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20th February 2013

Dr D V Subbarao
Governor
Reserve Bank of India
Mumbai.

Sub: Plans to 'Disincentivise' usage and issuance of cheques need to be scrapped immediately

Dear Dr Subba Rao

I am writing on behalf of 20,500+ members of Moneylife Foundation, a not-for-profit organisation representing India's largest group of savers. All our members will be affected by the punitive proposals contained in the discussion paper on 'Disincentivising Usage and Issuance of Cheques' to move towards a "less cash" system that was released for public discussion on 31st January 2013.

Sir, we would like to submit that any move to 'encourage' the use of internet-banking or cash-less-cheque less transactions will be welcomed by Moneylife Foundation's membership. However, we strongly and unequivocally oppose any move to curtail the use of cheques through the levy of punitive charges as proposed in the above-mentioned report.

Given the low penetration of Internet usage, or e-literacy even among otherwise literate persons and the hardship that it would cause to senior citizens, the entire report, in our opinion is premature, ill conceived, impractical and hugely detrimental to the interests of consumers and must be rejected forthwith in its entirety.

Worse, the charges, which are meant to act as a 'disincentive' lead to undeserved enrichment of banks at the cost of their customers, with the sanction of the RBI. We hope that this cannot be the intention of the RBI, whose mandate is to work for the benefit of all stakeholders.

Please allow us to spell out our concerns in detail. But before we do that, we would like to question the claim that the recommendations of the report are 'based on inputs received during consultations with stakeholders'. We find that the standard practice of providing details of those whose views were sought has not been followed and can only conclude that RBI's discussions were limited to banks and not the users of banking services.

In fact, the paper itself agrees that steps to encourage electronic transactions, including the elimination of charges on these transactions must first be removed, before moving to disincentives. Further, government departments such as the Income Tax department do not fully understand electronic payment systems and many members of parliament do not even recognise terms such as NEFT or RTGS.

Our comments on the discussion paper:

Punitive charges will only create a flight to more cash usage in India: Despite automation and modernisation of banking systems, the presence of a large parallel economy, political patronage and other systemic issues, India still uses too much cash. In most developed countries, the proportion of cash transactions to the GDP is just 1%, but in India, it is 5%. Indians, barring the urban segment between the ages of 25 and 35 years, are averse to moving away from cash. This is evident from the inability of the RBI to get the 120 million new customers in un-banked areas to use their bank accounts even once (as mentioned by Dr K C Chakrabarty). Finance minister P Chidambaram recently acknowledged that "too many questions" relating to Know Your Customer (KYC) norms and "too many regulations" were frightening investors away. This is true of banks as well. Opening a bank account now takes weeks and persons in transferable jobs suffer endless harassment and are often forced to use cash. The fear that people may simply revert to cash transactions is also acknowledged in the discussion paper (paragraph one in 'Avoid slippages to cash transactions' on page 14), where it notes that its plan "gives rise to the real worry that if cheque usage is actively discouraged, it would have a negative impact by re-directing these payments to cash-mode". In this situation, persons who use cashless modes of payment, such as cheques, credit and debit cards or electronic payments systems must be positively encouraged. We are a long way from a situation where we can push people into using electronic transfers by imposing punitive charges.

Low level of accessibility: A significant portion of India's population has little access or exposure to computers and smartphones. Only 10% of the Indian population uses the Internet, as compared to 80% of the US population; rural and semi-urban India does not even have 24x7 electricity, let along the ability to access e-payment systems. In 'Reasons for cheque usage' (Para 2, pg 4), the discussion paper itself says, "low levels of accessibility and awareness of electronic payment systems hamper adoption of e-payment systems". How then is it proposal of imposing cost and charges on all Indians who use cheques justified? Isn't it sheer harassment?

Scrapped in the UK: Under intense criticism from the public, charities and Members of Parliament (MPs) the United Kingdom was forced to reject a proposal by its Payment Council to switch completely to e-payment by 2018. A key reason for scrapping the idea was that it had failed to consider the effect on those who remain less at ease with technology, including the elderly and the infirm. In India, this problem is significantly worse. Our literacy rate is low, we have 22 official languages, despite the fact that banks tend to operate only in English, per capita income is tiny as compared to the UK and we have a larger problem of having to get hundreds of million unbanked people to use even basic banking services. To curtail the usage of cheques, especially when financial inclusion seems so essential, would only drive them away from the banking system.

Grievance redress system needs fixing: Before demanding a mandatory switch to e-payment systems there is an urgent need to create a robust, time-bound grievance redress system to deal with technology-based issues. This does not exist today. Banks themselves are struggling to cope with phishing and vishing and the process to determine system failures or deal with e-theft is vague and rudimentary. This is clear from several recent incidents. In the middle of December 2012, scores of credit card users found their accounts debited in transactions that took place overseas. It was only in February that a *The Times of India* report revealed that this was part of a serious global fraud originating in India involving cloning of cards. The victims spent at least two months running helter-skelter for a solution. In another case, an account in a Mumbai bank was hacked and Rs1 crore transferred to 12 accounts. In both cases, depositors who lost money are clueless about what to do. Many banks did not even follow the practice of restoring the credit pending inquiry and investigation. Apparently, there was a breach in the real-time gross settlement (RTGS) payment system. The discussion paper does propose a redressal system ('Dispute resolution and complaints redressal', Page 15), but it merely touches upon the need for paper receipts and confirmatory messages. A stronger system that actually gives consumers a solution must be put in place urgently -- in fact, even before encouraging greater usage of electronic fund transfers.

Incentivise e-payment: The Damodaran Committee on Customer Services in Banks was a high-powered body set up by the RBI. The report (B6 – Moving Towards Paperless Fund Transfers) states the following: 'Customers may be encouraged and given incentives to reduce cheque-based transfers and migrate to other channels of fund transfers like national electronic fund transfer (NEFT), RTGS, ECS (debit/credit), Internet banking and mobile banking.' We believe that a number of initiatives can be undertaken to encourage customers to make the switch to paperless transfers.

BSNL and MTNL, for example, the two leading public sector telecom companies, have, for the last several years, given a 1% discount to those who pay their telephone bills through ECS. Public sector banks could similarly play a pro-active role in persuading utility companies banking with them to offer a discount if the bills are collected through the ECS system. The RBI could encourage banks to offer tangible incentives to customers for using e-payment systems. This could be in the form of cash-back on debit cards or through reward points. If the banks can convert their customers from cheque users to users of e-payment systems, they benefit from lower staff cost, lesser cost of stationery and cheque leaves and fewer frauds in cheque usage.

We are surprised that this suggestion has been ignored and another committee set up to line up punitive disincentives such as curtailing or stopping the issue of free cheque books, restricting cheque drop boxes to bank branches, levying 'heavy convenience charges' for paying credit card dues by cash or cheque, prescribing an upper limit on cheque issuance by individuals, stipulating charges on higher denomination cheques, imposing a processing charge on dividend and interest received by cheque, and slapping a charge on cash deposits and withdrawals through ATMs. We are surprised that the RBI has set up this committee to 'disincentivise' cheque usage when the Damodaran Committee is so clear an unequivocal in its views. We also find it strange that there is no mention of the Damodaran Committee's views, although it was set up as a high power group on customer issues after a long interregnum.

Education of consumers: In our humble opinion the RBI needs to start a process of engagement and discussion with consumers of financial services or their representative groups in order to understand issues faced by them, such as quality of infrastructure for electronic transactions across the country and level of comfort with using ATMs, direct debit of equated monthly instalments (EMIs), ECS as well as credit and debit cards. Awareness about these systems is severely lacking. It is also worth a mention that NEFT and RTGS systems ensure instant transfer of funds, but has not reduced paper-work to effect the transfer. This too needs to be examined to understand real cost implications. The single ongoing initiative, e-banking awareness and training (e-BAAT) is hardly widespread enough to educate all account holders. The discussion paper itself says that the proposals should be 'preceded by conduct of structured research and concerted efforts at customer education' ([h] in 'Individuals as cheque users' on Page 18). Yet, shockingly enough, the report suggests that some of the proposals could be implemented by April 2013 ('Setting of Targets for Implementation' on Page 15). This seems contradictory and suggests inadequate understanding of issues involved.

Accurate customer records The discussion paper makes no mention of the need to maintain accurate customer records when electronic transactions are used. *Moneylife's* investigation into credit bureaus showed that even large private and foreign banks using the best technology have not bothered to clean and standardise customer information across their product and service offerings. We also believe that the situation with nationalised and cooperative banks is much worse. All the Credit Information Companies (CICs) will attest to this finding. In our opinion, until accurate customer records are available, the push toward e-payment can only lead to a sharp increase in consumer complaints and needless harassment of hapless entities.

Restricts small traders: Of all the segments, the proposal to curtail the usage of cheques would perhaps affect small businessmen and traders the most. These businessmen carry out their businesses successfully by using cheque leaves as security for taking delivery of goods and/or selling their products on credit. Moreover, cheque leaves come handy for running their business during weekends or prolonged bank holidays, as they can take delivery of goods by tendering cheques, which keeps the supply side of essential goods running for the benefit of common people who depend on traders for their daily needs. Any restriction on usage of cheques will, therefore, be not only detrimental to their interest, but a great blow to their livelihood as well. We believe that it is not in the interest of a majority of our people to create such artificial barriers in the smooth running of their business and trade.

Given all of the above, we believe that the report on creating disincentives needs to be scrapped immediately and a new committee must be set up to figure out ways of incentivising the usage of e-payment systems. This group must comprise all stakeholders such as companies and service providers, consumers and experts in online transactions and sales. We have attached a sprinkling of reactions to our articles on the RBI report, in order to provide you with a flavour of public opinion with regard to this misguided report.

Our views may appear strongly worded, but are in fact a toned down version of the outrage expressed by many bank depositors. You would notice that Dr Prakash Herbalkar, ex- MD of Tata Unisys does not use e–transfers. Moneylife Foundation will be happy to provide any further information or cooperation required by the RBI to create better systems that allow safety and ease of usage of banking services.

Comments from our members/readers

1. **Kamal Baid** I have had an account in the name of K S Baid & Sons (HUF) in Union Bank of India, Princess Street Branch, Mumbai 400-002, for the past 20 years. I have already applied for net banking and received the password. The bank debited Rs250 for providing me with this facility, only to later tell me that HUFs are eligible for net banking for tax payment only. I have already sent so many letters to Union Bank but I have not received any reply from them.

2. **Rajaram Bojjitri (former CMD Konkan Railway Corporation)** This is not advisable. Even educated people in Hyderabad do not have Internet access or even a computer at home. They live their lives going physically to bill payment centres and issue cheques for everything.

3. **Arun Gogte** Does the government think that all bank customers are so literate that they can handle NEFT/RTGS and net banking? Think of the common man who is not even familiar with the ATM pin/password and so on. The number of such customers is large. It's absurd that the government is asking them to use net banking. Will the common man be considered? Why this hi-fi nonsense?

4. **Steven D'souza** Our systems are struggling to extend existing banking to all, our banks need three months more just to shift to safer cheque clearing system. I have 21 years experience in civil service, including finance and revenue; this experience tells me that we need decades to even streamline the existing system, forget the pipedream of an online banking system used by just 5% of our population today. If wishes were horses, some daydreamers at RBI would ride.

5. **Davesh Bansal** Come down to the ground. Ask planners to visit the real India for at least six months by public transport and then decide.

6. **Amalaraj Marian Madam** Moneylife always brings to light the real issues that are ailing the financial sector today. A loud and clear message to all regulators must be "Sirs, only 20-30% of India is literate in a real sense. The next 20-30% can barely manage to read and write to carry on their daily activities. The remainder are poor souls who aren't looked after by anyone. Each regulator is looking after their cronies and ensuring that their political bosses benefit. This is the reason for the crazy ideas we are seeing rolled out every day.

7. **Dr Prakash Hebalkar** While electronic transfers are good for bulk payment and for bill payment to payees registered under a separate secure process, individual transfers are fraught with risk. There are numerous stories in the press about unauthorised transfers and duplicate transfers owing to software glitches. This has happened to me twice and I had trouble getting my money refunded. So I stopped using e-transfers.

8. **Babubhai Vaghela (Sr IT consultant)** It is absurd that the RBI is so keen on such a move, particularly when Dr Manmohan Singh is dead against using NEFT in making payment for RTI applications. The RBI, with this move, is doing nothing but victimising the crores of already harassed citizens and giving benefits to banks.

9. **Mani Ram Sharma** The idea of the RBI is groundless in the Indian context, as there are only 10% Internet users in India, while 80% of US citizens have access to the Internet.

10. **Mohan Siroya – Consumer Activist:** Most of the Indian Media has kept a stoic silence on the arbitrariness of the order to scrap cheques. The news that a developed country like the UK had scrapped the idea is completely hidden from us. I have said umpteen times that the RBI is a toothless, pro-bank and pro-bureaucracy regulator. Perhaps this is how the government prefers it. RBI has become even weirder, deliberately ignoring the Indian realities. Abolishing or levying unnecessary charges on use of cheques will spell doom for all and harass senior citizens and the lower strata. When seniors need to draw cash from an ATM, they ask their friends to help out. Do you think they will be able to manage with e-transactions? Let the government first ensure its people are able to use this system or provide computers to all.

Many thanks for your kind attention. A line of acknowledgement from your office would be appreciated. A soft copy of the report is also being emailed to chequeusage@rbi.org.in as mentioned in the press note issued by RBI.

Yours truly,

Sucheta Dalal,
Trustee Moneylife Foundation

Debashis Basu
Trustee, Moneylife Foundation