

ATMs of Banks: Fair Pricing and Enhanced Access – Draft Approach Paper

1. Automated Teller Machines (ATMs) have gained prominence as a delivery channel for banking transactions in India. Banks have been deploying ATMs to increase their reach. While ATMs facilitate a variety of banking transactions for customers, their main utility has been for cash withdrawal and balance enquiry. As at the end of October 2007, the number of ATMs deployed in India was 31,078. Commensurate with the branch network, larger banks have deployed more ATMs. Most banks prefer to deploy ATMs at locations where they have a large customer base or expect considerable use. To increase the usage of ATMs as a delivery channel, banks have also entered into bilateral or multilateral arrangements with other banks to have inter-bank ATM networks.

ATM Networks

2. The ATMs of a bank are connected to the accounting platform of the bank through ATM switch(es). Inter-bank ATM networks are created by setting up apex level switches to communicate between the ATM switches of different banks. The inter-bank ATM networks facilitate the use of ATM cards of one bank at the ATM(s) of other banks for basic services like cash withdrawal and balance enquiry. Banks owning the ATMs charge a fee for providing the ATM facility to the customers of other banks. This fee referred to as 'interchange fee' is recovered by the ATM deploying bank from the card issuing banks. However the interchange fee is not fixed across banks and depends on the terms of bilateral / multilateral arrangements. Banks with larger ATM network treat interchange fee as an important stream of revenue.

Inter-connectivity of ATM Networks for enhanced access

3. An apex level switch or inter-connectivity of ATM Networks provides access to the customers to use any ATM in the country irrespective of the bank with which the customer is banking. There are a number of ATM network switches such as CashTree, BANCS, Cashnet Mitr and National Financial Switch (NFS). In addition, most ATM switches are also linked to VISA or MasterCard gateways (for honouring Debit / Credit cards issued under VISA or MasterCard affiliation).

Charges levied by banks

4. Information collected from all public sector banks and a cross section of other banks indicates that they do not charge their customers that use their own ATMs for cash withdrawals and balance enquiry. It is reported that one bank is extending cash withdrawal and balance enquiry services free of charge to all customers, except the 'No Frills' account holders.

5. The charges range from 'Nil' to Rs.57/- per transaction when their customers use the ATMs of other banks for cash withdrawals and balance enquiry. The charges depend on the network relationship between the bank owning the ATM and the customer's own bank.

Under bilateral arrangement

6. In case the customers use ATMs of the banks with which their bank has "bilateral arrangement" (customers of one bank can use the ATMs of the other bank with which the customers bank has a ATM sharing arrangement), the charges levied by the banks on their customers vary from 'Nil' to Rs.50 per transaction for cash withdrawal and 'Nil' to Rs.20 for each balance enquiry.

Under shared ATM network (other than NFS)

7. The charges levied by banks which are members of shared ATM network (inter-connected ATMs of a group of banks) and provide access to other ATM networks (other than NFS), vary from 'Nil' to Rs.55 per transaction for cash withdrawal and the charges levied for each balance enquiry vary from 'Nil' to Rs.20.

Under shared ATM network - NFS

8. In respect of ATM networks of banks which are "connected to NFS", the charges levied by the banks vary from 'Nil' to Rs.55 per transaction for cash withdrawal and 'Nil' to Rs.20 for each balance enquiry.

Under VISA / MasterCard network

9. In respect of ATMs which are 'directly connected' to VISA / MasterCard network, the charges levied vary from 'Nil' to Rs.57 per transaction for cash withdrawal and 'Nil' to Rs.20 for each balance enquiry.

Benefits of transparency

10. It is evident that the charges levied on the customers vary from bank to bank and also vary according to the ATM network that is used for the transaction. Consequently, a customer is not aware, before hand, of the charges that will be levied for a particular ATM transaction, while using an ATM of another bank. This generally discourages the customer from using the ATMs of other banks. It is, therefore, essential to ensure greater transparency.

International experience

11. 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. The process may be ensured, if necessary, by regulatory intervention by way of setting service charges considered reasonable.

Reasonableness of charges levied by banks

12. The component(s) for service charges may be as under:

(A) When customer uses his/her own bank ATM: It may relate to cost of ATM operation less cost of operation if the customer visits the branch for cash withdrawal or balance enquiry at the counter. This cost generally works out to be negative, as cost of servicing at counters is much higher than servicing through ATMs.

(B) When customer uses ATM of other banks: When a bank customer uses an ATM of a bank other than his/her own bank, it is reasonable that the service charge that the customer pays should reflect the interchange fee that his/her bank will pay to the ATM-owning bank and switching fee, if any.

13. The data collected from various banks indicates that, generally, the aggregate charges per transaction range from Rs.10 to Rs.20 for cash withdrawal and Rs.5 to Rs.8 for balance enquiry.

14. It is gathered that switching fee being levied by the switch providers like NFS, Mitr, Cashnet, VISA, Mastercard etc. varies from 'Nil' to Rs. 3 per transaction.

Recent Initiative

15. In order to reduce the cost of operations for banks, the Institute for Development and Research in Banking Technology (IDRBT), which is administering the National Financial Switch, has waived the switching fee that it was hitherto charging, with effect from 3rd December 2007. This reduction in the transaction cost is expected to be passed on to the customers by the banks.

Case for rationalisation

16. Use of technology should, among others, lead to reduction in transaction costs to banks. Over a period, with the increasing adaptation of the people to the use of technology in their daily transactions, it is expected that there will be a further reduction in the transaction costs. In these circumstances, the regulator, by authorising the establishment of an ATM, has a responsibility to ensure transparency and fair charges for the use of ATMs.

17. There is also a good case for establishing greater level of transparency in the context of adoption of technology to enhance the level of financial inclusion. In this background, there is also a case for rationalizing the service charges for ATM transactions such that it becomes affordable for the common man. Enhanced and cost effective access to ATMs plays an important role in technology based financial inclusion.

Suggested Approach

18. Taking into consideration the above, and in the public interest, the approach is to establish a fair and transparent framework for levy of service charges for ATMs such that it would encourage greater financial inclusion and promote enhanced access to ATMs. In this direction, banks may levy service charges suggested in the table below, on their customers, for access to ATMs.

Service	Proposed charges
For use of own ATMs for any purpose	Free
For use of other bank ATMs for balance enquiries	Free
For use of other bank ATMs for cash withdrawals	<ul style="list-style-type: none"> • No bank shall increase the charges prevailing as on December 23, 2007 • Banks which are charging more than Rs.20 per transaction shall reduce the charges to Rs.20 per transaction by March 31, 2008 • Free - with effect from April 1, 2009.