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Lost in transit: ATM refill frauds jump four-fold since demonetisation

By *Rachel Chitra*, TNN | Updated: Dec 10, 2016, 11.02 AM IST

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CHENNAI: Reported fraud during ATM refills has jumped four-fold to Rs 8.34 crore since demonetisation, exposing cracks in the largely disorganised cash-in-transit industry, officials said. According to experts, the monthly loss on an average before [demonetisation](#) used to be Rs 1-2 crore.

The CBI is investigating a case in Bengaluru where an attempt was made to convert Rs 5.63 crore "black money" into white using ATM refill agencies. This follows a string of other frauds, like a fortnight ago when an ATM cash van made off with about Rs 1 crore in Bengaluru. Employees stole Rs 74 lakh in cash meant for [ATMs](#) in Visakhapatnam. This month is also bound to see an increase in those numbers because of mass movement of currency with lesser scrutiny post-demonetisation, experts said.

"Over the last two years, the rate of internal fraud and cash lost has doubled with about 3-5 major incidents being reported every month," said Rituraj Sinha, president, [Cash Logistics Association](#) (CLA), which handles over 93% of the ATM cash logistics in India. With incidents like RCI [Cash Management](#) in Hyderabad, where the agency stole cash worth Rs 50 crore, the annual loss to banks due to fraudulent involvement of ATM refill agencies stood at Rs 160 crore as of July, officials said. Despite the industry handling 10 times the volumes it managed before demonetisation, over 9,000 [cash vans](#) in the country continue to ply with crores of rupees in cash without armed guards, GPS trackers or any background verification. In an earlier interview with TOI, Sinha of CLA had said the industry body had been urging the RBI to enforce stricter outsourcing guidelines since 2013.

For the last three years, both the CLA and Indian Bankers' Association (IBA) have reiterated the need for the RBI to enforce stricter outsourcing guidelines. Since most activities of banks like printing of ATM PINs, cheque books and credit card statements is done with utmost secrecy only with audited, IBA-paneled members, experts said that is worrisome that the cash-in-transit business is unregulated.

"We have seen an increasing number of complaints due to debit card and [ATM fraud](#)," said A C Mahajan, chairman, Banking Codes and Standards Board of India. Further, public-sector banks do not reconcile their cash as often as private-sector banks, said a member of [CATMI](#) (Confederation of ATM Industry). "Many private lenders like ICICI, HDFC and Axis do cash reconciliation, which is an internal audit of the money that goes out of a bank's chest versus the money dispensed by their ATMs, daily or once in two days," the member said.

One possible solution, which would involve a technological upgrade, is to switch to cassettes for dispensing cash. "In India, today cash refill agencies manually load cash. But in many countries like the UK and US, banks give sealed cassettes filled with cash to refill agencies. That way, agents don't have to physical touch the cash," said a senior executive at AGS Transact Technologies, an ATM service provider.

"How it works is that instead of handing stashes of cash to agencies, sealed cassettes are given. The cassettes can be unsealed only when inserted into the ATM. So at no point can employees touch the cash," he said.

But ATM managers say that such a technological upgrade could be difficult in India, as our economy is more cash intensive than UK or US. Even before demonetisation, frauds by refill agencies happened on a regular basis.

ATM managers like FSS had filed complaints in different cities before police took action on RCI Cash Management, which had taken Rs. 50 crore out of ATM to use as its working capital, including to pay salaries to its employees. "The fraud went undetected for months because of the lag in reconciliation," said Nagaraj V Mylinda, managing director, FSS.

ATM managers said that in some part the massive scale of the demonetisation operation could prove a hurdle for faster reconciliations. "RCI's Rs. 50 crore fraud and bankruptcy resulted in the directors going to jail. But for other players, net result is higher insurance costs and pressure from banks.

Question here is - Why did the banks not follow any minimum eligibility criteria before hiring a company like RCI? Why has RBI not issued any guidelines for outsourcing of such services despite IBA report?" asked the vice-president of a top cash-in-transit agency, which works with 18 of India's top lenders. "If an agency is going to be entrusted to managed hundreds of crores of public money, is it not essential that they have some minimum net worth to compensate banks, should something go wrong?" he asked.