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Moneylife Foundation

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17th January 2014

Dr. Raghuram Rajan
Governor
Reserve Bank of India
Fort, Mumbai.

Dear Dr. Raghuram Rajan

Sub: Revision in the charges for usage of ATMs proposed by the Indian Banks Association.

Greetings.

We are writing to you as trustees of Moneylife Foundation, the voice of Indian savers with around 28,000 members. We are disturbed to note from the media reports that the Indian Banks Association (IBA), on behalf of the commercial banks, has requested you to modify your guidelines with regard to charges levied by banks for usage of ATMs, without any rhyme or reason to the distinct disadvantage of bank depositors, who, unfortunately, have no voice in deciding the charges levied by banks in our country.

We wish to submit this memorandum to you on behalf of millions of bank depositors of our country that this demand from the IBA is neither fair nor equitable because banks are not only making no attempt to use technology to reduce costs and make banking safer for bank customers, but are making it more expensive and risky.

Moneylife Foundation is a not-for profit organization dedicated to the cause of spreading financial literacy. We have a membership of almost 28,000 members, who benefit from the series of free seminars and workshops we hold on different topics of common interest in the areas of finance, banking and insurance as well as issues affecting the daily lives of common people. We are just completing four years of dedicated service to the community, having held 195 free seminars during these eventful four years

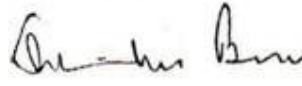
As a part of our advocacy and empowerment programme, we have set up free counseling in different areas like insurance, mutual funds, railway to alleviate the sufferings of hapless consumers, who need help and assistance to solve the problems encountered by them in their daily life. We do hope you will mull over the Memorandum and take decide against hiking ATM charges that the banks are demanding.

We thank you for your attention and shall be grateful for a line in acknowledgment.

Yours sincerely,



Sucheta Dalal,
Trustee, Moneylife Foundation



Debashis Basu,
Trustee, Moneylife Foundation

**MEMORANDUM TO RBI AGAINST PROPOSED REVISION IN THE CHARGES
BY INDIAN BANKS ASSOCIATION FOR USAGE OF ATMs**

We are concerned to note from the media reports that the Indian Banks Association (IBA), on behalf of commercial banks in our country, has requested the RBI to modify the guidelines with regard to charges levied by banks for usage of ATMs, without any rhyme or reason to the distinct disadvantage of bank depositors, who, unfortunately, have no voice in deciding the charges levied by banks in our country.

MoneyLife Foundation is of the firm opinion on behalf of millions of bank depositors of our country that this demand from the IBA to change the rules for usage of ATMs is neither fair nor equitable, as we are of the firm opinion that the banks have not been taking enough care of the safety of customers in their ATMs so far. The security of banks' customers who venture to draw cash from automated teller machines (ATMs) has been the talk of the country in the wake of a brutal attack on a lady manager of Corporation Bank in an ATM booth in Bangalore late last year. The three concrete reasons why such an attack on a hapless woman took place are the following:

1. The banks have been systematically withdrawing security guards in most of their ATMs to save on cost of maintaining ATMs, which helped these monsters to attack the customers of banks during non-busy hours in those ATMs where security guards were absent. This is blatantly against the ground rules laid down by RBI with regard to the security arrangements required to be followed in all ATMs.
2. Most of the ATMs do not have the system of regulating the entry into the ATM booths through the use of ATM cards. These cards were used for unlocking the doors of the booths, so that entry is restricted only to those holding valid ATM cards. But this system is not prevalent now in most of the ATM kiosks, making it possible for a non-card holder to easily enter the ATM booth and play mischief either with the people inside or even with the ATM machine itself.
3. We do not have a system of locking the shutters after pulling it up, so that no miscreant can pull the shutters down easily and play havoc with the person inside the ATM booth. This is what happened in Bangalore as the attack on a lonely woman took place in broad day light, as the culprit pulled down the shutters from inside, so that the crime was not visible to outsiders.

What is the role of ATMs in spreading banking facility in our country?

With the objective of financial inclusion and to make available the basic banking services in hitherto unbanked areas of our country, RBI has been aggressively propagating setting up of ATMs in different parts of our country. And the RBI in its wisdom has laid down certain guidelines to ensure that these ATMs are used by the banks' customers as freely as possible to ensure their optimum utilization and to encourage more and more people to open bank accounts with a view to bring those who are outside the ambit of banking into the banking fold for the general good of the people of our country.

But the banks have failed to realize that the biggest beneficiaries of proliferation of banking facility through this route of ATMs are none other than banks themselves. If you ask a question as to who has benefited most by the introduction of ATMs, the banks would say, without batting an eyelid, that it is the customer who has benefited most by having access to his account for withdrawing cash 24 hours, 7 days a week, through out the length and breadth of the country.

But does it mean that the banks have not benefited by setting up ATMs? If the banks have not benefited and if it has only added to their costs, why are banks falling head over heels to set up more and more ATMs, more so the private sector banks that are conscious of costs more than the PSU banks? If one goes deeper into the rationale for spreading ATMs, it is the banks that have equally, if not more, benefited for the following reasons:

1. There is keen competition among banks to mobilize Current and Savings accounts (CASA), as they are the cheapest form of deposits for banks. The main reason for banks to open more and more branches in smaller towns is to attract more customers, who will keep their surplus funds in these types of accounts. In fact, opening of a current or savings account with a bank is the beginning of a relationship with a bank and banks are vying with each other to get maximum number of these accounts to improve their low cost deposits, which help them to increase their net interest margins. But as setting up full fledged branches is expensive, cumbersome, and time consuming, banks resort to the cheapest and easiest way to reach out to people by setting up ATM kiosks, which attract people to open their account even if the branch of the bank is little far away from their place of residence, as operating the account becomes easier through nearby ATMs. So the main purpose of setting up ATMs is to attract people to open their accounts, and it has really benefited banks by getting cheap deposits in a cost effective way.
2. With a large number of ATMs being installed by banks, which are more than the brick and mortar branches, it has helped to considerably reduce pressure of work on the counters of bank branches, facilitating quick disposal of customers, lesser paper work and more time for staff to attend to other pressing jobs. This has resulted in bringing down the number of employees in

each branch of a bank, saving considerable employee cost which is the second highest expenditure for any bank after interest cost.

The aforesaid facts are evidenced by the following tables:

Table -1

For all banks:	31 March 2002	31 March 2012	Growth in %
Staff Strength			
Officers	276,368	502,938	82 %
Clerks	425,788	481,421	13 %
Subordinates	199,132	190,790	- 4 %
Total staff	901,288	1,175,149	30 %

Table - 2

Business	31 March 2002		31 March 2012		Growth in %	
	No of A/cs (in crore)	Amount in Rs lakh crore	No of A/cs (in crore)	Amount in Rs lakh crore	No of A/cs (in crore)	Amount
Deposits	43	11.23	90.32	60.78	110%	441%
of which CASA	29.98	3.98	73.9	22.58	146%	467%
Advances	-	6.09	-	48.03	-	688%
Total Business	-	17.32	-	108.8	-	528%

Source: Basic Statistical Returns of SCBs

If you analyse the above figures for the 10-year period from 2002 to 2012, the following conclusions are obvious:

1. The CASA deposits have grown by 467% in terms of amount and 146% in terms of number of accounts.
2. The corresponding growth in number of employees is only 13 % in respect of clerical staff and 30 % in respect of all employees.
3. The perceptible reduction in growth percentage in number of employees is partly due to introduction of core banking technology in banks and partly because of expansion in delivery channels through ATMs, which are now considerably more than the brick and mortar branches.

4. All ATMs are unmanned self-service kiosks, which do not require large deployment of human resources, which is a distinct advantage for banks resulting in huge savings in employee cost as stated above.
5. The much lower growth in clerical staff (at 13%) is a concrete evidence of the fact that due to the large introduction of ATMs, there is much less pressure on the counters of banks, which are normally manned by clerical staff.
6. By employing much lower staff, the banks have benefitted considerably not only in terms of employee cost, but also in terms of rental and capital expenditure on physical infrastructure required in setting up brick and mortar branches, which is substantial by any standards.
7. During one of the seminars on banking, RBI officials have acknowledged that as per their study, the ATM based transactions cost about 20% of the branch banking cost, which can be brought down further by extending and expanding the facilities made available through ATMs.
8. The most invisible benefit derived by all most all the banks in the country by the introduction of ATMs is the much lower percentage growth in customer complaints as compared to the growth in number of accounts, as ATMs have succeeded in considerably bringing down the footfalls in branches of banks resulting in much lesser friction between bank staff and customers, which is a distinct benefit not realized by the banking industry so far.

Have the benefits of lower of cost of banking operations been passed on to customers?

It is, therefore, abundantly clear that the banks have benefitted both in terms of garnering more CASA deposits and lower cost of operations due to the introduction of ATMs during the last more than 10 years. But the benefits of such distinct improvement in earnings of banks have not been passed on to the banks' customers as bank charges have been continuously going up year after year on some pretext or other.

Banks are increasingly adopting new technologies, but they have failed to bring down transaction costs, said Reserve Bank of India, deputy governor while speaking at a banking conference organized by the Indian Banks Association some time in September, 2010. He had even said that technology must enable customer facilitation in terms of cost, time and convenience and it should be dovetailed to customer needs and expectations.

We are heartened to note from Economic Times report dated 9th January, 2014, that speaking exclusively to ETNOW, Dr. K.C.Chakrabarty, Deputy Governor of RBI had said: "It is very very ridiculous that banks are charging customers for withdrawing money and that too from their own ATMs - it never happens anywhere". We fully support this stand taken by your Deputy Governor and urge you to stand by this statement and thus completely reject the demand of Indian

Banks Association to levy a charge on ATM transactions, as it is not only ill-conceived and imprudent, but also a most retrograde step, neither in the interest of banks nor their customers.

Apart from ensuring that all ATM transactions are free of all charges, here are a few more suggestions to create trust and confidence in the banking institutions of our country. Besides, these will go a long way in improving CASA deposits of the banks, for which purpose ATMs penetration is proposed to be enhanced through introduction of white label ATMs as well shortly:

1. At present ATMs dispense cash in higher denominations and customers do not have the option of getting the currency notes of their choice, forcing them to again visit the branch of a bank to exchange them for lower denominations. This is inconvenient both to the banks and the customers. All banks may, therefore, be instructed to provide for dispensing cash in desired denominations through appropriate modification to the ATM machines, which is feasible and desirable.
2. Many times, we find that the ATM cards getting sucked into or swallowed by the machines due to no fault of the depositor. If this happens when the customer badly needs cash, he/she is doubly inconvenienced and deserves compensation for the anguish caused and the trouble taken by him/her to retrieve the card or get a new card from the bank. RBI should mandate appropriate compensation in all such cases to minimize such instances by better maintenance of ATMs.
3. It is not uncommon to see ATMs fail to dispense cash while debiting the amount to the accounts of customers due to the fault of the machines. While RBI has instructed banks to reimburse the amount so debited within 7 days of complaint by the customers, RBI has not advised banks to compensate the customers for the inconvenience caused, and for under going the rigmarole of making a complaint and following it up for no fault of theirs. It is, therefore, necessary to award appropriate compensation to such depositors as well.

While banks are too eager to levy a penalty for the failure to meet the commitments by banks' customers, banks in turn do not compensate the customers for their failure to honour their own commitments made at the time of opening the accounts. In order that there is perceptible improvement in customer service in banks, it is necessary for RBI to provide for compensation to be paid by banks to their customers whenever they fail in discharging their own duty to customers in the interest of equity and fair-play in all their dealings with the public.

And in all these cases, if the failure of ATMs is due to bad maintenance or improper servicing, this penalty/compensation paid by the banks to their customers can be certainly passed on to those companies from whom these jobs are outsourced, making them more accountable for their failures and to ensure proper maintenance of their machines.

To conclude, we reiterate that as far as the bank customers are concerned all that matters to them is that their personal security is ensured and their hard earned savings are protected without any additional cost to them, as it is squarely the responsibility of the banks, who own the ATMs, to provide a level of security needed to protect its users and their funds at all times. It is for the banks to think of out-of-the box solutions to bring down the cost of operating ATMs without in any way compromising on the safety and security of banks' customers. There is certainly no case for banks to curtail the existing facilities available to ATM users, as introducing any restrictive practices and imposing additional burden on the depositors will only result in killing the proverbial goose that lays the golden eggs.

About Moneylife Foundation

Moneylife Foundation is a not-for profit organization dedicated to the cause of spreading financial literacy. We have a membership of over 27,500 members, who benefit from the series of free seminars and workshops held by us on different topics of common interest in the areas of finance, banking and insurance as well as issues affecting the daily lives of common people. We are just completing four years of dedicated service to the community, having held more than 195 free seminars during these eventful four years, with almost one seminar a week without expectation of any reward. Our daily digital newsletter goes to over a lakh of readers free of cost, and this is the medium of keeping the readers apprised of the good and the bad developments taking place in our economy on a daily basis.

As a part of our advocacy and empowerment programme, we have set up free counseling in different areas like insurance, mutual funds, railway helpline and of course banking to alleviate the sufferings of hapless consumers, who need help and assistance to solve the problems encountered by them in their daily life.