More ATMs may disappear as they are sucking cash out of banks

K Ram Kumar Updated on December 25, 2018

Earning less than what they spend on ATMs, banks want an increase in interchange fee to stay afloat

With banks losing money by operating ATMs, they now seem to be whittling down these machines. In the first seven months of the current financial year, the number of ATMs in the country was down by 2,093.

Banks have told the Finance Ministry and the Reserve Bank of India that they are earning less than what they are spending on the ATMs.

Interchange fee

So, if they are not suitably compensated via an increase in the interchange fee, operating ATMs will become unviable, forcing closure of more machines.

Interchange fee for each approved transaction is paid by the card-issuing bank if its customer uses another bank's ATM (card-acquiring bank) for transactions. Banks want the interchange fee upped from ₹15 to ₹18 for cash withdrawals and card-to-card fund transfer, and from ₹5 to ₹8 for other non-financial transaction. "Banks have a network of about 2.20 lakh ATMs across the country and require huge investment, among others, for upgrading hardware, network, and ATM software. They also incur operating costs such as rent, electricity, video surveillance, security guard," said a senior public sector bank official.

A back-of-the-envelope calculation shows that at the rate of ₹20,000 on overheads alone per ATM, banks collectively incur a cost of about ₹440 crore per month for the 2.20 lakh-odd ATMs.

Besides these overheads, banks also incur expenses related to maintenance of ATM switch and payment to network operators such as Visa, MasterCard and RuPay.

Banks also pay the National Payments Corporation of India for switch usage, routing, and settlement of transactions.

"Banks also have to spend on loading cash, almost daily, in ATMs. Cash management costs are increasing due to stringent guidelines of the Reserve Bank of India and the Home Ministry," said a top official with a cash management logistics company.

Service providers in the cash management logistics space are pushing banks to revise service level agreements (SLAs) in the backdrop of the RBI prescribing stringent standards for them. These standards require, among others, each provider to have a minimum networth of ₹100 crore, a minimum fleet size of 300 specially-fabricated cash vans, and two armed security guards to accompany each cash van. "At the current level of income we are generating from ATMs, we are paying the vendors. Because vendors are asking for revision in SLAs in view of the changed regulatory compliance requirements, we have to re-negotiate the terms and conditions and up the charges. If we have to pay the vendors higher charges, then the interchange fees has to increase.

"If you expect banks to pay [the vendors] more but not earn, they will be forced to close down ATMs. We cannot be expected to only go on incurring expenditure without getting compensated," said the banker quoted above.

Money collected by PSBs

Referring to the Finance Ministry's written reply in Parliament that 21 public sector banks collected more than ₹10,391 crore in 42 months from the general public for not maintaining minimum balance and charges for additional ATM transactions beyond the permitted free facility, the banker underscored that this works out to about ₹247 crore per month, much less than the ₹440 crore per month incurred by banks on running ATMs.

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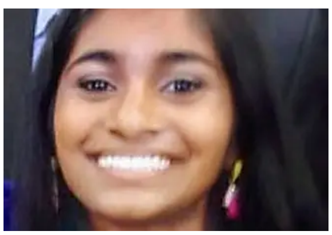

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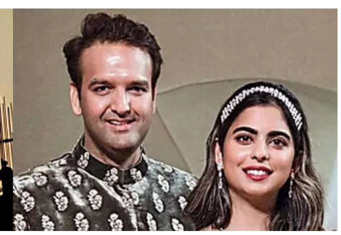

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