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V. Bhuvanewari
Head of the Department,
Department of Commerce
(e-commerce), PSG College of
Arts and Science, Coimbatore
641 014.

G. Sudha
Research Scholar, Department
of Commerce, PSG CAS,
Coimbatore 641 014.

RBI restriction of free ATM transactions in metro cities

V. Bhuvanewari, G. Sudha

Abstract

Automated teller machine (ATM) is one of the most popular delivery channels as it permits customers to do Anywhere, Anytime banking. Both, the bank and customers stand to gain in several ways. Many people have a habit of withdrawing small amounts of money from the ATM to curb spending tendencies, but often end up with a high frequency of withdrawals. There are some others who are reluctant to use net banking or mobile banking facilities and depend on ATMs for checking account balance. RBI has issued new rules and guidelines limiting the number of times to use the ATM in a month. The new ATM transaction rules issued by the Reserve Bank of India is applicable to all ATM transactions including withdrawing cash, checking account balance or getting a mini account statement. This study is an attempt to know the changes introduced by RBI for ATM transaction.

Keywords: ATM, ATM usage fee, ATM usage rules, Fees for ATM withdrawals.

Introduction

Indian banking has evolved from cash economy to cheque economy and now to plastic card economy. In order to survive in a competitive environment, banks have been left with no other option but to adopt the technological changes. Technology which comprises Core Banking Systems (CBS) have been put in place by private banks at the time of inception, while Public Sector Undertaking (PSU) banks in comparison were laggards but have now implemented CBS completely. However, cooperative banks are still in the process of implementing CBS. CBS prepares the bank to implement e-delivery channels like ATMs, Internet Banking, Mobile Banking, Tele banking etc. These channels offer customers convenience, anywhere, anytime banking. One of the most popular channels of banking service delivery is through the ATMs or the automated teller machine (ATM) that allows user to access 24 hours a day 7 days a week. An automated teller machine is also known as automated banking machine or cash point or cash machine. First bank to introduce ATM in India was Hongkong and Shanghai Banking Corporation (HSBC) in 1987, Mumbai. ATM is such type of innovation that can mechanically accept deposits, issue withdrawals, transfer funds between accounts, collect cheques, recharge mobiles and offer a vast variety of facilities to customers.

Traditionally, payments were made in cash but now various electronic based payments through ATMs cards, EFT, ECS have made their presence. Due to technology advancement efficiency of banks have improved retail banking and quality of services. Technology not only benefits banks but also other stakeholders like employees and customers. Thus, delivery channels like ATM have been put up by banks and have become popular with customers.

Features of ATM

- ❖ Cash withdrawal
- ❖ Mobile phone recharge vouchers are available
- ❖ Deposit cash and cheques (at selected ATMs)
- ❖ Obtain a summary of balances for all your accounts
- ❖ View and print a mini-statement (last 10 transactions)
- ❖ Transfer money between linked accounts

Advantages of Using an ATM

In an ever changing world of technology, everything gets faster, more convenient, and more technologically advanced. The debit card has now been main stream in most financial institutions for almost 20 years now. The advantages of using an automated teller machine are

Correspondence:
V. Bhuvanewari
Head of the Department,
Department of Commerce
(e-commerce), PSG College of
Arts and Science, Coimbatore
641 014.

- ❖ **Convenience-** A debit card can be convenient in so many ways. If you need access to cash and are either far away from your bank or after bank hours, you can still get cash if you need it. Using a debit card speeds up lines at any place of business by saving you from having to write a check; just swipe and your purchase is completed. Most debit cards have the VISA or Master card logo which is accepted almost anywhere, worldwide.
- ❖ **Protection-** There is several ways that a debit card offers protection. First, if your cash is lost or stolen, it cannot be replaced, it is gone. A debit card on the other hand can be cancelled and a new one can be ordered. If someone did get the card or card number before you realize it is gone, it has daily limit of Rs.500 for cash or Rs.3000 for purchases. In addition, you are not liable for fraudulent purchases. An unauthorized transaction can always be disputed and refunded.
- ❖ **Budget-** When a debit card is used appropriately, it can help you budget much more than a credit card. Most debit cards stop allowing transactions once your balance is at zero, which also can save on fees such as overdrafts.

Changes Made By Reserve Bank of India (RBI)

On 15 August, 2014, the 68th Independence Day, our Prime Minister Narendra Modi announced a scheme called Pradhan Mantri Jan-Dhan Yojana in the cause of financial inclusion in our country for the benefit of millions of families who do

not have bank accounts so far. Under this scheme every bank account holder will be given a RuPay brand debit card with an accident insurance cover of Rs1 lakh guaranteed for each poor family, so that all such families are covered with accident insurance to meet any crisis in their lives.

A day before this announcement by the Prime Minister, the Reserve Bank of India (RBI) announced certain changes to the ATM facility offered to bank customers and the charges levied for withdrawals through ATMs with effect from 1 November, 2014.

According to the new RBI guidelines that come into effect from 1st November 2014, savings bank account holders in metropolitan cities would be allowed only three transactions from ATMs of other banks and five from the same bank in a month. For any ATM transaction above the stipulated limit, a transaction fee of Rs. 20 would be charged to the account holder. The new transaction fee is applicable only for people living in six metropolitan cities including Mumbai, Delhi, Bengaluru, Chennai, Hyderabad and Kolkata. People living in smaller towns and other centers would continue to enjoy five free monthly transactions per month from the ATM of other banks and the charges for them include Rs. 20 for each cash withdrawal and Rs 9 for non-cash transactions. Account holders of zero balance and other no-frills accounts in non metros are exempted from such transaction charges as of now.

Comparison of ATM Usage Charges

For People Living in Metropolitan Cities Including Mumbai, Delhi, Bengaluru, Chennai, Hyderabad and Kolkata

BANK	TRANSACTION TYPE	TRANSACTION LIMIT
Same Bank	Cash withdrawal	5 Free transactions per month. Additional transaction will be charged at Rs. 20 per transaction
	Balance Enquiry	
	Change of PIN	
	Mini Statement	
Different Bank	Cash withdrawal	3 Free transactions per month. Additional transaction will be charged at Rs.20 per transaction.
	Balance Enquiry	
	Change of PIN	
	Mini Statement	

For People Living in Non-Metropolitan Cities, Smaller Towns and Holders of Zero Balance and Other No-Frills Accounts

BANK	TRANSACTION TYPE	TRANSACTION LIMIT
Same Bank	Cash withdrawal	5 Free transactions per month. Rs.20 is applicable for each cash withdrawal and Rs.9 for non-cash transactions.
	Balance Enquiry	
	Change of PIN	
	Mini Statement	
Different Bank	Cash withdrawal	5 Free transactions per month. Rs. 20 is applicable for each cash withdrawal and Rs.9 for non-cash transactions charged at Rs.20 per transaction.

New Rules for Bank Customers

The transaction fee has been increased from the earlier limit of Rs. 15 to Rs.20 and the number of free transactions decreased from five to three for ATMs of other banks and five from the same bank in a month. Another important change in the new RBI guideline policy for ATM transaction fee is the fact that all ATM transactions including cash withdrawal, balance enquiry and changing of PIN number etc would be considered as an ATM transaction unlike in the past when balance enquiry was not considered a transaction as such.

The inter banking fee charged by various banks through ATM services will also increase since banks are using the fee

as an incentive to install more number of ATM machines. While all the above reasons have played their role in the decision to some extent the game clincher has been Reserve Bank of India’s long term plan to promote the use of e-transfers and cashless transactions as much as possible to avoid the use of any black money in the system. The rise in ATM transaction fee is largely seen by financial experts as a sum culmination of all of the above factors.

Banks are the Biggest Beneficiaries of Proliferation of ATMs

According to RBI, the number of Automated Teller Machines (ATMs), which stood at a little over 27,000 as at

end-March 2007, has increased to over 1.6 lakh across the country by end-March 2014. At the cost of repetition, that the biggest beneficiaries of proliferation of banking facility through this route of ATMs are none other than banks themselves for the following reasons:

1. 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 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 of full fledged branches is very expensive so the easiest way to reach out to the people by setting up of ATM, which attract people to open their account even if the branch of the bank is a 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, 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.

Sufferer's From This Issue

It is clear that the ordinary middle class and the lower middle class who keep their surplus funds in savings bank accounts suffer most, as they are the people who use the ATMs for their cash requirements. The rich and the ultra rich generally do not have to draw cash from ATMs, because they hold adequate cash in their tills as they do not wish to deposit cash often in banks for fear of getting enquiries from the income tax (I-T) department. The upper middle class prefer to invest their surplus cash in other investment avenues like mutual funds or stock markets, which yield much higher returns than bank deposits, leaving little balance in savings accounts. It is the middle and the lower middle class, who constitute nearly 300 million of our country men and women keep all their savings in banks, though it is earning virtually negative real returns for them due to the prevalence of high inflation in the economy. It is they who suffer most by the change in ATM rules.

Reasons for Framing New Rules by RBI

The charges for ATM usage may be an unpopular decision taken by the Reserve Bank of India, the limit in free transactions is justified by the apex body considering high expenses for managing ATMs across the country. With an increasing number of robbery attempts on various ATMs especially in isolated areas and in semi urban and rural areas, the banks have been forced to shell out funds to install a security mechanism apart from using CCTVs and manual security guards wherever possible.

With the Reserve Bank of India laying down strict security guidelines not to leave any ATM unmanned or without security cameras and other measures, banks are facing higher overheads to manage the ATMs.

The inter banking fee charged by various banks through ATM services will also increase since banks are using the fee as an incentive to install more number of ATM machines. While all the above reasons have played their role in the decision to some extent the game clincher has been Reserve Bank of India's long term plan to promote the use of e-transfers and cashless transactions as much as possible to avoid the use of any black money in the system. The rise in ATM transaction fee is largely seen by financial experts as a sum culmination of all of the above factors.

Way to Reduce ATM Usage

- ❖ Avoid ATM transactions whenever possible
- ❖ Change the habit of withdrawing smaller amounts
- ❖ Visit bank branch for cash withdrawals
- ❖ Use online banking for statement

Conclusion

Banking through ATM has not only transformed traditional banking but has also brought a paradigm shift in the attitude of banks to banking operations. The customers prefer ATM with time and cost utility which provides efficient services. Despite the changes proposed are, therefore, neither in the interest of bank customers nor the banks themselves, and it is a retrograde step, as it adversely affects the spreading of banking habit among the poor and the down trodden, who can ill afford to pay these high charges levied by banks for the use of ATMs. There is certainly no case for banks to curtail the existing facilities available to ATM users, imposing additional charges on the depositors will only result in negating the efforts of the government in spreading financial inclusion, which is being attempted at a very heavy cost to the exchequer. There is no doubt that by restricting free usage of ATMs, banks are "biting the hands that feed them", hurting both the banks and their customers.

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