Back for the money

More than seven years after demonetisation, automated teller machines are in the spotlight, reports **RAGHU MOHAN**

State Bank of India (SBI) has floated a request for proposal for 16,000 automated teller machines (ATMs), the largest such by a bank in the country. Plus, another 17,500 for outsourcing. Keeping SBI company on this front are Bank of Baroda (7,400) and Punjab National Bank (3,500). Taken together, fresh orders for ATMs over the last six months total 44,500, or nearly six-fold of what was placed in the preceding period. "While about 20,000 are replacements for ageing ATMs, it's still a bonanza," says Stanley Johnson, executive director, AGS Transact Technologies, which manufactures ATMs. Why so? "Because the installed ATM base in November 2016 was around 225,000; it's now at 260,000." The numbers dialled for are more than what has been set up since.

There are stirrings in the white-label ATM (WLATM) – those set up, owned and managed by companies other than banks – business as well. One deployer has crossed the 10,000 mark (India1 Payments at 13,047) and while another, Hitachi Payments, has hit 10,000. This is seen as an achievement despite the fact that Mint Road's June 2012 WLATM policy did not deliver the way dedicated tower companies did for mobile telephony. Had it gone to plan, 1,000-25,000 ATMs would have been set up by an operator in the very first year of operations (based on the scheme it had opted for). If all eight that had signed up had set it rolling, these numbers would have been at 8,000-200,000. But the idea did not fire the way it was imagined: We have just 34,074 WLATMs after more than a decade.

"Our average penetration levels are way below compared to the world, at about 21 ATMs per 100,000 population. If you take China and Brazil, they are in the 80s and 90s," says K Srinivas, managing director (MD) and chief executive officer (CEO) of India1. Yet he sounds optimistic.

Growth window

"There is more than opportunity, to take the number of ATMs to about 350,000, at least," says Srinivas. (with WLATM deployers playing a big role). It's a view shared by Navroze Dastur even as the regional vice-president (Asia Pacific) and MD (India), NCR Corporation – the world's largest manufacturer of ATMs – qualifies: "It (growth) is not at the rate we were seeing before demonetisation. Most of it is in the rural markets where the demand for cash continues to be strong."

An adjacent business is all cheer – cash logistics. Despite talk of digital making a meal of cash, ₹15,000-20,000 crore is processed by cash-in-transit firms on a daily basis. You have three listed players (over a three-year period): CMS, AGS Transact and Radiant Cash Management Services. As Anush Raghavan, president (cash management systems) at CMS Info Systems (the biggest in this genre), puts it, "Cash is both a store of value and a form of payment. Cash versus digital is seen as a binary. It doesn't work like that; both need to co-exist."

There is a strong co-relation between the CMS Cash Index (CCI), a weighted index constructed on the basis of cash that goes into circulation via ATM channels and the cash collected from organised retail touch-points by CMS Info Systems, and the HSBC India Composite PMI (HSBC ICPMI) since April 2016. The exception was during demonetisation (November-December 2016) when cash in circulation (CCI) went much lower compared to HSBC ICPMI and during Covid-19 induced lockdowns when the HSBC ICPMI fell steeper than the CCI. (See chart *Money Spread*)

ATMs can be standalone low-cost extensions to bank branches. One report says every bank branch should have two ATMs in its serviceable vicinity (apart from those on premises)

A Frost & Sullivan report said there had been a significant increase in demand for cash due to the expansion of non-banking financial companies, e-commerce and other retail enterprises, as well as their thrust into Tier-II cities and beyond. This has led to a far greater share of cash-on-delivery (CoD), which still accounts for more than 60 per cent of e-commerce payments. The share of CoD (in all payments) is 70 per cent in the non-metros, and as high as 90 per cent in Tier-IV cities, compared with 50 per cent in the metros. What is clear is that consumers do shop online, but prefer to settle in cash, read CoD.

What a soul will not squeak – on record – is that a complete revisit of the ATM channel is underway.

The report of the committee to review ATM interchange fee structure is back in play. The committee was headed by the Indian Banks' Association's then CEO V G Kannan and its report was submitted to Mint Road on October 22, 2019, but not made public. An appeal under the Right to Information (RTI) Act was rejected by the public information officer. Because it was in the possession of the Reserve Bank of India (RBI), in its fiduciary capacity and exempt under Section 8 (1) (e) of the RTI Act. *Business Standard* has seen a copy of the report.

Submitted a few months before the pandemic – and looked at through the prism of what unfolded later, like the huge spurt in digital payments – the report never gained traction. But it raised many critical issues. The opening paragraph of its executive summary held "the ease and ability of withdrawing cash from bank accounts at the time and place of choice/requirement gives confidence to the customer to keep money in the bank accounts, thus increasing the money in circulation through formal banking channels."

WHY CASH RULES

- Demand for cash has increased as e-commerce, retail firms expand
- Cash-on-delivery accounts for more than 60% of e-commerce payments
- India has an installed ATM base of 260,000, compared to 225,000 in 2016
- Banks will save costs on branch transactions by having more ATMs

Cash matters

An RBI 'Occasional Paper' on 'Cash versus Digital Payment Transactions in India: Decoding the Currency Demand Paradox' (November 2023) also said there are difficulties in putting cash and digital payments into neat separate buckets. "For instance, a ₹500 bank note in a wallet may be serving the dual purpose of a means of payment and a temporary store-of-value. Moreover, not all large-denomination notes are essentially held for hoarding purposes; some people may also be storing cash for genuine reasons," it said.

There's a plot bubbling below the surface. "What more can we do with the ATM? Not just cash deposits or withdrawals, but can you have a bank-in-a-box where you can encash a cheque, do your e-KYC, and get a statement printed out or get a debit card issued? You will be able to do almost 80-90 per cent of what you would be able to do at a branch," says Dastur. That's because ATM growth is expected to chase branch openings. New branches opened increased to 5,308 in FY23 from 3,254 in FY22, primarily due to private banks expanding in smaller cities. A report by DAM Capital says that every bank branch should ideally have two ATMs in its serviceable vicinity (in addition to on-premise ATMs). This mirrors Dastur's view that ATMs can act as standalone low-cost extensions to branches.

According to Frost & Sullivan, despite the rapid growth in Jan Dhan Yojana accounts and RuPay cards, millions of rural consumers with debit cards and bank accounts, basic infrastructure such as an ATM is lacking. This is important for cash-outs by direct-benefit transfer beneficiaries as well – they do not have the time to queue up at a bank and be away from jobs. And outside bigger cities, you pay largely by cash for just about everything.

The Kannan committee made an important observation. If the increase in ATMs is not commensurate with the growth in debit cards to fulfil basic needs of customers, banks may have high footfalls at branches. The cost of serving a customer at a branch, especially for cash transactions, is substantially high as compared to per transaction cost at an ATM. Banks should consider the cost saved on branch transactions and also the cost of setting up of branches, if usage of ATMs and other alternate channels are not increased. It also called attention to how the industry weighs issues. The number of withdrawal transactions at ATMs per customer is higher as compared to that at the branch. Hence, the comparison of the cost of a single ATM transaction with that in a branch may not be appropriate.

Another variable is the point made by the Standing Committee on Communications and Information Technology in February this year: The dominance of foreign firms in the payments business. PhonePe and Google Pay market shares were 46.91 per cent and 39.39 per cent, respectively, by volume during October-November 2023. The market share by volume of BHIM UPI was only 0.22 per cent. A policy change to correct this skew may well play out positively for cash. For now, the grapevine has it that a complete rehaul of the ATM channel, reworking the interchange of ₹17, and taking care of cost concerns is on the cards.

The till-box is back in the spotlight.

"Cash is both a store of value and a form of payment. Cash versus digital is seen as a binary. It doesn't work like that; both need to co-exist"

ANUSH RAGHAVAN
President (cash management systems), CMS Info Systems

"Our (India) average penetration levels are way below compared to the world, at about 21 ATMs per 100,000 population"

K SRINIVAS
MD & CEO, India1

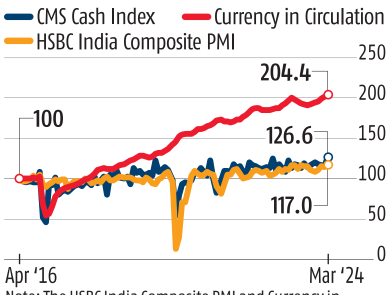
"Not just cash deposits or withdrawals...you will be able to do (at an ATM) almost 80-90% of what you would be able to do at a branch"

NAVROZE DASTUR
President (Asia Pacific) & MD (India), NCR Corporation

"While about 20,000 (orders) are replacements for ageing ATMs, it's still a bonanza (for the industry)"

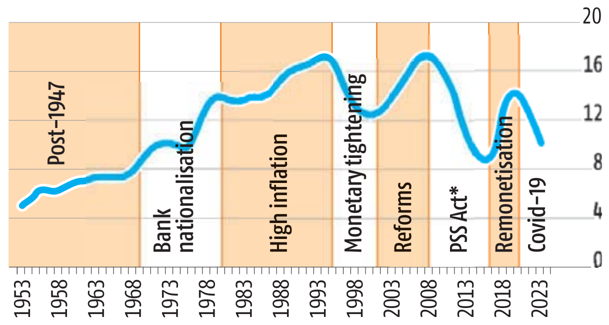
STANLEY JOHNSON
ED, AGS Transact Technologies

MONEY SPREAD



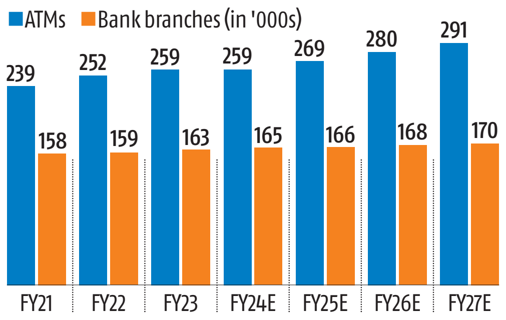
Note: The HSBC India Composite PMI and Currency in Circulation readings are rebased to 100 in April 2016.
Source: CMS Cash Index

CASH IN CIRCULATION



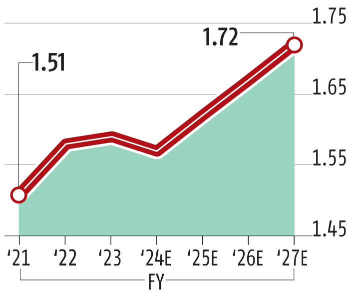
*Payment and Settlement Systems Act
Source: RBI

GROWING ATM BASE



Note: E refers to estimated
Source: RBI, Industry, DAM Capital Research

ATM/BANK BRANCH RATIO



Source: RBI, Industry, DAM Capital Research