After Demonetisation, now the Cash Crunch in ATMs: Modi Government Wrecking Public Sector Banks and the Indian Economy

A Joint Statement

April 27, 2018

In the past few weeks, ATMs across India have gone cashless, bringing back nightmares of the cash crunch during demonetisation. Gujarat, Uttar Pradesh, Madhya Pradesh, Bihar, Andhra Pradesh, Manipur and Telangana are some of the states that have experienced severe cash crunch during this period. States like Telangana and Andhra Pradesh had to bring in cash from Maharashtra and Kerala in order meet usual demands.

The independent experts believe that there are several reasons behind this crunch. The reasons include the Financial Resolution and Deposit Insurance (FRDI) Bill scare, not recalibrating the ATMs to hold the new notes, cash hoarding to win upcoming elections, an increase in cash withdrawal to avoid excess charges levied on the fifth withdrawal. Some of the experts also analysed the data and argued that enough currency is not in circulation as the rich are hoarding cash. Whatever the reasons offered, the hard fact is that this is the second time in eighteen months when there is widespread lack of cash.

The Finance Ministry, while calling this as a temporary problem, has been quick to blame the Reserve Bank of India (RBI) for unevenly distributing cash among various states. Meanwhile, RBI claims that there is sufficient cash — to the extent of Rs. 1,25,000 crores — in reserve. Further in its reassurance, the RBI also stated that they have ramped up the printing of new notes.

Interestingly, there were reports in the media that since December 2017 the government had not renewed the contracts for purchasing dyes used in printing currency and that this will result in a delay of at least three months in feeding the supply chain of money.

The worst affected by the cash crunch is the informal sector. Poor families and informal economies are entirely dependent on cash and cash credit on a daily basis. Given that this sector has not yet recovered from the impacts of demonetisation, such frequent disruption in cash flow results in a systematic destruction of the economic security of the millions who depend on the cash fed economies. Low industrial growth coupled with high rates of unemployment is making matters worse. An added concern is the high rates of bankruptcies of companies, particularly in key manufacturing sectors, which are automating to cut down on costs. This, in turn, is leading to job losses and distressing the working classes.

All this is happening at a time when the banking sector is strangled by gargantuan bad corporate debts. Crores of people rely on and trust public sector banks even when there are massive bad debts (also called Non Performing Assets). This trust is now shaken by the introduction of the FRDI Bill which has a bail-in clause that allows deposits to be turned to equity into deal with massive bad debts. This means that people’s small savings are not safe even in public sector banks. All this reflects the sad state of affairs of the manner in which public sector banks are being misused.

The mad rush of this government to join the league of cashless countries is only further adding to this current problem. Many western countries have majorly cashless retail transactions, making ATMs defunct and hence shutting ATMs has become common. In India, even though cash transactions is the predominant mode of transaction, banks are shutting their ATMs down. According to the data, since the beginning of 2018, banks have shut down five ATMs per day on an average across the country. Since the ATM boom of the 1990s, this is the first time that the ATMs are in such rapid decline. Between March 2017 and February 2018, 1,695 ATMs have been shut down. Six of the states that are now facing severe cash crunch also witnessed a rapid reduction in the number of ATMs. The worst affected, according to the news, are Andhra Pradesh and Bihar, both of which saw a 3 percent decline in ATMs. One of the primary reasons stated by the banks for shutting down ATMs is that they are not able to meet the operational costs. A threat of the run on banks is looming large when people cannot access cash, either through ATMs or banks. The extension of public sector banks has been limited, and extension counters, particularly in far-flung rural and Class II and III towns have been weakened.

Many of the ATMs that are still available to the public are yet to be recalibrated. It was said that it would take only 90 days to recalibrate over 2 lakh ATMs that are spread across the country. Eighteen months after the introduction of new notes, several ATMs are yet to be recalibrated to hold the new 200 rupee note.

The new RBI guidelines for ATMs are not helping the situation either. The Confederation of ATM Industry (CATMi) has demanded that to recover their implementation cost of calibration the customers should be charged Rs 3-5 more per transaction. The current charges, beyond the five free transactions, are Rs 15 per cash transaction, and Rs 5 per non-cash transactions. To add fuel to the fire, the tax department has asked the top banks of the country to pay tax for charges recovered by the banks for not maintaining a minimum balance. This tax directed by the Directorate General of Goods and Services Tax (DGGST) is being levied in retrospect and covers periods even before the introduction of GST. Banks that are already suffering massive losses and facing capital crunch will only pass on the burden to the customers.

Moreover, a recent tax notice has asked banks to pay tax, penalties, and interest on the free services offered to customers. This retrospective demand will charge 12 % service tax claimed retrospective from 2012, 18 % interest on the amount, and 100% penalty. This amount would run to over 40,000 crores, which the banks would be passed on to the customers. Banks in India earn a minimum of 6% to 9% on our current and savings account deposits (as opposed to 1.5 to 2% around the world). This alone should be good enough reason to give all banking services free. However, private sector banks earn profit from these charges and public sectors banks use them to cover their NPAs.

All this amounts to a multi-pronged attack on the people, the public sector banks and the economy at large. But this cannot be brushed aside as an outcome of just mismanagement or wrong policies of the government, regulators, and bank management. It appears to be a part of a well-orchestrated and deliberate effort to cause mistrust in public sector banks, dismantle their networks, and pave the way for privatising the public banks. It is exposing public sector bank employees to face the wrath of the public for no fault of theirs. The provision of charging exorbitantly every time people transact from ATMs places enormous costs on those with small incomes. Likewise, the people are being forced to adopt options such as payment banks and banking correspondents. This is another way to informalise the banking sector and reduce the number of brick and mortar branches. In effect, the government is exposing the people to the devices of the private banks and financial corporations. It is also an attempt at socialising the losses caused by corporate borrowers and private banks.

We are also concerned the way the banks are harassing the public to link Aadhar to their accounts, even as the Supreme Court is yet to take a decision, and the Government has further extended the date for mandatory linking. The Hon'ble Court has time and again asserted that linking Aadhar could not be made compulsory for banking services. This is also resulting in needless distress amongst the public.

All this can irreversibly lead the economy into chaos. The union government and the RBI need to understand that their role is to protect and act in the best interest of the ordinary citizens of the country.

As concerned citizens, civil society members, and bank employees, we urge the government and the regulator to immediately:

1. Withdraw the FRDI Bill and dispel fears among the people about their deposits in the bank.

2. Withdraw all forms of charges and penalty for basic banking transactions and withdraw the retrospective tax imposed on banks for providing free services.

3. Formulate and implement plans to recover the debts owed by corporate houses.

4. Prepare a white paper on demonetisation and publish the names of wilful defaulters.

5. Stop harassing the public by asking them to link Aadhar to their bank accounts, and let the law takes its own course.

6. Implement recommendations of Parliament Standing Committee on NPA

7. Review Prompt Corruptive action which has miserably failed

8. Review IBBC and NCLT procedures which is leading to huge haircuts for banks

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