SunTec

How Minimum Balance Requirements can Benefit Banks and Customers?

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In December 2021, the Reserve Bank of India (RBI) levied an INR 30 lakh penalty against a leading private bank in the country for not complying with RBI's directive on levying of penal charges on non-maintenance of minimum balances in savings bank accounts. Minimum balance requirements imposed by banks have long been viewed with displeasure by most customers. But as this move by the RBI indicates, this is a regulatory requirement and non-compliance can have serious consequences. Banks must comply with regulations even as they ensure customers are not inconvenienced and their social responsibility isn't compromised.

Understanding the Importance of Minimum Balance and Penalties

Most banks across the world have minimum balance requirements that customers must commit to when opening their accounts. As the name suggests, this is a minimum amount of money that must be maintained in an account for the customer to avoid penalty, and avail of benefits like better interest rates. This balance is required for banks to cover the cost of operations.

After all, banks are businesses and must bear overhead costs, manage branches, maintain accounts, deliver customer service and much more. These expenses are easier to manage when minimum balances are maintained. More importantly, banks need to sustain a certain threshold of deposits to lend money and keep up with regulation bound financial ratio requirements.

Regulatory Push Leading to Changing Minimum Balance Strategies

When customers fail to maintain the minimum required balance, most banks deduct the penalty from money coming into the account. Understandably this leaves customers unhappy and raises several ethical questions. For example, recently, an Indian coir worker's government sanctioned welfare pension was taken by the bank as their fall below balance fee, leaving the customer with a tiny fraction of the money.

For people surviving off their welfare pay-outs, this is a significant concern and raises a bigger question of the banking sector's social responsibility. Regulatory bodies have stepped in to make the process more transparent and less of a burden for account holders. From mandatory communication to exempting certain welfare accounts from fall below balance fees, there are several regulations in place to protect the interests of customers. And banks are finetuning their strategies to ensure minimum inconvenience. Some banks like Mashreq and HDFC are offering waivers based on length and value of the relationship. Others like Kotak Mahindra Bank and IDFC are tightening their communication strategies and deferring the penalty timeframe to give customers the time to make up the gap.

The Potential of Data Driven Processes

The real value of the fall below balance penalty regulations and new strategies lies in the data it involves. By analyzing accounts to understand balance, deposit, and withdrawal patterns, banks can gain a deeper understanding of their customers. In fact, every stakeholder in the bank benefits from this data. The relationship manager can track each customer's banking history and can engage better with them with customized offers. The product manager can ensure maintenance cost of each product, understand how different customer segments are performing, design better products based on the insights on customer commitment and ensure responsible and inclusive banking.

The finance manager can ensure uninterrupted cash flow and focus on increasing lending. The customer too benefits from this approach as it is transparent, open and process-driven. Most banks have different penalties and terms of minimum balance for urban and rural customers and even for different income groups. Such processes will only make banking more affordable and accessible for larger populations. Additionally, a renewed focus on socially responsible banking ensures that vulnerable populations dependent on welfare schemes will be protected from arbitrary penalties.

Automating Balance Maintenance and Penalties

Banks need a robust technology platform that can monitor and manage minimum balance requirements and handle the penalty communication and levy process. The platform must be able to calculate the fall below balance fee based on factors like the commitment definition, the absolute or percentage of shortfall. It must be capable of evaluating the commitment definition using dynamic rule-based models to calculate the fee. And it must be able to send out alerts and notifications on the balance status before the penalty is levied.

Such technology-driven automated processes can help drive a new era of data-driven strategies. Banks will be able to better gauge customer behavior patterns based on their balance history. They can sharpen their customer classification and segmentation to offer dynamic relationship-based pricing models. Intuitive dashboards will help banks quickly access and analyze customer data for hyper-personalization strategies.

Minimum account balance are regulatory requirements in most countries as they have a significant bearing on lending activities and a bank's overall profitability. The good news is that regulatory bodies today are actively working to create frameworks and policies that prioritize customer and social benefit. As a result, banks are also redefining their processes and systems. With a robust technology platform in place, they can ensure minimum balances are maintained without inconveniencing customers. And the data-driven approach can help them fine tune their customer-centric strategies as well.