

On savings bank accounts, here is what depositors should ideally get

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Ranchi: People withdrawing cash at a bank in Ranchi on Thursday. PTI Photo (PTI12_1_2016_000221A)

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Every individual has a right to open a basic savings bank account (BSBA) in any bank in India for normal banking business as specified by the Reserve Bank of India from time to time. In order to strengthen financial inclusion in India, savings bank accounts opened recently under the Pradhan Mantri Jan-Dhan Yojana (PMJDY) are also treated as BSBA with additional benefits such as insurance cover for life/accident, direct benefit transfer and such other fiscal incentives as decided by the government, besides facilitating normal banking business. In anticipation of fiscal benefit, the possibility of financially well-off customers opening PMJDY accounts

is not ruled out. Moreover, commercial banks sometimes open PMJDY accounts just to meet the target.

Commercial banks seem to have forgotten the BSBA without minimum balance. In order to promote financial inclusion, RBI has specifically advised banks to open 'no-frills' accounts in both urban and rural areas, which are called small accounts (these may or may not be fully KYC-compliant) to undertake limited banking business. As of now, some PMJDY accounts are also not fully KYC-compliant, and are called PMJDY small accounts that attract both deposit and withdrawal restrictions. Some rationalisation is warranted in this area to reduce complexity. Ultimately, all savings bank accounts shall be fully KYC-compliant, including those opened under PMJDY scheme. As linking of all bank accounts to Aadhaar is being pursued vigorously, no bank account shall remain KYC non-compliant in future. Given KYC breach is a serious problem, it is suggested that all KYC non-compliant small accounts may be phased out at the earliest. There was no provision of minimum balance in case of both BSBA and PMJDY accounts. The "minimum balance in any savings account" has been conveniently introduced by commercial banks without the concurrence of depositors. Initially, such minimum balance requirement was of a small amount, say, about Rs 100, but this was hiked to Rs 1,000 by PSU banks. Recently, the minimum balance stipulated by most PSU banks has been raised to Rs 5000, while private sector banks have had such prescriptions for quite some time as decided by their boards.

The minimum balance prescriptions of bank have been silently tolerated by depositors. The time to articulate the need for such balance in savings bank account has come. Bankers argue that transaction costs are higher in savings accounts than in fixed deposits. Nevertheless, they seek such deposits because these are cost-effective. The issue has come to the limelight in the context of many PSU banks raising the minimum balance requirement to Rs 5,000 in the post-demonetisation period. Faced with resistance from savings bank customers, State Bank of India, which had hiked the minimum balance from Rs 1,000 to Rs 5,000, recently reduced it to Rs 3,000.

In the age of fast-changing technology, transaction costs are falling rapidly. At the macro level, banks enjoy large balance in savings accounts, voluntarily maintained by many customers. Depriving savings-bank depositors of term-deposit rates on the minimum balance is not

justifiable in the digital age. Moreover, savings-account holders provide business to commercial banks in many ways like making term-deposits and borrowing from the same bank as and when required due to relationship banking, providing income to banks in the way of merchant discount rate accruals upon using credit/debit cards, etc. Customers do not have access to the minimum balance prescribed by banks throughout the year. Penalty is also imposed if the minimum balance is not maintained. Depositors have every right to ask for term-deposit rates on the minimum balance prescribed by banks.

Banks should not unilaterally increase the minimum balance requirement, at least for the existing customers. New customers should be advised upfront as to what additional benefits they could get from banks if they fulfil the minimum-balance requirement. Providing discretion to banks to promise some service(s) and therefore impose the minimum-balance requirement may lead to litigation. The best way to handle the problem is to price the minimum balance at one-year term-deposit rates. I had proposed earlier in an article in a different newspaper that savings-bank deposits that have a minimum-balance prescription be provided a composite rate of interest. The composite rate shall consist of a variable rate linked to the average inflation rate of the previous quarter for the portion that can be withdrawn and one-year term-deposit rate for the minimum balance stipulated by the bank.

There is a need to refine existing guidelines on savings deposits. RBI may like to issue fresh guidelines on savings bank deposits on the followings lines. First, there should be two types of savings-bank accounts without any minimum balance obligation—BSBA and PMJDY accounts for fiscal incentives. Second, all savings-bank accounts should be KYC compliant, preferably linked to Aadhaar in a time-bound manner. Third, banks should apply due diligence in opening PMJDY accounts meant for fiscal incentives. Fourth, normal banking business should be redefined and this should be available to all account-holders. Fifth, as there is no minimum balance requirement in case of both BSBA and PMJDY accounts, banks cannot charge any penalty for low balance in such accounts. Sixth, banks can prescribe minimum balance for willing customers subject to payment of one-year term-deposit rate on such minimum balance. Seventh, penalty in the case of savings accounts with minimum balance requirement may be agreed upfront by the depositors at the time of opening such accounts. The benefits of the proposed changes are not far to seek. First, transmission of monetary policy shall be faster as savings-bank deposit rates shall be linked to the average inflation rate, a market-based