

Why cross usage of ATMs should be free and unlimited?

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1. Introduction

On December 2007, Reserve Bank of India (RBI) came out with an approach paper on Fair Pricing and Enhanced Access of Bank ATMs. Subsequently, RBI issued a direction to all banks making use of other bank ATMs for balance enquiries and cash withdrawals free effective April 2009. It now appears that Indian Banks' Association (IBA) may be taking this with a pinch of salt since it wants RBI to review its decision on providing free ATM usage. Needless to say, with IBA's stated vision "to work proactively for the growth of a healthy, professional and forward looking, banking and financial services industry, in a manner consistent with public good", it remains to be seen how such a move by IBA is consistent with being forward looking and for public good.

As per Deputy Chairman, IBA, the cost of a bank transaction on manual mode is estimated to be in the range of Rs. 45 to Rs. 50 while it is around Rs. 15 on ATM and Rs. 4 on e-banking. Realizing the benefits bank get out of use of ATM some banks, in order to push customers to ATM, even offer rewards. Usage of ATM by the customers is a blessing in disguise for banks. It can be well argued as to how imposition of a fee for third party ATM transactions serves to be counterproductive to the banking system and makes the payment system inefficient.

Consider a situation wherein bank X does not have an ATM at a particular location. Bank X customers, in that location, may then look for a location where bank X has an ATM or a bank branch, resulting in the inconvenience of customer and higher cost for such a customer visiting their branch. Thus, keeping in mind the role of technology in enhancing quality of customer service in banks, RBI came up with an innovative idea of making third party ATM same as customer's own bank ATM thereby considerably reducing the cost (of opening more branches or installing more ATMs) to banks. This results in better utilization of resources as bank X customers can use bank Y ATM while bank Y customers can use bank X ATM.

As per RBI, international experience indicates that in countries such as UK, Germany and France, bank customers have access to all ATMs in the country, free of charge except when cash is withdrawn from white label ATMs or from ATMs managed by non-bank entities. There is also a move, internationally, to regulate the fee structure by the regulator from the public policy angle. The ideal situation is that a customer should be able to access any ATM installed in the country free of charge through an equitable cooperative initiative by banks.

2. Bank's cost on ATM

Assuming that it indeed costs the bank around Rs. 15 when a customer of the same bank uses its own ATM machine, it will cost the bank around Rs. 15-18 when a different bank's ATM is used. This is due to a component of the cost called the switch (inter-connectivity of ATM Networks) fee which is the fee

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levied by the switch providers like National Financial Switch (NFS), Mitr, Cashnet, VISA, MasterCard etc. and varies from 'Nil' to Rs. 3 per transaction. In order to reduce the cost of operations for banks, the Institute for Development and Research in Banking Technology (IDRBT), which is administering the NFS, has waived the switching fee since December 2007. The pre-April 2009 ATM usage cost was worked out by the banks and this figure has been claimed to be around Rs. 15. However, it is not known what had been the method adopted while arriving at this figure. With the number of third party transactions surging post-April 2009, it is imperative to re-work the costing aspects and revisit the basis of the currently perceived cost of Rs. 15. The cost per transaction would nearly half if the number of usage of an ATM is doubled.

Apart from the cost of the ATM instrument itself, the major recurring cost involves expenditure on location rent, electricity (air conditioner), network/communication, security, stationary, maintenance and cash transportation (for off-site locations) and a possible switch (inter-connectivity of ATM Networks) fee. Thus, it is now clear that once a bank X installs an ATM unit, to break even on the initial expenditure of the ATM instrument, it would want (a) more of their own customers to use the ATM rather than use the branch counters which on the long run cost more than 3 times to disburse cash and (b) more of other bank's customers to use their ATM to generate revenue. Now, it should be understood that when a customer of a different bank uses the ATM, that other **bank saves almost Rs 30 even after shelling out around Rs. 15-18 as interchange and switch fees.**

3. Conclusion

RBI, in the public interest, needs to take a broader view while considering the ATM issue and should have a well reasoned approach while taking such decisions limiting enhanced access to ATMs. In this connection, the arguments from the customer's point of view should be kept in mind.

- The banks are obliged to provide free service to their customers for withdrawing cash, making balance enquiries, etc., over the counter and through their own ATMs. However, the cost of providing such services over branch counters works out to be three times more expensive than that through ATM (their own or other bank's). Thus, effectively with such savings in cost (by use of ATMs), the banks should ideally pass on this gain to their customers. Since the banks earn and save more through more and more cross (third party) ATM usage, RBI with a well reasoned decision made such cross ATM usage free. Contrarily, IBA feels otherwise and considers it good to impose a fee for cross ATM usage.
- Limiting the third party usage will be not only a move for inefficiency in payment system but also against the RBI vision on Payment System. In the initial years, most of the bigger foreign and private banks realized the cost benefit of technology and installed more and more ATMs. And now with cross ATM usage made free, these very banks are able to attract more customers at their ATMs leading to generation of extra revenue through enhanced use of their ATM. Thus installing ATM units is an income generating, cost reducing and productivity enhancing activity. However, if a bank gets a fee from their customers in using other banks ATMs, it will have no incentive to setup new ATM for its own customers.

- IBA study indicates that post-April 2009 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 could create logistics problems for banks at the cost of the common user. However, these problems need to be looked at more closely. IBA's solution in form of limiting the number of free third party withdrawals to 5 a month is not reasoned enough and it would lead to limiting freedom to draw any amount (within Rs. 10,000) more than 5 times in a month. The number 5 appears arbitrary. If need be, for free cross ATM withdrawals, one can possibly think of limiting the total amount to, say, Rs. 1.5 lakh a month. Furthermore, if there are severe logistic issues involved just because a small minority of users tends to withdraw very large sums on account of high card limits, RBI may think of discouraging such users by additionally limiting free cross ATM withdrawals to a total of Rs. 20,000 per day, say. Such a move would achieve eliminating the difficulties encountered by the banks and alongside also achieve the intended purpose to serve the common man.

IBA seems to take steps to generate additional income for the banks by an easy path of levying fees which is against consumer interest. Easy availability of ATM, free of cost, will reduce the demand for reserve cash, thereby enabling the economy to save some resources. However, IBA is free to make such a move for reintroducing cross ATM fees provided it is based on complete and fully worked out facts related to cost data on ATM and manually servicing customers over counters. It should clearly establish that cross ATM usage is a costlier proposition vis-à-vis branch counters. RBI's approach had been to put such issues, after initial analysis, in the public domain for public comments. Thereafter the RBI takes a reasoned decision, keeping broader public interests in mind. For this case too public would expect similar practice to prevail.