

SBI's Service Charges Controversy- Whose Money Is It Anyway?

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Introduction

The year 2017-18 has been an eventful year for State Bank of India (SBI), the banking behemoth. In April 2017, five associates of SBI and Bharatiya Mahila Bank got merged into SBI. As on the date of consolidation, the balance sheet of the merged entity was Rs32 trillion. The merged entity had deposits worth Rs26 trillion and nearly Rs18.76 trillion worth advances on its books. This helped SBI to become one of the top 50 banks globally, a development applauded by every Indian.

However, notwithstanding its growing global stature, the Bank still finds itself caught in its tag as a Government-owned bank and its attendant implications.

Background

In March 2017, the then SBI Chairman, Arundhati Bhattacharya, incurred the wrath of political parties after she voiced her reservations about the waiver of farm loans in some states stating that such measures adversely impacted the credit discipline.

About a month later, the bank decided to review its service charges on breach of minimum balance requirements which it had suspended in 2012 to acquire new customers.

The bank had over 400 million savings bank accounts including 130 million of Basic Savings Bank Deposit (BSBD) and Pradhan Mantri Jan—Dhan Yojana (PMJDY) accounts. The Bank found that out of the 270 million normal savings bank accounts, nearly 15—20 per cent accounts did not maintain monthly average balance.

It then announced its decision to re-introduce charges to its saving account holders for non-maintenance of monthly average balance (MAB), after a gap of five years. The Bank also revised charges on other services, including ATMs.

The bank announced that savings bank account holders will be permitted to deposit cash three times a month free of charges and levy Rs. 50 plus service tax on every transaction beyond that.

In case of current account, the levy was as high as Rs. 20,000. It was clarified that the bank had exempted social benefit accounts such as BSBD and PMJDY accounts from maintaining the minimum balance requirement.

Soon after announcing the charges for non-maintenance, the bank gave notices to all those account holders who did not have monthly average balance and asked them to keep the minimum balance in May 2017. When they did not maintain the monthly average balance in May, the Bank went ahead and recovered the charges in June.

Justifying the measure, the banks managing director (national banking group) Rajnish Kumar said that there was a huge cost in maintaining the savings accounts and banks should be allowed to recover some costs. He also mentioned that the Bank had to recoup the expenses incurred in technology. The charges, he pointed out, were still very competitive as compared to other lenders.

Even with regard to minimum balance, SBI's requirement of Rs. 5,000 in metros was the lowest when compared to large private sector banks. For example, the big four private banks—ICICI, HDFC Bank, Kotak and Axis Bank—had a Rs 10,000 minimum balance requirement for regular metro accounts.

The banking regulator, Reserve Bank of India (RBI) mandates that charges for non-maintenance of minimum balance in savings bank accounts be "reasonable and not out of line with the average cost of providing the services".

A comparative chart showing minimum balance requirement and charges levied by various banks, including SBI is furnished in Annexure A.

THE BACKLASH

This decision was met with stiff opposition from politicians, media and citizens alike.

United Forum of Bank Unions (UFBU), an umbrella organization of all banks unions, sought Finance Minister Arun Jaitley's intervention to roll back the hike in charges imposed on customers.

All India Bank Officers Confederation (AIBOC) argued that, on the one hand banks were writing off loans of big corporates and on the other hand they were increasing charges on their customers.

Office-bearers of All-India Bank Employees' Association described as unfair service charges and penalty charges imposed by SBI. They pointed out that initially the rate of interest of savings deposits were reduced and on top of it, banks had increased service and penal services for various types of normal banking services.

The All-Kerala Bank Employees Federation (AKBEF) said the public-sector banks like SBI, which should have been a centre of people-oriented banking service, was going the way of new-generation banks and demanded a roll-back of charges.

In September 2017, even the staff of Reserve Bank of India (RBI) raised the issue of unfair charges levied by SBI, asking the regulator to wake up to ground level reality and take necessary action against such practices.

An enquiry was also made under Right to Information Act (RTI) about the revised service charges collected by SBI. The bank replied to the RTI query and disclosed that it had collected Rs 2.3 billion as penalty from around 390million accounts for not maintaining monthly average balance in the first quarter of the financial year 2018.

These figures fuelled more protests. One reporter opined in a business daily that banks were seeking to amass penalty income to make up for losses in their core lending business.

The government then intervened and asked SBI to reconsider its decision to levy penalty on non-maintenance of minimum balance. It also been asked it to reconsider charges on cash transactions and ATM withdrawals over specified limits.

Responding to the public criticism, the Bank stated that it was reviewing the charges. The MD, SBI was quoted by the press as saying that “the charges are never cast in iron.”

Roll-Back

Bowing to pressure from several quarters, State Bank of India (SBI) reviewed its monthly average balance (MAB) requirement and charges for non-maintenance of MAB. It also decided to exempt from MAB requirement, pensioners, and beneficiaries of social benefits from the government and accounts of minors, in addition to PMJDY accounts and basic savings bank deposits accounts (BSBD).

The Bank further decided to treat the metro and urban centres in the same category and the requirement of MAB in metro centres was reduced from Rs.5, 000to Rs3, 000 per month. For non-maintenance of MAB, SBI revised downward its charges ranging from 20% to 50% across all population groups and categories.

Points for Discussion

1. What factors prompted SBI to initially increase the charges and then soon thereafter, scale them down?
2. In the light of the facts mentioned in the case, discuss the following issues:
 1. Autonomy of SBI & other Public Sector Banks
 2. Role of the Government a) as the stakeholder in SBI & b) as protector of the interest of ordinary citizens
3. What measures should be adopted to promote cash-less economy in India?

References

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Bank	Account type & Minimum Balance(MAB)	MAB Penalty Charges
State Bank Of India	Metro MAB of Rs. 5000 Urban MAB of Rs.3000 Semi-Urban MAB of Rs. 2000 Rural MAB of Rs.1000	Rs.50/- +ST Rs.40/- +ST Rs.25/- +ST Rs.20/- +ST
HDFC Bank	Savings Regular Account	For Urban / Metro branches: AMB* between Rs 5,000 to Rs 10,000 - Rs 250/- per month. AMB less than Rs 5,000 - Rs 350/- per month. Semi urban / Rural: AMB between Rs 2,500 to Rs 5,000 - Rs 250/- per month. AMB less than Rs 2,500 - Rs 350/- per month.
ICICI Bank	1. Regular Savings Account Rs.10,000 in Metro. 2.Semi Urban Rs.5000. 3.rural Rs.2000	1. Rs. 5,000 =< MAB <Rs. 10,000=Rs.250 Per month. MAB <Rs. 5,000=Rs. 350 per month 2.Rs. 2,500 =< MAB <Rs. 5,000. Rs. 250 per month. MAB <Rs. 2,500. Rs. 350 per month. 3. Rs. 1,000 =< MAB <Rs. 2,000. Rs. 250 per month. MAB <Rs. 2,000. Rs. 350 per month.
Kotak Mahindra Bank	1.Edge MAB=Rs.10,000 2.Nova MAB= Rs.5000	1. AMB. <=50% of Rs.10,000 - Rs.450 per month/ For Nova Rs.350. 2.AMB >50% of Rs.350 per month/ For Nova Rs.250 Per month.
PNB Bank	Quarterly Average Balance (QAB) Silver-Rs.100000 Gold-Rs.2,00,000 Diamond-Rs.5,00,000 Platinum-Rs.10,00,000	Non Maintenance of QAB Charges Silver-Rs.500 Gold-Rs.1000 Diamond-Rs.2000 Platinum-Rs.4000
Canara Bank	1.Urban-MAB Rs.1000 2.Rural-MAB Rs.500	1.Rs.40+S.T 2.Rs.20+S.T
Union Bank	Urban-500 Rural-100	Rs.75 Rs.75
Axis Bank	1.Metro/urban-AMB= Rs.10000 2.Semi-urban- AMB= Rs.5000 3.Rural AMB= Rs.2500	1.Rs. 350 2.Rs.250 3.Rs.250
Bank Baroda	Of 1. Rural / Semi-Urban- QAB- Rs.500 2. Urban / Metro- QAB - Rs.1000	Rural / Semi-Urban Rs. 100/- per quarter Urban / Metro Rs. 200 per quarter. Rural/Semi-Urban QAB range: 250- 499- 50%

Bank	Account type & Minimum Balance(MAB)	MAB Penalty Charges		
		100-249-		80%
		Below	100-	100%
		Metro/Urban	QAB	range:
		500-	999-	50%
		250-499-		80%
		Below 250-	100%	

Source: Web-sites of various banks

*AMB= Average Monthly Balance