APPENDIX

2 Less Cash or Cashless: What about the Common Man?

Indian banks, including HDFC Bank, ICICI Bank and Axis Bank, have started levying a minimum charge of Rs 150 per transaction for cash deposits and withdrawals beyond four free transactions in a month effective 1 March 2017. From the fifth transaction onwards, customers will have to pay an additional Rs 150 plus a cess and an additional service tax. The service charges structure is confusing because there are differences between the tariff structures of different banks.[1] These charges

[1]In case of ICICI Bank, the charges are the same as they were before the demonetisation move announced on 8 November, while there is an increase in other fees. According to details on ICICI Bank website (www.icicibank.com), there will be no charge for the first four transactions a month in the home branch, while Rs 5 per thousand rupees will be charged thereafter subject to a minimum of Rs 150 in the same month. The third party limit would be Rs 50,000 per day. For non-home branches, ICICI Bank will not charge anything for the first cash withdrawal of a calendar month and Rs 5 per thousand rupees thereafter subject to a minimum of Rs 150. For cash deposit anywhere, ICICI Bank will charge Rs 5 per thousand rupees (subject to a minimum of 150) at branches, while deposit at Cash Acceptance Machines will be free of charge for the first cash deposit of a calendar month and Rs 5 per thousand thereafter. ATM inter-charge charges have also been re-introduced. At Axis Bank, the first five transactions or Rs 10 lakhs of cash deposits or withdrawals would be free and charged at Rs 5 per thousand rupees or Rs 150, whichever is higher.

are being levied as per a government directive. Post-demonetisation, the Indian government has been pushing the agenda of moving towards electronic (cashless) payments. Linking Aadhaar card data to bank accounts to facilitate direct benefits and entitlements transfer[2] and awarding prizes to customers opting for digital payments[3] have been some initiatives. However in a country like India,[4] which has the highest illiterate population in the world (UNESCO – Education for All Global Monitoring Report), large rural pockets, poor infrastructure and a cash-based economy, the electronic thrust poses some challenges. Some of these are as follows:

1. A very large segment of the population (rural customers, urban illiterates, senior citizens, special needs customers etc.) is not conversant with the usage of electronic transaction options. Hence, training and educating the masses needs to be undertaken in order to enable customers fully understand the features, risks and protection measures. Currently, this has not happened and people have been left to fend for themselves and find out on their own.
2. India has about 244 million smart phone users. However, this is still a small number, given the total population of over

[2]The Indian government is aiming at disbursing payments and entitlements through Aadhaar cards that are linked to bank accounts. This feature has also been provided in the governments BHIM Mobile App, which has been developed by the National Payments Corporation of India (NPCI), based on the Unified Payment Interface (UPI). So far only 14 small–medium banks have enabled this feature that will enable payments using a biometric-based system. The BHIM app has been downloaded by more than 17 million people and over Rs 3610 million worth of transactions have already been done (from December 2016 to February 2017). However, transactions through the Aadhaar feature on the BHIM app are yet to pick up (*Source*: *Economic Times*, 23 February 2017).

[3]Nearly 10,00,000 customers (9.8 lakh winners include 9.2 lakh individual customers and 56,000 merchant establishments), were awarded over Rs 1535 million under two promotion schemes called 'Lucky Grahak Yojana' (individuals) and the 'Digi-Dhan Vyapar Yojana' (for business establishments). This promotion is being done by India's Niti-Ayog and has been launched for the period 25 December 2016 to 14 April 2017 (*Source*: *Economic Times*, 22 February 2017).

[4]www.statista.com

1.2 billion. A Pew Research Report[5] has pointed out that there still exists a glaring digital divide based on education, sex and age in the Indian context. India still has among the highest levels of respondents who own a non-smartphone cell phone (also known as feature phone), at 61%, and is in a similar league as Burkina Faso (65%), Ukraine (64%), Senegal (63%), Nigeria (62%) and Tanzania (62%).

3. The security infrastructure that is required to support digital usage is still evolving and customer protection laws are archaic. Civil cases can drag on for decades and hence a large number of people still prefer to opt for traditional banking methods. For example, 3.2 million debit card users (foreigners included) were hit when hackers penetrated the security network of Hitachi from late May to June 2016. The sophisticated nature of the attack took the bankers, regulator and Hitachi by surprise as the malware codes had been very well written and spread across the entire security network very quickly. However, in a country where almost a third of the population is living below or hovering around the poverty line, even a small outflow, although caused by a technical glitch, can result in major consequences, which may or may not be quantifiable in monetary terms. Apart from the obvious cash loss, there may be a levy of service charges,[6] which can result in an additional burden on the customer. Trying to sort out a mess like this in a banking system that has already been stretched due to the effects of the demonetisation can be challenging – more so for individuals who are not educated, aware of their rights or cannot

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[5] http://www.livemint.com/Consumer/yT14OgtSC7dyywWSynWOKN/Only-17-Indians-own-smartphones-survey.html

[6] The largest government-owned commercial bank in India, the State Bank of India (SBI), will charge customers who don't maintain monthly account average balance (MAB) in their savings bank accounts from 1 April. These charges will be based on the difference between the minimum balance required and the shortfall. The minimum monthly balance for savings bank account holders in metropolitan areas is Rs 5000. Similarly, in urban areas, SBI customers will need to maintain a monthly average balance of Rs 3000. In semi-urban areas, the amount is Rs 2000, while for rural areas, the monthly average is Rs 1000. For metropolitan areas, if the shortfall is greater than 75%, the charges would be Rs 100 plus service tax. Similarly, in urban areas, if the shortfall in MAB is less than 50%, then a charge of Rs 40 plus service tax will be levied.

afford to make repeat trips to the bank (because of the associated costs involved, such as transport costs, loss of time, income etc.).

4. After the demonetisation announcement, private players like Paytm raked in huge profits[7]: through a surge in sales (due to a cash crunch), sanction of a payments bank licence and by the sale of stake in its online business. The other 'gains' that did not get counted and came at the cost of customers were (a) charges levied for transferring the funds from Paytm into bank accounts. While Paytm to Paytm transactions are free, customers are charged a service fee of 1% of the total amount (up to Rs 25000/month) when funds from the Paytm wallet are transferred into a bank account. In case of customers who have not given their address and ID proof, this fee is as high as 4% of the total amount. Moreover, no interest is paid for balances lying in the Paytm e-wallet. Hence, maybe providing customers with a suitable alternate, given the socio-economic and demographic profile of the Indian population, should have been addressed by the Indian government prior to proceeding with the demonetisation agenda, which was announced on 8 November 2016. The government-spawned BHIM application was launched by Prime Minister Modi on 30 December 2016. The interim window of 53 days enabled private players to benefit at the cost of the public.
5. As far as SHGs are concerned, they were not required to be registered if they had up to 20 members. However, post-demonetisation, the RBI unleashed a flurry of directives, some of which were left open to interpretation. At the ground level, SHGs were asked to show proof of registration and submit their Permanent Account Number (PAN). SHG members who wanted to deposit their member savings/avail loans were sent back if they did not have a PAN. Members who offered to fill in the Form 60 (which is the Indian

[7]The demonetisation announcement came as a bonanza for Paytm a private digital payment (E-wallet) player. It raked in a lot of money after the demonetisation announcement on 8 November 2016. Within 12 days, Paytm witnessed over 7 million transactions worth Rs 1200 million a day. The mobile wallet achieved its business targets four months ahead of time and crossed $5 billion in sales done through the platform (*Source*: *Business India*, 21 November 2016). Paytm has since obtained a licence to start a payments bank.

Income Tax document to be filled in case an individual does not have a PAN number) were turned away since there was an ambiguity regarding the application and the implementation of rules by bank officials.[8] This information in most cases was only communicated after SHG members/women had stood in the serpentine queues for hours only to be sent back. Advancing loans over Rs 50,000 became a problem as banks refused to accept cheques without PAN card details. Most women affiliated to rural/urban SHGs are not educated, and may not be well versed with banking rules and regulations. Given the chaos that prevailed on the shop floor in banks immediately post the demonetisation announcement, there was no way to get any queries addressed, leave alone get proactive guidance or education. So far the government has not come out with any clear-cut guidelines on this aspect. The only source of support is the leaders and office bearers of the community-based groups who have to try and make several trips to the banks (to sort out matters pertaining to different SHGs). The members in the meanwhile also are on the receiving end: they have to incur costs (travel, lost wages and time) in order to get a resolution to their grievances. The fear of coming under the statutory scanner in case a banking transaction is misclassified and dealing with officials is intimidating for the women/members. However as far as the SHGs are concerned, the loan repayment collections are still received in cash – microfinance loans by their very nature are small loans typically given to poor women who may find it difficult to access other institutionalised sources of savings and credit.

6. For the urban poor women, who prefer to keep limited amounts of physical cash and are not familiar with the technology-based alternatives, the new rules and service charges based on the number of withdrawals has made life complicated. The assumption here appears to be that the unilateral charge that the bank imposes on its customers means that they have fulfilled their part of the service obligation completely – which may not be the case. Unlike other businesses that are required to provide customers with a bill first and then collect the charges, banks just go ahead and debit

[8] For Form 60, please refer to http://www.incometaxindia.gov.in/forms/income-tax%20rules/103120000000007944.pdf

the client's accounts.[9] It's an unpleasant situation for Indian taxpayers and customers as it is their funds that are used (1) by banks (share capital), (2) for 'bailouts' commonly termed as 'government infusions' (tax funds), (3) for making money (interest spreads and commissions) and (4) additional funds are sliced away in the form of service charges as is currently the case. On top of that the Indian customer, particularly the poor, have to pay for the in-built inefficiencies of the banking system: (5) 'inter-charge' for using an ATM of a bank at a non-parent bank/branch or location, (6) renewal charges (when the plastic cards have to be renewed), (7) interest loss due to shifting funds into e-wallets due to a government mandate. How are the poor expected to keep track of such complicated rules and caveats that require a lawyer's mind and an economics degree to decipher?

To quote a member/respondent:

'[...] I work as a domestic maid and don't keep much money with me. There is a reason for that, if I do keep money then my husband demands it and takes it away on some pretext or the other [...] even my kids do that. I used to go and deposit my monthly earnings in the bank and then go and withdraw as and when I needed the money. Now with this restriction of 4 withdrawals per month, I will have to think about a safe place to keep the withdrawn money. We are poor people and our lives are not planned and organised. It is literally a day to day existence for us, if there is some emergency then where to go and whom to turn to? [...] I used to have a debit card and I used to keep it in my cupboard. Whenever I needed the money, I used to take my daughter along with me and go to the ATM. I'm not educated. I sign my name but that is about most of what I can do. My daughter used to withdraw the money for me. One day when I went to the bank, I found out that Rs 12000 had been withdrawn through the ATM. Later I found out that my daughter had withdrawn the money without my knowledge. She knew the pin number and the location where

[9]See http://economictimes.indiatimes.com/industry/banking/finance/banking/view-its-time-to-really-pull-up-indias-out-of-control-banks/articleshow/57488595.cms?utm_source=facebook.com&utm_medium=referral&utm_campaign=ETFBMain

I used to keep the card. It is difficult to carry the plastic card since I commute in a crowded bus every morning and I don't use my card – so I used to leave it at home. I cut the card and threw it away, so that something like this does not happen again. When I go to the bank, the staff is not bothered to speak to us. They are so busy attending to the big clients. During demonetisation, I had to stand in the queue for three hours before I got my turn. Just before me there was a man who was carrying a cloth bag. I saw the cashier giving him many bundles of money. When my turn came, I was told that only Rs 4000 is available since all the cash is over. I raised my voice and asked them why they had given so much cash to one client if they were short on funds. I think they got scared and gave me Rs 6000. It is difficult to go to the bank, get a cheque book or withdraw money or even remit money. I have to request my employers for time off since my banks shuts by 3.00 pm. Finally it is the poor and the less educated that have to suffer, because these hi-tech options are beyond our understanding and we don't have the money power to get things done. If we have money, we become targets of domestic violence at home. If we don't have money we are socially ostracised. Earning is difficult, saving is even harder but now banking has become the hardest [...]. We can't get our money when we want to since the bank leaves very little of it after deducting all the fees and charges [...].'

Recently we had the local area elections in which some candidates gave each voter Rs 3000 to vote for them. Many people in my slum got money. Where do all these notes come from? When we want money we are told of all sorts of caps and limitations, then where do these politicians get all this money?