Cash withdrawal fee

What is the issue?

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India’s top three private banks — ICICI Bank, HDFC Bank and Axis Bank — have started charging customers a transaction fee for cash withdrawals and deposits at their branches.

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What are the impacts?

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- Customers will now have to pay a minimum of Rs 150 for every additional cash transaction at the branch after the first four transactions.
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- India’s largest bank, the SBI, is also set to charge customers Rs 50 for cash deposits beyond three such transactions in a month.
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- The move to impose charges has been incorporated to promote digital payments in alignment with the government’s broader push on digital economy.
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- A digital economy is expected to further tax compliance and, in turn, higher revenues.
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- But the move comes at a time when the latest RBI data shows a month-on-month decline in electronic transactions in the months of February and January.
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Is the justification valid?

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- Forcing people to switch to digital forms of payment by levying steep

charges can’t be an optimal solution.
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- The use of cash is still widespread and with a large unbanked population and informal sector.
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- Banking is still a privileged business where regulators allow a limited number of entities after making sure that they are the ones customers can trust.
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- One of the accepted principles of good regulation is weighing the costs to customers against the perceived benefits, of a proposed move.
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- By this logic the current move is more detrimental with less benefits.
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- A competitive financial system does have its benefits.
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- But banks ought to also fulfil some of the aspirational needs of the country.
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- The RBI’s mandate is also to extend customer protection.
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- Therefore the government need to step in and ensure the right balance between state policy and consumer rights.
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What is the way ahead?

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- A better way for banks to promote digital payments is to offer incentives to consumers and firms to shift to digital platforms.
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- Instruments like transaction fee may lead to cash hoarding, put off potential customers and render financial inclusion an even more difficult task.
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Source: The Indian Express

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