

All India Bank Depositors' Association ♦ Nagesh Kini, activist ♦ Council for Fair Business Practices ♦ Mumbai Grahak Panchayat ♦ Society for Fast Justice ♦ All India Bank Employees' Association ♦ Moneylife Foundation

13th April 2013

Dr D V Subbarao
Governor
Reserve Bank of India

Sub: Discussion on plan to disincentivise cheque usage

Dear Dr Subba Rao,

Last month, we wrote you a memorandum on behalf of the 21,500-strong membership of Moneylife Foundation regarding our opposition to the plan to disincentivise cheque usage. In it, we discussed why consumers are not ready for such a move, the absence of the required infrastructure to support it, the lack of effort by the regulator in incentivising e-payment and the resistance to such a plan even in the UK, a country with a far better per capita income and literacy rate.

Since the proposal has agitated many consumer activists, it was decided that the issue merits more broad-based discussion. Hence, on 21st March 2013, the following organisations met in Mumbai for a discussion meeting: Mumbai Grahak Panchayat, All India Bank Employees' Association, All India Bank Depositors' Association, Council for Fair Business Practices, Society for Fast Justice, Moneylife Foundation as well as independent activists. Each organisation presented its views separately. You may recall that Moneylife had requested you to depute a senior executive to participate in the proceedings. However, while RBI turned down our invitation, Ms Alpana Killawala, your Chief General Manager wrote to us saying, "we would like to assure you that the Reserve Bank is extremely serious and concerned about the issues you have raised in your mail. We have started investigations for corrective and punitive action, wherever required". She also asked us to send our suggestions and feedback to the RBI.

A video link to the entire discussion is available on: <http://www.youtube.com/watch?v=Af767nA-DAU>

Meanwhile we send you a summary of the views put forth by each organization.

♦ **All India Bank Depositors' Association, represented by SS Bhandare (Chairperson) and Ashok Ravat (Hon Secretary) as well as three other members.**

Negative approach Disincentivisation is a negative approach to ushering the people into modern banking. Much of India's banking population is either illiterate or financially and technologically illiterate. According to RBI's own study, the majority of cheque transactions are for small amounts, indicating the general population's preference for cheque payment. For the RBI to now say that cheque usage should be penalised, and that too by April 1, is a misstep.

Why not deregulate? For many years, the RBI has been engaged in deregulation. Most recently, savings account interest rates were deregulated. Two banks decided to offer more than 4% per annum, but Yes Bank and Kotak Mahindra are offering higher rates. The same logic should apply to disincentivisation of cheques. The RBI must ask banks to take a call themselves, not penalise payment by cheque. The banks will be allowed to decide what to do and consumers can pick the bank that does not charge for payment by cheque. There is no need for regulation.

Government first Before the RBI tells the consumer to stop using cheques, it should ask the government and corporates to first use the model and then ease the general population into it. Currently, the government itself stays away from e-payment, so how can the RBI ask us to accept penalty when we use cheques?

◆ **Nagesh Kini, chartered accountant and activist**

Not geared This plan should be rejected outright. Our country and our banking system are just not geared to work solely with electronic modes of payment, so it's unfair for the consumer to be penalised for using cheques. As has already been pointed out, even the UK, a first-world country, decided that it was premature to force it upon its citizens. Quoting an Irish example just makes no sense.

Skipped core banking A structured study that identifies values and not just numbers should be conducted. Banks must be forced to provide down-to-earth banking to consumers. Currently, banks are keen on selling us mutual funds and insurance rather than banking products. This is one reason for the build-up in non-performing assets. Banks should be focussing on their main business. Currently, they have skipped core banking and have gone straight to universal banking.

◆ **Council for Fair business Practices, represented by Shrikant Soman and Asha Idnani**

Not nominal The slew of charges that have been proposed are not even nominal. It will be even more expensive than e-payment. So consumers are expected to change or be penalised. One of the strangest suggestions is that even the receiver of the cheque must be penalised. I totally acknowledge the benefits of electronic payment, but the RBI's data itself indicates that there is no need to push people toward real-time gross settlement (RTGS) and national electronic fund transfer (NEFT). For the past 10 years, e-payment has been growing in use by 30% annually. So there is no need to disincentivise cheque payment. Because it is the faster option, people will switch to it when they can and if they are capable of it.

Mostly the common man In April to September 2012, 89% of the cheques cleared by processing centres were of a value of less than Rs1 lakh. This clearly indicates that the general population of India uses cheques. So this will affect the common man. Even as we acknowledge the benefits of e-payment, there is no need to push the e-payment bandwagon beyond what it can bear. Instead of leading to an increase in usage of electronic modes, the common man is just likely to accept the charges and not move away from cheques.

More-cash economy Instead of moving toward a less-cash economy, disincentivising cheque usage may even cause us to use more cash. People may even move away from the banking system. The main reason for this could be the lack of confidence in electronic payment. Cheques serve a distinct purpose and they are bound to be here even decades from now, though its relative usage will reduce. A lot of places also require the customer to bear the 2 to 2.5% transaction charge on payment by card, which is why these payments are made by cash. There are certain payments that can't be made electronically and there should be no penalty because of this.

Not as smooth as claimed It's not as if payment by RTGS and NEFT is failsafe. Several problems can crop up. There is even a 16-digit code that needs to be entered. If the person entering the data into a computer at the bank makes a mistake, it is a major problem. It is not as if this has not happened, either. It happens often. Also, the money is often transferred the next day because it wasn't delivered before a certain hour. This is not how e-payment is supposed to work.

◆ **Mumbai Grahak Panchayat, represented by Vasundhara Deodhar and 12 others**

Still taking shape The move would be detrimental to financial inclusion, which has not made much progress in India. There has been limited effort and even that has not stabilised yet. The common man now need the banks for direct subsidy and cash transfer. This has just begun. It would be detrimental to push them also toward electronic payment at the same time. Electronic clearance service (ECS) is also not functioning as smoothly as claimed. So how has it been promoted on so many levels in the discussion paper? Even a company as large as MTNL still does not accept payment via ECS from all bank branches in India. Net banking and paperless banking will take time and consumers need to learn it at their own time.

Handling increased volume It is unclear whether banks will be able to handle the increased volumes once cheque payment is penalised. The RBI has suggested such a move, but it is not known whether the banks have the manpower and infrastructure required to allow people to only make e-payment. It is possible for bundles of NEFT and RTGS requests to just be lying around once the volumes increase.

◆ **Society for Fast Justice, represented by Rajendra Thakker**

Ignores small-town and rural India Has it been forgotten that India consists of a few cities and a large number of towns and villages, which are still fully dependent on the cheque? It is absurd that a government organisation would speak of switching to electronic modes of payment when the government, no matter which scheme you pick, has always stuck to the cheque. Despite the Aadhaar scheme, there has been no switch to e-payment, nor is there any indication that it will change. Even when it's a school scholarship, you get a cheque.

◆ **All India Bank Employees' Association, represented by Vishwas Utgi**

Unfair charges That we should not be charged for using a cheque is clear, but I think the whole concept of bank charges is flawed. Until a few years ago, depositors were not charged for any basic services by public sector banks (PSBs). Then private sector and foreign banks were charging, but not the PSBs. This is the way to go because banks get cheap funds from their depositors. Why must depositors be charged? If borrowers are charged, it is justified, because they are drawing funds from the bank. But depositors are, in fact, helping the banks by storing their money in savings accounts.

Only banking Bankers now hire relationship managers and are more interested in getting their depositors to invest in their wealth management schemes or insurance rather than have them keep their money in their savings accounts. Banks should instead treat their depositors as the creditors they rightly are. Even the high costs of the technology that has been bought by the banks to facilitate e-payment will now be recovered from the consumer, once it is made compulsory. This is totally unfair. Banks should adjust their business model accordingly, rather than penalise their depositors.

◆ **Moneylife Foundation, represented by Sucheta Dalal, Debashis Basu, Nita Mukherjee, Yogesh Sapkale and others**

Grievance redressal Grievance redressal with regard to the banking system is absolutely shoddy. At one time, the banking ombudsman would respond to every e-mail, but not anymore. The system of redressal has degenerated and it is foolhardy to expect that it will be able to handle the inevitable complaints once the volumes of RTGS and NEFT increase. Recently, there were newspaper reports of unauthorised bank transfers. Our sources have told us that, pending investigation, the money should have been transferred to the accounts of the victims, as is the procedure, but this was not at all done. So how can the common man place his confidence in the system?

Return to pure banking Pure banking has been taken over completely by universal banking. The bank simply wants us to transfer our money to other products, such as toxic insurance plans. Relationship managers are always trying to sell us the products that earn them the highest commissions. More recently, P Chidambaram has asked that bank be allowed to become insurance brokers. But this will only lead to more cheating and more problems for the consumer. It has now reached a stage when banks don't even want you to leave your money in your account, which is strange. Why should a bank not want your money?

Unilateral action Without consulting any consumer body, the discussion paper was circulated. This is also true for the ministry of finance's diktat to PSBs to begin charging people for making credit card payment by cheque. This was sent to PSBs in October, but the very same day *Moneylife* wrote a story about it, it was withdrawn. The same kind of unilateral action, without consulting any stakeholder but the banks, is now being taken to disincentivise cheque payment. It is incomprehensible how such a decision can be taken without an assessment of the impact it will have on the laymen, given that several bank chairmen have themselves admitted to us that they do not use online and electronic modes of payment.

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**

Signed on behalf of **All India Bank Depositors' Association**
Nagesh Kini
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