



भारतीय रिजर्व बैंक
RESERVE BANK OF INDIA
www.rbi.org.in

RBI/2013-14/292

DBS.CO.PPD No. 3578 /11.01.005/2013-14

September 17, 2013

The Chairman/Chief Executive
All Scheduled Commercial Banks (Excluding RRBs) / Local Area Banks

Madam/Dear Sir,

Pernicious practices of select banks deterring customer protection and accounting integrity

Please refer to our circular DBS.CO.PPD No. 17882/11.01.005/2012-13 dated June 19, 2013, wherein we had observed certain disquieting features in certain practices/products prevalent/ offered by some of the banks. We had solicited your comments in this regard as these were found to be impinging on customer protection, accounting integrity and thereby the fair market practices which banks should epitomize. The issues and the banks' contentions have been examined at length and our instructions are detailed below.

2. Subvention on price/moratorium for payment offered by dealers/manufactures – Subventions/Discounts on price or moratorium period for payment are often offered by the dealers or manufacturers on their products to the customers while they make the purchase by availing loans from banks. In such instances, it is the responsibility of the banks, who are/may be using their good offices to get the better bargain, to make the customers fully aware of these benefits and also pass on the benefits to them **fully and indiscriminately** while sanctioning loan for the purchase. More importantly, this has to be done directly without tampering with the applicable rate of interest (RoI) of the product. If there is a discount offered in the price of a product, the loan amount sanctioned for the purchase should be after taking into account the discount, rather than giving effect to the benefit by reducing the RoI. Similarly, if there is a moratorium period for payment available, the benefit should be passed on to the customer by ensuring that repayment schedule, including the interest servicing, commence after the moratorium period only rather than adjusting it in the RoI. Thus in principle, banks should not resort to any practice

बैंकिंग पर्यवेक्षण विभाग, केंद्रीय कार्यालय, वर्ल्ड ट्रेड सेंटर, कफ परेड, कोलाबा, मुम्बई- 400 005
टेलिफोन : (022) 2218 9131-39 फैक्स : 022 2218 6912 e-mail- cgmicsbsco@rbi.org.in

Department of Banking Supervision, Central Office, World Trade Centre 1, Cuffe Parade, Colaba, Mumbai - 400 005, India

Tele: (022) 2218 9131-39 Fax: 022 2218 6912 e-mail: cgmicsbsco@rbi.org.in

Caution: RBI never sends mails, SMSs or makes calls asking for personal information like bank account details, passwords, etc. It never keeps or offers funds to anyone. Please do not respond in any manner to such offers.

that would distort the interest rate structure of a product as this vitiates the transparency in pricing mechanism which is very important for the customer to take informed decision.

3. Zero percent loans/pricing of product as per the sourcing channel- In the zero percent EMI schemes offered on credit card outstandings, the interest element is often camouflaged and passed on to customer in the form of processing fee. Similarly, some banks were loading the expenses incurred in sourcing the loan (viz DSA commission) in the applicable Rol charged on the product. Since the very concept of zero percent interest is non-existent and fair practice demands that the processing charge and Rol charged should be kept uniform product/segment wise, irrespective of the sourcing channel, such schemes only serve the purpose of alluring and exploiting the vulnerable customers. The only factor that can justify differential Rol for the same product, tenor being the same, is the risk rating of the customer, which may not be applicable in case of retail products where the Rol is generally kept flat and is indifferent to the customer risk profile.

4. Levying fees on debit card transactions by merchants- There are instances where merchant establishments levy fee as a percentage of the transaction value as charges on customers who are making payments for purchase of goods and services through debit cards. Such fee are not justifiable and are not permissible as per the bilateral agreement between the acquiring bank and the merchants and therefore calls for termination of the relationship of the bank with such establishments.

5. Though many banks have appreciated our concerns and have discontinued with the above mentioned practices/ products, some of them still seem to persist with them. These practices/ products thwart the very principle of fair and transparent pricing of products which beholds customer rights and customer protection, especially, in the more vulnerable retail segment. Such practices thus violate, both in letter and spirit, various provisions of our MC on Interest Rate on Advances and therefore, you are advised to strictly desist from these practices hence forth.

6. Please acknowledge receipt.

Yours faithfully,

(G Jaganmohan Rao)
Principal Chief General Manager