in smaller towns is to attract more customers, who will keep their surplus funds in these types of accounts. In fact, opening of a current or savings account with a bank is the beginning of a relationship with a bank and banks are vying with each other to get maximum number of these accounts to improve their low cost deposits, which help them to increase their net interest margins. But as setting up full fledged branches is expensive, cumbersome, and time consuming, banks resort to the cheapest and easiest way to reach out to people by setting up ATM kiosks, which attract people to open their account even if the branch of the bank is little far away from their place of residence, as operating the account becomes easier through nearby ATMs. So the main purpose of setting up ATMs is to attract people to open their accounts, and it has really benefited banks by getting cheap deposits in a cost effective way.
2. With a large number of ATMs being installed by banks, which are more than the brick and mortar branches, it has helped to considerably reduce pressure of work on the counters of bank branches, facilitating quick disposal of customers, lesser paper work and more time for staff to attend to other pressing jobs. This has resulted in bringing down the number of employees in

each branch of a bank, saving considerable employee cost which is the second highest expenditure for any bank after interest cost.

The aforesaid facts are evidenced by the following tables:

Table -1

For all banks:	31 March 2002	31 March 2012	Growth in %
Staff Strength			
Officers	276,368	502,938	82 %
Clerks	425,788	481,421	13 %
Subordinates	199,132	190,790	- 4 %
Total staff	901,288	1,175,149	30 %

Table - 2

Business	31 March 2002		31 March 2012		Growth in %	
	No of A/cs (in crore)	Amount in Rs lakh crore	No of A/cs (in crore)	Amount in Rs lakh crore	No of A/cs (in crore)	Amount
Deposits	43	11.23	90.32	60.78	110%	441%
of which CASA	29.98	3.98	73.9	22.58	146%	467%
Advances	-	6.09	-	48.03	-	688%
Total Business	-	17.32	-	108.8	-	528%

Source: Basic Statistical Returns of SCBs

If you analyse the above figures for the 10-year period from 2002 to 2012, the following conclusions are obvious:

1. The CASA deposits have grown by 467% in terms of amount and 146% in terms of number of accounts.
2. The corresponding growth in number of employees is only 13 % in respect of clerical staff and 30 % in respect of all employees.
3. The perceptible reduction in growth percentage in number of employees is partly due to introduction of core banking technology in banks and partly because of expansion in delivery channels through ATMs, which are now considerably more than the brick and mortar branches.

4. All ATMs are unmanned self-service kiosks, which do not require large deployment of human resources, which is a distinct advantage for banks resulting in huge savings in employee cost as stated above.
5. The much lower growth in clerical staff (at 13%) is a concrete evidence of the fact that due to the large introduction of ATMs, there is much less pressure on the counters of banks, which are normally manned by clerical staff.
6. By employing much lower staff, the banks have benefitted considerably not only in terms of employee cost, but also in terms of rental and capital expenditure on physical infrastructure required in setting up brick and mortar branches, which is substantial by any standards.
7. During one of the seminars on banking, RBI officials have acknowledged that as per their study, the ATM based transactions cost about 20% of the branch banking cost, which can be brought down further by extending and expanding the facilities made available through ATMs.
8. The most invisible benefit derived by all most all the banks in the country by the introduction of ATMs is the much lower percentage growth in customer complaints as compared to the growth in number of accounts, as ATMs have succeeded in considerably bringing down the footfalls in branches of banks resulting in much lesser friction between bank staff and customers, which is a distinct benefit not realized by the banking industry so far.

Have the benefits of lower of cost of banking operations been passed on to customers?

It is, therefore, abundantly clear that the banks have benefitted both in terms of garnering more CASA deposits and lower cost of operations due to the introduction of ATMs during the last more than 10 years. But the benefits of such distinct improvement in earnings of banks have not been passed on to the banks' customers as bank charges have been continuously going up year after year on some pretext or other.

Banks are increasingly adopting new technologies, but they have failed to bring down transaction costs, said Reserve Bank of India, deputy governor while speaking at a banking conference organized by the Indian Banks Association some time in September, 2010. He had even said that technology must enable customer facilitation in terms of cost, time and convenience and it should be dovetailed to customer needs and expectations.

We are heartened to note from Economic Times report dated 9th January, 2014, that speaking exclusively to ETNOW, Dr. K.C.Chakrabarty, Deputy Governor of RBI had said: "It is very very ridiculous that banks are charging customers for withdrawing money and that too from their own ATMs - it never happens anywhere". We fully support this stand taken by your Deputy Governor and urge you to stand by this statement and thus completely reject the demand of Indian

Banks Association to levy a charge on ATM transactions, as it is not only ill-conceived and imprudent, but also a most retrograde step, neither in the interest of banks nor their customers.

Apart from ensuring that all ATM transactions are free of all charges, here are a few more suggestions to create trust and confidence in the banking institutions of our country. Besides, these will go a long way in improving CASA deposits of the banks, for which purpose ATMs penetration is proposed to be enhanced through introduction of white label ATMs as well shortly:

1. At present ATMs dispense cash in higher denominations and customers do not have the option of getting the currency notes of their choice, forcing them to again visit the branch of a bank to exchange them for lower denominations. This is inconvenient both to the banks and the customers. All banks may, therefore, be instructed to provide for dispensing cash in desired denominations through appropriate modification to the ATM machines, which is feasible and desirable.
2. Many times, we find that the ATM cards getting sucked into or swallowed by the machines due to no fault of the depositor. If this happens when the customer badly needs cash, he/she is doubly inconvenienced and deserves compensation for the anguish caused and the trouble taken by him/her to retrieve the card or get a new card from the bank. RBI should mandate appropriate compensation in all such cases to minimize such instances by better maintenance of ATMs.
3. It is not uncommon to see ATMs fail to dispense cash while debiting the amount to the accounts of customers due to the fault of the machines. While RBI has instructed banks to reimburse the amount so debited within 7 days of complaint by the customers, RBI has not advised banks to compensate the customers for the inconvenience caused, and for under going the rigmarole of making a complaint and following it up for no fault of theirs. It is, therefore, necessary to award appropriate compensation to such depositors as well.

While banks are too eager to levy a penalty for the failure to meet the commitments by banks' customers, banks in turn do not compensate the customers for their failure to honour their own commitments made at the time of opening the accounts. In order that there is perceptible improvement in customer service in banks, it is necessary for RBI to provide for compensation to be paid by banks to their customers whenever they fail in discharging their own duty to customers in the interest of equity and fair-play in all their dealings with the public.

And in all these cases, if the failure of ATMs is due to bad maintenance or improper servicing, this penalty/compensation paid by the banks to their customers can be certainly passed on to those companies from whom these jobs are outsourced, making them more accountable for their failures and to ensure proper maintenance of their machines.

To conclude, we reiterate that as far as the bank customers are concerned all that matters to them is that their personal security is ensured and their hard earned savings are protected without any additional cost to them, as it is squarely the responsibility of the banks, who own the ATMs, to provide a level of security needed to protect its users and their funds at all times. It is for the banks to think of out-of-the box solutions to bring down the cost of operating ATMs without in any way compromising on the safety and security of banks' customers. There is certainly no case for banks to curtail the existing facilities available to ATM users, as introducing any restrictive practices and imposing additional burden on the depositors will only result in killing the proverbial goose that lays the golden eggs.

About Moneylife Foundation

Moneylife Foundation is a not-for profit organization dedicated to the cause of spreading financial literacy. We have a membership of over 27,500 members, who benefit from the series of free seminars and workshops held by us on different topics of common interest in the areas of finance, banking and insurance as well as issues affecting the daily lives of common people. We are just completing four years of dedicated service to the community, having held more than 195 free seminars during these eventful four years, with almost one seminar a week without expectation of any reward. Our daily digital newsletter goes to over a lakh of readers free of cost, and this is the medium of keeping the readers apprised of the good and the bad developments taking place in our economy on a daily basis.

As a part of our advocacy and empowerment programme, we have set up free counseling in different areas like insurance, mutual funds, railway helpline and of course banking to alleviate the sufferings of hapless consumers, who need help and assistance to solve the problems encountered by them in their daily life.

Make 'basic' banking services free! – Part-I

Gurpur 20/05/2013 12:39 PM



In the first part of this two-part series we identify certain basic services rendered by every bank, and ensure that these services are offered free of all charges across the board, so that every customer is treated fairly, equitably and in a non-discriminate manner

The Reserve Bank of India (RBI) in its master circular on customer service in banks issued on 1 July 2011 has highlighted the need to empower the depositors in the following words:

“Depositors' interest forms the focal point of the regulatory framework for banking in India. There is a widespread feeling that the customer does not get satisfactory service even after demanding it and there has been a total disenfranchisement of the depositor. There is therefore, a need to reverse this trend and start a process of empowering the depositor.”

Further, RBI in its annual monetary policy for 2013-14 announced earlier this month has, inter-alia, stated that they would issue detailed guidelines by the end of June 2013 with regard to uniformity in Intersol charges levied by banks.

Intersol charges are those levied by banks for using the service of branches other than the home branch, where you opened your account. With the introduction of core banking solution (CBS), many banks have been proclaiming that when you open a savings account with a branch, you become the customer of the whole bank and not of any one single branch. This means that with the use of technology, the benefit of service at all the branches of the bank should be available to you, though technically, your account is maintained in one particular branch, where you opened the account. This is what they call as “anywhere banking”.

Here is what the RBI had said in its monetary policy statement earlier this month with regard to intersol charges:

“With the introduction of Core Banking Solution (CBS), it is expected that customers of banks would be treated uniformly at any sales or service delivery point. It is observed, however, that some banks are discriminating against their own customers on the basis of one branch being designated as the “home branch” where charges are not levied for products services and other branches being referred to as “non-home” branches where charges are levied for the same products/services. This practice is contrary to the spirit of the Reserve Bank’s guidelines on reasonableness of bank charges. With a view to ensuring that bank customers are treated fairly and reasonably without any discrimination and in a transparent manner at all branches of banks/service delivery locations, banks are advised to: follow a uniform, fair and transparent pricing policy and not discriminate between their customers at home branch and non-home branches.”

However, banks in their anxiety to increase their fee-based income have been overtly and covertly flouting the guidelines of RBI and are levying charges indiscriminately for several services, which are neither fair nor equitable. For example, you can get your pass book updated at your home branch without any charges, but if you get the same pass book of the same account updated in another branch of the same bank, which is now possible under the CBS, many banks levy a charge for rendering such a service. This is being frowned upon by the RBI as it is discriminatory and against the spirit of RBI guidelines on reasonableness of bank charges.

As a step towards removing this discrimination, it is necessary for the RBI to identify certain basic services rendered by every bank, and ensure that these services are offered free of all charges across the board, so that every customer of a bank is treated fairly, equitably and in a non-discriminate manner.

The basic banking services can be divided into three parts:

1. Mandatory services: There are a number of services, which compulsorily go with the maintenance of savings bank and current accounts and in all fairness. These services should be made available to all banks’ customers without any charges. While opening an account is currently free, banks do charge a fee for closing the account within a certain period. A customer should have freedom to open and close the account whenever he wants, as it is the basic right of an individual to close an account if and when he finds that the services offered by the bank are not up to his expectations. In fact while opening the

accounts, banks stipulate certain conditions for customers to follow, but conveniently omit to state their own obligations towards the customer.

All services extended through the use of core banking technology (CBS) must be mandatorily offered free to every customer, as it does not add to the cost of operations of the bank. It is obvious that rendering a service at any of their branches (non-home branches) is equivalent to offering the same service at the home branch. Whether depositing or en-cashing a cheque, writing a pass-book or issuing a statement of account, transferring funds from one account to another in the same bank but in different places and whether collecting a cheque from another bank or paying a cheque in another place are part of the core banking activity and should be compulsorily available to all bank customers in all their branches free of all charges. The purpose of CBS is defeated if the benefits of such modern technology are not made available to the depositors free of cost at all branches of the bank.

There are many other services like issuing an ATM-cum debit card, accepting standing instructions for payment of utility bills through ECS, etc are all basic banking services, which should be available to all bank customers without any charges. Banks today charge fancy rates for all these services, without any regard for the convenience of the customers and without any relation to the cost involved in offering these services.

There is, therefore, a need to codify all the basic banking services that deserve to be made available free of cost by all banks and RBI should not only come out with list of such basic services but also instruct banks to offer these services without any charges in the interest of transparency and fair treatment of bank customers.

2. Services that relate to security and safety of bank accounts: All the banks have a sacred duty to safeguard the interest of all customers by ensuring safety of their money and security of their accounts by virtue of having undertaken to accept their deposits and hold it in trust for them. It goes without saying that banks are obliged to keep the customers informed of all that affects their interest and this service should be offered without any charges to every customer of the bank.

There are a number of services, which go to preserve and protect the interest of depositors. For example, communicating a customer when a certain amount is withdrawn from his account is a security measure that helps banks to prevent frauds. As this service is beneficial to both, the bank and the customer, it is certainly unreasonable to levy a charge on such a service offered to the customer.

Recently it was pointed out by a *Moneylife* reader that one leading private sector bank has put up on their website a notice that from 1 May 2013, they would levy a charge of Rs15 per quarter for the SMS alert facility offered by the bank. Is this fair to the account holders when the intention of the bank to send such a message is to prevent frauds in their backyard? The RBI should identify all those services, which are in the nature of securing the safety and security of customers' accounts and ensure provision of such services free of cost to the customers of all banks.

3. Services to senior citizens and or disabled persons: Senior citizens and disabled people need a wide variety of services from banks to enable them to lead a life of dignity. They deserve special treatment at the hands of all banks purely from the humanitarian angle. There is a need to identify all those specialized services that are required to be provided by banks to such deserving people without any charges to make their life a little more bearable and livable in these days of rising cost of living due to the stubborn inflation plaguing the country.

For example, banks levy a penalty for withdrawing a deposit before maturity. Banks levy a charge for not maintaining a minimum balance in the account every month. Banks do levy a charge for issuing a duplicate pass book when the original is lost. These and a host of other types of charges can certainly be waived for senior citizens and or disabled account holders as a token of service to these people, who deserve help and assistance due to their old age and or disabilities.

Need to empower the bank depositors: Unfortunately, the objective of the RBI to empower the bank depositors has remained only in paper, as nothing much has been done to empower them during the last two years and the level of customer service in both public and private sector banks has deteriorated further. This is one of the reasons why the rate of growth of bank deposits has been falling year after year and the savings rate in the country has fallen considerably over the years as people prefer to invest their surplus funds on gold or immovable property, instead of keeping with unhelpful banks.

The RBI should, therefore, now take up the cause of depositors in right earnest not only in the interest of improving the savings rate in the country, but also with a view to restore the trust of the public and get their patronage before granting new banking licenses, as banks have lost the confidence of the general public due to their callous attitude towards the customers and the recent exposures of unhealthy practices in the functioning of commercial banks in our country.

(The second part of this two-part series on “Empowering bank depositors” which suggests compensating bank depositors if they fail to get the service they have the right to expect, will appear tomorrow.)

(The author is a banking analyst and writes for *Moneylife* under the pen-name of [Gurpur](#).)

Compensate bank customers if they fail to get desired service –Part II

Gurpur 21/05/2013 12:10 PM

Penalizing banks and compensating the customers for the delay or deficiency in service delivery standards should form the cornerstone of all banking regulations and create an environment of trust and confidence between the banks and the banking public

It is a common practice among banks to levy a penalty on those customers, whether depositors or borrowers, who do not comply with the terms and conditions stipulated. The banks lay down a series of conditions when you open an account or when you borrow from a bank and if you fail to honour these conditions, you are slapped with penalties, which are rising every year without rhyme or reason.

For instance, as a depositor, if you do not maintain a minimum balance in your account you are charged a penalty, if you exceed certain number of transactions in your account in a month you are levied a penalty, if you cross certain number of cheques drawn in a month you pay a penalty, to mention a few. Similarly, as a borrower, if you delay payment of an instalment even by a day on your loan account you are charged a penalty, if you do not pay the quarterly interest on your loan account, you are levied a penalty and this goes on and on many times even without any notice to you.

Surprisingly, Reserve Bank of India (RBI), as a banking regulator, never questioned this practice followed by banks. The banking public too meekly submitted to these conditions without asking as to why these conditions are a one-way street applicable only against them and nothing against the banks for their failure to comply with their part of the obligations towards banks' customers.

Right to Service Acts passed by state governments:As is well known, a number of state governments in our country have enacted laws which are called as “Right to Service Acts”to ensure that delivery of service by government servants is provided in a time-bound manner. These enactments provide for compensation to the public if they fail to get their requirements completed within the timeframe stipulated by the government. Even the central government is in the process of enacting a legislation to ensure that all central government services are provided to the public within the stipulated timeframe, failing which compensation will be granted to the applicant till his/her request is

complied with. Only time alone will tell whether this will have a desired effect on the life of ordinary citizens and the public will be saved of the harassment faced by them today while dealing with government departments. But certainly it calls for a similar system to be introduced in all public utilities, and banks being the institutions that have largest impact on the life of people of this country, should be the forerunners in introducing these fair dealing practices for the benefit of banking public.

RBI is within its powers to stipulate penalties for deficiency in service: A few years back, the RBI had come out with guidelines to all the banks to stipulate time norms for many of the services rendered by banks and display these time norms in the branches for the information of the public. Though most of the public sector banks did come out with time norms for services like encashment of cheques and issue of drafts and displayed them in their notice boards, these norms were never seriously followed. They remained only on paper, as there was no penalty imposed on banks for non-adherence to these time norms.

It is possible for the RBI under its existing powers to stipulate penalties for non-delivery of stipulated services by banks and provide for compensation to the banking public for failure of any bank to honour its commitments to its customers. In fact RBI has already made a beginning by levying a penalty of Rs100 per day of delay, if the bank fails to refund within seven days, the amount that has not been dispensed by its ATM but debited to the customer's account. This in fact has served to make the banks own up the responsibility for proper functioning of their ATMs, without passing the back to the supplier of the machines.

Introduce penalties and compensation which are two sides of the same coin: There are a number of instances where customers do not get satisfactory service from the banks. Majority of customers silently suffer on account of indifference of banks even to provide simple basic services like disbursing the pension on the stipulated dates, paying interest on fixed deposits on due dates, etc. The RBI itself has confirmed this situation prevailing in our banking industry on several occasions, but has not forced these tenets of equity, diligence and fair play in their dealings with customers, leaving a bitter feeling of helplessness in the minds of the general public.

It is, therefore, necessary for the RBI to identify all types of services rendered by banks to their customers and stipulate time norms for delivery of all such services, which should be mandatorily honoured by banks without any excuse. If any bank does not comply with these time norms for whatever reasons, they should be made to pay a minimum compensation to the customers at a rate, which will serve as a deterrent for repetition of such instances in future. To ensure that this system of compensating the customers is followed both in letter and spirit, the bank should automatically credit the compensation

payable to the customers' account without asking for it.

Protect the rights to approach banking ombudsman in case of

dissatisfaction: However, it should be ensured by the RBI that this system of giving compensation to the customer at the rates stipulated by the central bank should not take away the rights of the banks' customers to approach the banking Ombudsman for a higher compensation, if he or she feels that the compensation offered by the bank is not commensurate with the agony and suffering undergone by the customer due to the deficiency in service provided by the bank. For instance, if a cheque is dishonoured by a bank for no valid reason, the customer not only loses his face, but it affects his reputation in society, which cannot be evaluated in terms of money. As per the banking practice, the smaller the amount of the cheque, bigger the compensation payable, as it hurts one's ego most, if a cheque for a relatively small amount is wrongly returned by the bank for the reason of insufficient funds, when the account had adequate funds to meet the cheque. Therefore, the customer should have a right to approach the Ombudsman, if he/she is not satisfied with the compensation prescribed by RBI and paid by the bank. In actual practice by introducing this new system of empowering depositors, it may bring down the complaints lodged with the banking ombudsman considerably, and help in improving the banker customer relationships to a large extent.

Emulate international practice of compensating bank customers: Here is an example of what happened in the UK recently and how banks volunteered to compensate the customers, who had faced problems with their accounts.

BBC reported that On 6 March 2013, customers of Royal Bank group covering Royal Bank of Scotland (RBS), NatWest Bank and Ulster Bank were unable to access their accounts and could not even use their cards to withdraw money from ATMs for a couple of hours. The banking group, which is 80% owned by the UK government, blamed a "hardware fault" for causing its systems to crash, but promptly apologized and promised to compensate customers who experienced problems because of the disruption, which lasted for a couple of hours. The RBS banking group had to honour claims from millions of customers who were unable to withdraw cash, pay for goods and services or carry out telephone or online banking for no fault of theirs. Here is an example of how one customer got compensated by the bank even for a little embarrassment faced by him at a restaurant.

As per the BBC report, a customer of the bank had to get someone else to pay for his dinner that evening, as his card was not accepted due to a technical glitch in the bank. The bank instantly offered him 30 pounds compensation, but when he declined, he was offered 70 pounds (equivalent of about Rs6,000) for the embarrassment caused and it was paid into his account straight away.

In June 2012, 16 million customers of RBS, NatWest and Ulster Bank had difficulties with cash withdrawals, phone and online banking and debit cards, which the bank had blamed on a software glitch. It was reported by BBC that the disruption was one reason why Stephen Hester, CEO of RBS declined to accept part of the annual bonus. In fact, the bank paid out over 125 million sterling pounds to customers as compensation last year, and branch opening hours were extended to help customers who experienced difficulties. Such is the sensitivity to customers' inconvenience in countries like the UK, which is worth emulating by banks in our country.

RBI should take a cue from this and act promptly: It is very common for banks in India to put the blame on computers for any disruption in their operations and do not pay any heed to customer complaints when computers fail to deliver. After all if computers fail, either the hardware supplier or the software vendor should be held accountable, but so far as banks' customers are concerned, it is the bank that should be held responsible for compensating the customers who have suffered in the bargain for no fault of theirs. As seen in the U.K example, banks take full responsibility for computer glitches as well and had shelled out substantial compensation to customers even when the disruption was caused by hardware and software problems. While banks in the UK have volunteered to compensate the customers on account of public pressure and threat of loss of business, we cannot expect banks in India to do the same here, as they are totally thick-skinned to the point of being indifferent to public opinion and insensitive to customer inconvenience.

It is, therefore, necessary for the banking regulator, the RBI, to step in and introduce the system of penalties and compensation for deficiency in all banking services which should be benchmarked against best practices required to be followed by every bank in the country. Penalizing banks and compensating the customers for the delay or deficiency in service delivery standards should form the cornerstone of all banking regulations to give a new orientation to customer service practices and create an environment of trust and confidence between the banks and the banking public.

Will the RBI take a cue from the above and empower the depositors and bank customers to take banking service to a new level of customer satisfaction never experienced before in our country?

Read the first part here: [Make 'basic' banking services free!](#)

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