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Critical Factors Involving usage of ATMs in India

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***Abstract*: The Indian Banking Industry has introduced the concept of ATMs for cash withdrawals long back. Recently the Reserve Bank of India has come up with some policies with regards to the usage of ATMs. This paper focuses on the critical statistics of the usage of ATMs in India and the effects of introducing such policies both on the banks and the customers.**

***Keywords*: ATM, RBI, NFS, Critical factors.**

1. INTRODUCTION

Electronic banking or e-banking created a revolution in the banking services sector. E-banking refers to those types of services where the customer can perform most of the personal financial tasks on his own without the assistance of any bank staff and with the influence of computers and the cyber space and the telecommunication technologies.

In many parts of the world the majority of bank customers regularly use Automatic Teller Machines (ATMs) and today's Western youth have not known a world without them. For these people, the prevailing perception of a cash machine is that of a tool providing a familiar functionality of basic financial information and dispensing cash. [1].

It took around 35 years to establish ATMs exemplifying the self-service financial transaction device. This has not been achieved so easily. What was demanded was,building a trust among the common people, in the technology and their willingness to adapt to this technology, which would affect the domain ofpersonal finance. Financial institutions have played a major and a parental role in encouraging ATM adoption among people.[2].

With the advent of universal banking, the banking sector transformed to fast-paced banking approaches and methodologies. Their core mission shifted towards customer retention through speedy and accurate online banking. E-banking involved integration with telephonic systems and web based technologies to focus on various segments of the society. This enabled a paradigm shift from profit-orientation to customer-orientation.[3]

2. HISTORY OF ATM IMPLEMENTATION

On September 02 in 1969, America's first automatic teller machine (ATM) made its public debut, dispensing cash to customers at Chemical Bank in Rockville Center, New York. The aim was to reduce the footfall of the customers in the bank, in order to perform basic financial transactions. By the mid of the 1980s ATMs started playing a pivotal role for the bank customers to perform financial transactions like withdrawing and depositing cash, depositing checks, transferring money in between accounts, etc.

After several trials by several scientists and inventors, Don Wetzel, an executive at Docutel, a Dallas company that developed *automated baggage-handling equipment*, came up with the idea of the modern ATM. It was the wait line in the bank that made Wetzel conceive the idea of this money machine. The ATM made its debut in New York in 1969 was only able to give out cash. But the functionality of displaying the account balance was enhanced in 1971.

ATMs eventually expanded beyond the bank premises and today these machines can be found everywhere from petrol stations, railway stationsshopping malls to cruise ships and every possible public places on earth.

Today there are well over 3 million ATMs around the world, with a new one added approximately every five minutes.In the 1990s, banks began charging fees to use ATMs which is still prevalent in the Indian scenario, and this was a profitable move for them.[4]

On an Indian context, the Reserve Bank of India had limited 5 transactions in other bank ATMs, after which a fee, per transaction was being levied, and unlimited transactions in the home bank, but with the rising usage of ATMs among the customers and the cost incurred by the bank to dispense cash in one withdrawal, they have limited this, to making 5 transactions in the home bank ATMs and 3 transactions in the non- home bank ATMs, after which a fee per transaction is levied.

3. ATM INTRODUCTION IN INDIA

Hongkong and Shanghai Banking Corporation (HSBC) introduced the ATM for the first time in India in 1987. Every bank now provides ATM facility to its customers. Previously, it was ICICI Bank that had the most number of ATM centers across India. The other banks Axis Bank, HDFC and IDBI were leading in providing ATM facilities to their customers. Public Sector Banks also took the installation of ATMs seriously for Indian market, with State Bank of India leading the list in the Indian context with the most number of ATMs. The Punjab National Bank follows the list with the second largest network of ATMs amongst the Public Sector Banks in India.

4. LEVERAGING ATMS ACROSS INDIA

National Financial Switch (NFS) of the National Payment Corporation of India (NPCI) facilitates cross ATM transactions in the country, which also routes all cross ATM transactions (payment and settlement). There is a reverse-interchange revenue earned by acquirer bank (bank whose ATM is used). In addition to that, NPCI receives switching fee of Rs. 0.50 for every financial or non-financial transaction from the card issuer bank. The NPCI also decides on the uniformreverse-interchange tariff structure for banks. A study by the IndianBanks'Association (IBA) after RBI's new policies on ATM usage post-April 2009 shows that "*the intended purpose to serve the common man was achieved through making cross ATM usage free since a majority of the ATM transactions were in the range of average withdrawals of Rs.3,500-4,000, and 90% of all transactions were below Rs.10,000.On the other hand, there was a small minority of users who withdrew very large sums on account of high card limits given by some banks to privileged customers, which created logistic problems for banks at the cost of the common use*". RBI's came up with a solution, which can be pointed out as :

i. Putting a cap of Rs.10,000 for a cross ATM cash withdrawal.

ii. Limiting the number of free cross ATM cash withdrawals to five a month, was primarily to control such large withdrawals and to address some business model issues of the banks. [5]

However, this policy also was amended in 2015 when the RBI realized that, there was still a correction needed in the ATM usage policy in the Indian Economy which to making 5 transactions in the home bank ATMs and 3 transactions in the non- home bank ATMs, after which a fee per transaction is levied, which is debited to the home bank. This money is debited to the home bank, from where the other bank and NCPI is paid as a fee.

5. REFORMS IN ATM USAGE IN INDIA

Since November 1st, 2014, the Reserve Bank of India has come up with a policy of putting a cap in the ATM transactions for the customers of the metropolitan cities. Previously, the customers could perform unlimited ATM transactions (*cash and non-cash*) in the home bank ATMs and five non-home ATM transactions for free, after which per non-home ATM transactions would cost Rs.20 for financial transaction and Rs.9 for non- financial transaction. This rule remains the same for the customers who do not reside in metropolitan cities. But, there has been a major reform in capping number of free ATM transactions for the customers in the metropolitan cities. The reform says that, a customer could perform five home bank ATM transactions and three non – home transactions for free in a month, after which per transaction would cost Rs.20 + Additional taxes, which amounts to Rs.22 to Rs.24 .

6. THE ATM TRANSACTION SCENARIO IN INDIA: AN INSIGHT

Within the tenure of April 2010 to March 2014 the NFS and the RBI ATM usage data came up with the following information:

- 38% of the cash withdrawal transactions are made below Rs.1000 which comprises of 6% of the overall ATM usage.
- 26% of the cash withdrawals are made above Rs.5000 which comprises of 71% of the overall ATM usage.

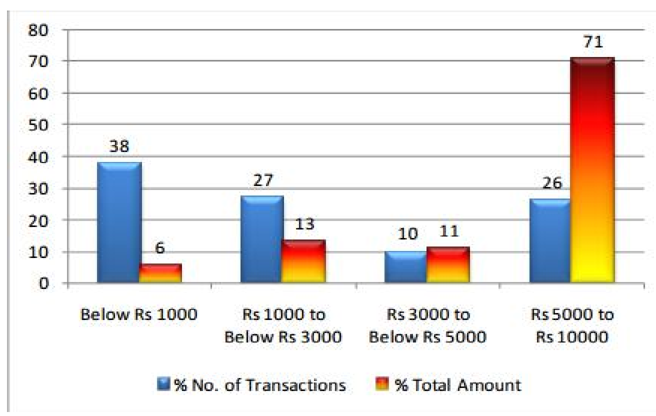

Fig. 1. Percentage of transactions (in numbers) v/s Total Amount withdrawn[5]

The off- us transactions across various ATMs in India had a tremendous increase of 70% during the first half of 2010 and to some extent of the second half of the year (at this time the number of off-us transactions were limited to 5 per month) which amounted to around 1300 off-us transactions per ATM per month.

The off – us utilization of ATMs has come down to 1150 cash withdrawals per ATM per month, which signifies that the concept of off-us utilization has become expensive and liquidity tightening is the main motive for this.

The off-us non- financial transactions has come down to 23%, which previously was 28% after banks beganto charge for the non-financial transactions too. Thus we can infer that the percentage of financial transaction's share lies somewhere near 77%.

Even the growth in the number of ATMs to 112% has posed an impact by showing a reduction in the average number of ATM transaction to 35% per ATM. *(See Figure)*[6][7][5]

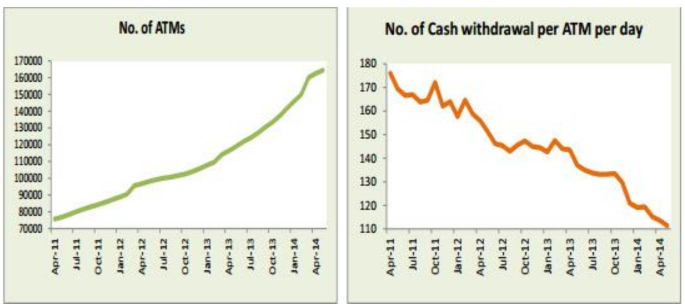

Fig. 2. Increase in the number of ATMs v/s Number of transactions per ATM[5]

7. CONCLUSION

Taking the above data analysis and the information into consideration, I believe that the introduction to the ATM concept in India is not a choice of the banks but it is a need for them. The reason being, with a large population opening bank accounts (which is a good sign to the Indian Economy) banks are operating at over capacity. In order to reduce the customer footfall in bank branches, this step has been taken. But banks have set up a revenue model with regards to the utilization of ATMs. Because of this revenue model banks are earning a good amount of money, at the end making cash withdrawal through ATMs very expensive. If these kinds of policies are framed or are leveraged, the main motive of reducing customer footfall would be a shear failure, and also the liquidity tightening motive would not last for long.

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