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## Banks levy numerous fees on customers for services. Is it cost cover or easy money?

BY PRATIK BHAKTA & SALONI SHUKLA, ET BUREAU | UPDATED: APR 26, 2017,  
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When State Bank of India announced penalties for **customers** breaching average **minimum balance** limit in their accounts last month, there was outrage on social media on how Indian **banks** are turning into vampires. Like many a social media storm, this one too passed, but the dust it raised is yet to settle.

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Banks aren't feeling the pinch of customer bitterness yet, but it has drawn the attention of the Reserve Bank of India and the government has got into the act as well. Everyone wants to benefit without sacrificing anything. This is probably a strange case where the government is on the same side as the consumer. The digital-obsessed state doesn't want to fritter away the tax compliance benefits from **demonetisation**. Banks, the essential channel to execute the vision, are looking to extract their pound of flesh.

Consumers believe that banks are taking them for a ride with charges even as banks' mainstay is their deposits. There's another stakeholder too – the vendors who supply technology and make many services possible. "The point that we make is that there is a cost to this network that we have created," says Rajiv Anand, head of retail at Axis Bank. "We want to be adequately compensated and it should be meaningful. Otherwise, why should we do this business?"

### MULTIPLE STAKEHOLDERS

Banks levy numerous **fees** on customers. It begins with the minimum balance amount falling below a threshold, to charges whenever

one swipes the debit card at a merchant or even withdrawing more than a specified number of times at the [ATM](#). Every payment transfer from your account leads to fees. Be it credit card or debit card, the banks end up earning a fee either from the customer or from the merchant.

# Charges That Banks Levy On You



**Minimum average balance**  
Banks want you to maintain an average balance ranging from ₹1,000 to ₹10,000 in your savings bank account

The penalty for not maintaining that balance ranges from ₹50 to ₹500 per month

**ATM Charges**  
Most banks give you 8 free ATM transactions (5 for customers, 3 for non-customers)

You will be charged around ₹15-20 once you exhaust your free limit

**Branch deposit - withdrawal charges**  
Most banks give you 4 deposit/withdrawal transactions free at your branch

**Banks charge ₹150 from the 5th transaction**

**Debit card charges**  
A customer is charged anywhere from ₹130 to ₹300 for issuance of a debit card

**MDR Charges**  
Up to ₹1,000: 0.25% of the transaction amount  
Between ₹1,000 and 2,000: 0.5% of the transaction amount  
Beyond ₹2,000: 1% of the transactions

There is an element of cost to build these infrastructure and there are many parties involved in building and maintaining them, including Visa and MasterCard. If they are not paid, some of them would go out of business. “If MDR becomes zero, there is no point of us being in the business,” says MN Srinivasu, director of the country’s largest payment gateway, Billdesk. “To survive, we will have to find ways to monetise customer data which, as of now, we were keeping encrypted and secured.”

## **EVOLUTION OF BANKING**

Banks have come a long way in the 20th century. Historically, for a retail customer, a bank was to keep his salary, deposit his savings and get cheque books which often lasted for years. Occasionally, one would draw a demand draft for university application forms or pay for government services.

Those were also the days when one spent hours in queues to pay utility bills or to buy train tickets. There were no loans for homes or cars. And it is essential you reached the teller by noon on Saturday, failing which one had no money to pay for the weekend expenses. Banks now provide convenience 24X7 with online payments.

“You don’t go to Oberoi Hotel and ask for Mahesh Lunch Home rates,” says Aditya Puri, managing director of HDFC Bank. “We are not here to charge usury costs, let us be very clear. As you go higher up on the type of product, it is perfectly reasonable to charge.” But during the period they also gained notoriety for unfair practices. Loan contracts were loaded against borrowers, and poor borrowers subsidised the rich with banks’ lending below cost to triple-A rated customers.

The Reserve Bank of India stepped in to discipline banks. The regulator may have to intervene yet again, but this time it may be different. The fight for fees is also uneven. While banks are determined to retain their share of the pie, they are unwilling to let the same happen to those who offer similar services in rural India. One of the fallout of digitisation has been the mushrooming of micro ATMs which perform the role of a mini bank and are cost effective. Operators of such ATMs get a fee, which the established banks want to slash by 90% to ensure they don’t lose out to nimble competitors.

That has prompted the government to step in. “It would be counterproductive to reduce the micro ATM interchange fee from 1% with minimum Rs 5 and maximum Rs 15 to 0.1% of the transaction value,” the ministry of electronic and information technology wrote to the Indian Banks’ Association. “This will greatly impact the enthusiasm of upcoming payment banks, small finance banks and any bank trying to set up last mile interoperable micro ATM infrastructure.”

## **DIFFERENT STROKES**

What is lost in the noise is also that there are no uniform rates for customers across the board. Banks levy fees based on the nature and affordability of the customer. Those who are at the bottom of the pyramid, pay very little or nothing. The private sector mostly ignores them.

With the government’s Jan Dhan programme for opening bank accounts for every household, the number of accounts has multiplied

without adequate deposits in such accounts. These are not remunerative for banks. Also, banks provide certain number of free services – be it withdrawal or deposits. It is not restricted to ATMs, but also in competitor’s establishments with the so-called interchange charges, which banks pay each other.

“I know very few people who would do more than 10 debits to their account every month,” says Arundhati Bhattacharya, chairman, State Bank of India. “I am not aware of anybody at all. When I asked a number of people to raise their hands if they had less than Rs 5,000 in their account, no one raised. We have arrived at these numbers to ensure that there is a certain amount of discipline.”

## RELIEF FROM REGULATOR?

Banks may have a case for fees, but what makes it difficult to determine how much should be paid for is the secrecy behind the costs. Charges of more than half a per cent are unreasonable when price levels have seen structural changes with inflation more than halving from its peak a few years ago. Also, the sheer explosion in volumes could boost the revenues and profitability of banks if they keep the fee prompting higher usage. “If volumes increase four-fold and banks drop their fees by half, you still come out as a winner,” says KV Kamath, former chairman of ICICI Bank. “Question is where is the tradeoff? Will a smaller margin but larger volume make you neutral?”

When it comes to credit, the RBI’s efforts in the past few years have led to banks behaving. The charges on transfers are capped, it has banned pre-payment charges, and no bank can lend below cost to even its best borrowers. “Reasonableness of the charges, we will ensure as a regulator,” former [RBI](#) deputy governor R Gandhi has said. “Many people think that this responsibility dictates that the services should be available free of cost. There we are unable to see reason.”

Any business’ tendency is to earn maximum profit and banks may be no different. In this battle for fees, they should realise that maximising profits is a short-term game and a fair game could sow the seeds of long-term profits. Those who can afford should be charged and those who fall below the minimum income threshold for income tax should be exempted.

“Banks also have a moral obligation and social responsibility of promoting digital payments and driving financial inclusion. If they look at it only from the commercial angle, we may not achieve the goal easily. If they look at return on capital in the three to four years horizon, then it will never happen,” says AP Hota, chief executive, National Payments Corporation of India.

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