

Preventing Banking Companies to
Levy Service Charges on Small Deposits

Report No. 89

PREVENTING BANKING COMPANIES TO LEVY SERVICE CHARGES ON SMALL DEPOSITS.

It was brought into the notice of the Commission on 20.8.2005 by placing enclosed working paper (annex) before the Commission that the State Bank of Pakistan has issued a Circular to the Banks permitting them to deduct a fixed amount monthly from the accounts of account holders of the banks where their deposits fall short of rupees five thousand at any time, which is unjust and unfair to the small accounts holders. The accounts of Government employees, students and Mustahiqeen Zakat are exempted from such deductions. The banks also arbitrarily deduct a certain amount from the accounts holders at the time of closing of the account. The banks have also fixed arbitrary rates of profit and after deduction of administrative expenditures and other charges, they pass a very small profit to the account holders. The Commission resolved that the above permission granted to the banks by the State Bank of Pakistan, therefore, comments of the State Bank of Pakistan may be invited on the issue for consideration of the Commission.

Pursuant to the direction of the Commission, the State Bank of Pakistan was requested to offer their comments on the following practices followed by various scheduled banks in Pakistan vide Law & Justice Commission letter dated 5.9.2005:-

1. Banks charging a fixed amount monthly from the accounts of the account holders where their deposits fall short of Rs.5000 at anytime.
2. Banks charging/deducting amount from account holders at time of closing their accounts.
3. The banks pass very small amount of profits to account holders after deduction of administrative expenses and other charges fixed arbitrarily.

The State Bank of Pakistan, vide their letter dated 1st October, 2005 offered their comments as follows:-

- i) Instructions regarding account operations were reviewed vide BPD Circular No.23 of 2003 (amended BPD Circular letter No.2 of 2005) wherein banks have been allowed to levy service charges on all types of PLS deposits provided these charges are indicated in their half yearly schedule of charges. However in order to accommodate the needy sections of the society, the following categories of accounts have been exempted from the levy of service charges: (i) Students, (ii) Mustahiqeen of Zakat, (iii) Employees of Government/Semi Government institutions for salary and pension purposes including windows/children of deceased employees eligible for family pension/benevolent fund grant etc. The decision was taken in the background that it is a worldwide phenomenon that banks are being run on commercial consideration (more than 80% of banking sector is in private sector) and that the transactions are undertaken on

cost/benefit basis. It is up to the management of a bank to decide about the charges to be recovered from their account holders/clients (including charges at the closing of accounts) keeping in view the business proposition. Depriving of banks from recovering such charges is not appropriate as the same may affect their profitability. Banks in this regard have been advised to improve their service standards commensurate with the service charges levied by them. However, it may also be noted that there are a number of banks like Bank Al-Habib, Sonehri Bank, PICIC Commercial Bank, etc which do not charge on minimum balance and have a reasonable branch network and are easily accessible. It may also be noted that the customer has always a choice to shop around and choose a bank which suits his/her budget.

- ii) It is, however, mandatory for the banks to fix its rates of charges on half yearly basis in advance for the half year January-June and July-December. Each bank is required to get its schedule of charges printed and so notified as to be available to its constituents at least 7 days before the commencement of the half year during which the rates shall remain in force.
- iii) Under section-26A of BCO-1962, deposit of money may be accepted by a banking company on participation in profit and loss of the banking company or free of interest or return in any form. State Bank has done away any directions in this regard. In terms of BPD Circular No.20 of 2003, banks/DFIs determine on their own the returns payable to investors and other depositors of funds. Banks/DFIs are required to obtain a certificate from their external auditors within five months of the close of their half year ending June/December each year, and keep it in their record to be inspected by the SBP's inspection teams. Further banks/DFIs are required to ensure that returns on investment/deposits are declared and paid within 20 days of closing of half year to which they relate.
- iv) It may not be out of place to mention that State Bank is the sole regulatory authority for banks and DFIs and acts in accordance with the powers vested in it under State Bank Act, 1956, Banking Companies Ordinance, 1962 and other relevant laws.

In view of the position explained by the State Bank of Pakistan, it reflects that the schedule banks are deducting the charges on the basis of the State Bank's approval. The State Bank is also of the view that there are many banks, like Bank Al-Habib, Sonehri Bank, PICIC Commercial Banks etc which do not charge on minimum balance and have a reasonable branch network and are easily accessible. This contention of the State Bank do not provide a suitable solution to the problem. As in many villages and cities, the branches of these banks are not available and large numbers of people have no access to these banks. There should be uniformity regarding charges of all banks. As these charges are arbitrarily deducted from the low saving accounts, therefore, the policy of the State Bank is absolutely contrary to the public policy. However, the State

Bank of Pakistan through circular No.30 dated 29th November, 2005 introduces the Basic Banking Account (BBA) to facilitate the consumers to some extent with the following conditions:-

- Minimum initial deposit of PKR 1000/-
- Non-remunerative local currency current account
- No limit on minimum balance (Basic Banking Accounts will be closed if the balance in the account stays NIL for months)
- No fee for maintaining BBA
- In a month, maximum 2 deposits transaction, 2 withdrawal through cheques (cash/clearing) are allowed free of charge
- Unlimited/free of charge cash withdrawals
- Annual statement of accounts
- All other banking services are subject to charges as per the Bank's Schedule of Charges. Existing relationships are eligible to convert their accounts into a BBA facility.

The Commission may consider the above views of the State Bank of Pakistan and issue direction to the Finance Division to advise the State Bank to revise this policy to save the poor account holders from mental agony and financial loss by deducting such uncalled for charges from the accounts.

Commission's deliberation on 10.06.2006

The working paper was considered by the Commission in its meeting held on 10.6.2006 and the following are the deliberations:-

The Commission considered the levy of service charges on deposit of small account holders by the commercial banks. The Secretary read out the comments of the State Bank of Pakistan called vide Commission's directions in a meeting in the past. The Chairman expressed that these service charges are a sort of imposition of tax upon deposits of small account holders who generally belong to the poor segments of society and cannot keep consistently an amount of Rs. 5000/- in their accounts. The Commission further observed that the State Bank has given an open hand to the commercial banks to charge whatever they like from the accounts of the small deposit holders i.e. from Rs. 50/- to 300/- on monthly basis which could consume whole the savings of the poor depositors when the big account holders are exempted from such charges and it is clear discrimination to the small account holders. The Commission observed that the State Bank of Pakistan may direct the commercial banks to not to recover the service charges from the small account holder which generally belong to labourers and farmers particularly of the rural areas and treat them equal to big account holder having deposits above Rs. 5000/-. The Commission further directed that the deduction of specified amount from deposits at the time of closing of account is also unfair. Further, that the method of fixing profit on deposits, after deducting expenditure/

administrative charges, in an arbitrary way is also unfair to the general public who are thus deprived of their due share of profit. With these observations, the Commission directed that this recommendation may be sent to the Ministry of Finance for implementation by directing the State Bank of Pakistan to carry out the recommendation of the Commission in letter and spirit.