

May 27, 2011

State Bank debars banks from levying any service charges for opening & maintenance of savings accounts

The State Bank of Pakistan has decided to prohibit all the banks from levying any service charges for opening and maintenance of regular savings accounts with effect from July 01, 2011.

'The services rendered by banks for the opening and maintenance of regular savings accounts shall be free of charge. There shall be no condition of maintaining a minimum balance for these accounts. These instructions are applicable equally on all existing and new accounts. Similarly, no charges would be recovered by banks at the time of closing an account', says BPRD Circular No.07 of May 27, 2011.

Banks shall not demand more than Rs. 100/- as an initial amount for opening of regular savings accounts. However, no initial deposit would be required for opening of accounts by (i) *Mustahkeen* of Zakat, (ii) Students, (iii) Employees of Government or Semi Government institutions for salary and pension purposes (including widows/children of deceased employees eligible for family pension/benevolent fund grant, etc.) and other similar types of accounts, the Circular said.

It added that the banks shall ensure that all terms and conditions for the operation of an account, especially in case of its dormancy, closing and/or subsequent reactivation are brought into the knowledge of the customer at the time of account opening. The terms and conditions shall be clearly documented in the Account Opening Form/Application and must be signed by the account holders, to signify that they have been read and understood. A copy of the Account Opening Form must be provided to the account holders duly verified by the authorized official(s) of the branch with proper record of acknowledgement. Any ambiguity in the terms and conditions mentioned in the Account Opening Form shall be construed to be in favor of the account holders.

Key features of the Account Opening Form shall be translated into Urdu and a printed copy of such translation shall be shared with the account holders at the time of opening of the account, the Circular said and added that the banks shall not refuse opening of accounts for prospective clients who meet the requirements laid out in the Prudential Regulations, other instructions issued by SBP from time to time and banks' own policies. Moreover, the banks shall pay profit invariably on "Profit and Loss Sharing (PLS) Accounts" without any condition of minimum balance in accordance with instructions issued by SBP from time to time.

The State Bank has also advised the banks to develop appropriate products for attracting deposits and encouraging savings. 'They shall make concrete efforts to provide

maximum facilities in a friendly manner, to both existing and the potential customers/account holders for convenient/smooth operations of their accounts. Proper training may also be imparted to the concerned officials for improvement in the service delivery standards', the Circular said.

According to the Circular, the banks shall also facilitate those Basic Banking Accounts (BBA) account holders who desire to convert their accounts from BBA to regular saving accounts.

'Banks shall ensure compliance with the above instructions as non-compliance and circumvention of instructions shall be dealt in accordance with the relevant provisions of law', the Circular added.

It may be recalled that BPD Circular No.23 dated July 4, 2003 and subsequent instructions issued by the State Bank from time to time have allowed the banks to recover service charges on deposit accounts commensurate with the services provided by them. Subsequently, SBP took a number of initiatives such as introduction of the Basic Banking Accounts (BBA), liberalization of Branch Licensing Policy, fixation of maximum limit on service charges at Rs. 50/per month, exemption of Salary and Zakat Accounts from service charges, introduction of Branchless Banking and encouraging the establishment of Microfinance Banks, with the objective of promoting savings and improving financial inclusion.

However, it has been observed that in recent years the number of account holders, in particular the number of small depositors, has declined despite an increase in the number of bank branches. Among other factors, the levy of service charges on deposit accounts was considered to be one of the main reasons for this trend.

With a view to arresting this situation as well as to encouraging documented transactions and increasing financial outreach, the State Bank has issued the new instructions for the opening, maintenance and closing etc. of all types of bank accounts, except the Special Deposit Accounts wherein banks offer added services to its customers/account holders under Section 41 of Banking Companies Ordinance 1962 which would be applicable from July 01, 2011.

The above instructions supersede the instructions issued vide BPD Circular No.23 dated July 4, 2003 and BPD Circular letter No.02 dated January 7, 2005, says BPRD Circular No. 07 issued to all banks today.

