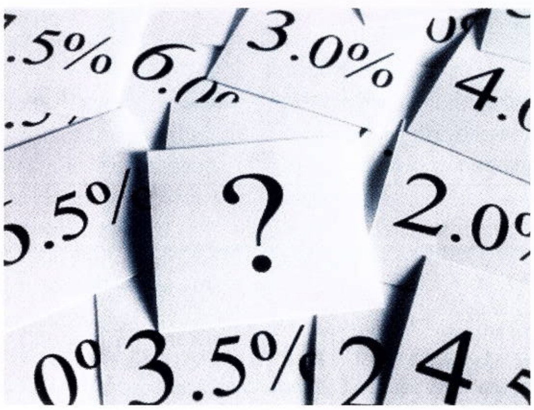
RETAIL BANKING

Not in Your Interest

Will RBI look at some of these banking practices?

There is a variety of anti-consumer banking practices that the Reserve Bank of India (RBI) must address. For instance, banks gleefully charge BPLR (benchmark prime lending rate)-linked interest rate to their borrowers, every time the RBI hikes the bank rate. And yet, they do not offer a BPLR-linked fixed deposit (FD) interest to their depositors. In other words, while your borrowing will be mostly at variable interest rates, your FD will fetch only a fixed rate. No wonder, while your home loan or vehicle loan availed three years ago at 11% may be costing you 14% or higher today, your FD continues to fetch only a fixed return of, say, 8.5%.



Why this asymmetry? Shouldn't the same logic that works in favour of banks—to have the option between lending at variable or fixed rate—hold equally for depositors? Of course, in theory, by keeping the FD rates fixed, banks also run a risk—the risk that if the bank rate were to fall steeply, they will be stuck with having to pay relatively high FD rates. But this is a rare occurrence. That's why most banks prefer to lend variable, but borrow fixed. RBI needs to apply itself to the issue because, on their own, banks are not going to address an issue which would not work in their favour. RBI ought not to make the taxpayers subsidise banks at their personal cost.

RBI also needs to worry about several other customer-unfriendly and questionable practices of banks. It needs to be concerned about what is going on in the banking industry in the name of relationship banking. For example, how is a bank branch manager qualified to advise a customer on investments? Examples of such branch managers, cross-selling their group's shady insurance and mutual funds to innocent customers are well known.

Here is a sample case. A former school teacher, making a living by selling her paintings, wanted to deposit her hard-earned savings, some Rs17 lakh in the FD of a private bank. The branch manager tried to convince her that if she placed her money in equity funds (which the bank would facilitate, of course), her returns would be higher, and dividend income would be tax-free. The teacher made it clear that she wished to take no risk and was perfectly happy paying her taxes. She also mentioned that she needed the money in 18 months as she planned to construct a house.

The manager assured her that there was nothing to worry about; her risk profile will be taken into account while investing. He administered a questionnaire to her, which placed her at low risk-acceptance category, with an indicative equity investment of not more than 17% of her total investments. Even at this stage, the teacher reiterated her financial illiteracy and repeated that she would need her money in 18 months and that she preferred parking her money in FDs. But the manager convinced her that all her interests would be well-addressed, to her advantage, and, before she knew it, had invested 60% of her funds in equity-linked mutual funds on which the bank earned a hefty commission, no doubt! This, when the bank's own policies state that equity investment should be recommended only for clients with a holding period upwards of two years and not more than 17% should be invested in equity. For this disservice, she was charged Rs31,000 in commission! And when she needed her money, the market had crashed, losing her about Rs3 lakh in market value—a loss she could ill afford.

Thanks to the lady's brother, a savvy businessman, she managed to fight her case and the bank offered to settle the matter by making a lump-sum payment, thus mitigating her losses somewhat.

Should the RBI audit of banks also include some feedback from a sample of banks' clients?

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