

WHITE LABEL ATMs IN INDIA: HOPE FOR BETTER ECONOMIC REFORMS

PUSHYAMITRA TIWARI

Research Scholar (Commerce)

University Of Allahabad

ABSTRACT :

The purpose of this paper was to determine how the emerging concept of white label ATMs in India, will be more than mere cash dispensers. Apart from regular features, such ATMs will also offer certain value-added services such as remittances, ticketing and third party advertisements. And that's the way RBI has envisioned them – one-stop shops for major financial transactions. It will help banks in increase the reach of ATMs to tier III towns and rural locations. In India only Banks are allowed to set up ATMs. Between 2008 - 2011, there has been 30% growth in number of ATMs and by the beginning of 2012, we have about 87,000 ATMs in India, yet the penetration of ATMs in Tier III and Tier IV cities has been low and downtime of such ATMs has been high. Thus, RBI is feeling that there is a need to expand ATM network, which can be done by only with the help of private operators. These White label ATMs are also secured and are regulated under the Payment & Settlement Systems Act 2007 by the Reserve Bank of India. The white label ATMs are likely to benefit customers as well as banks. With the expansion of ATM network, customers will be able to withdraw funds at more locations which will be convenient and located near to their home or place of work. Banks too support introduction of white label ATMs as such it likely to reduce pre-transaction cost for them and will be free from the problems relating to maintaining and running such a payment channel. They are likely to be located in non traditional places. . However, non-banking companies entering this market will have to maintain a certain ATM ratio between rural and urban India. The RBI is yet to prescribe the ratio.

Keywords: Non-banking companies, White – label ATMs, Brown- label ATMs.

INTRODUCTION OF WHITE LABEL ATMs IN INDIA

White label ATMs are quite popular in Canada. Since 2006, some banks have been pressing with RBI to introduce white label ATMs in India too. On 14th February, 2012, RBI has issued DRAFT guidelines and asked the comments of the bankers and public in this regard. The Reserve Bank of India (RBI) had released draft guidelines last for introduction of “white label ATMs” with a view to expand banking services in the country. So far only banking institutions authorised by the RBI were allowed to set up ATMs and operate them as per its guidelines. The introduction of white label ATMs will not be an unmixed blessing, unless RBI keeps a tight vigil over their operations. Whether they will prove white elephants or not will depend on what safety precautions will be mandated by RBI to be complied with by all the stakeholders. With a view to further expand banking services in hitherto unbanked and under-banked areas, the RBI has proposed to grant licenses to set up ATMs to private non-banking companies fulfilling certain conditions and has invited comments from the public to finalise the guidelines shortly. The market is under penetrated, the RBI is insisting on financial inclusion and banks don't have the time and resources to set up pan-India ATMs. And that's where white-label ATMs step in.

India has just 110 ATMs per million population, which is much lower than the US, which has over 1,200 ATMs per million. India is still heavily under – penetrated, people have to walk a substantial distance to reach an ATM, especially in tier III to tier IV areas, which makes an huge opportunity for private non-banking companies to set in. Currently , banking services are heavily skewed in favour of urban areas. Nearly 75 percent of the 1,24,072 ATMs in India cater to just 45 percent of the banking customers, largely in tier I and tier II cities, rest big lot of customers now been served through these white-label ATMs in India.

WHITE-LABEL ATMs V/S. BROWN-LABEL ATMs :

Banks have played a huge role in setting up and encouraging the massive adoption and usage of Automated Teller Machines (ATMs) in India. India had 124,072 ATMs operational as on 30 July,2013 according to the Reserve Bank of India (RBI) website. But penetration is low at 110 ATMs per million population, compared with 900 on average in other emerging markets. Out of these 1,24,072 ATMs 50% to 60% ATMs are Brown Label ATMs. (where the banks outsource the important functions of ATM management like switching, cash management and technical management to other private companies). Banks only handle part of the process that is cash handling and back-end server connectivity. The ATM machine is owned by the service provider along with the physical infrastructure. So Brown label ATM's are intermediate between Bank owned ATM machines and White Label ATM's. Brown label ATM machines are widespread in India as banks are saving on huge infrastructure costs. Under Brown label ATM, the hardware and lease is under the ownership of the service provider, but connectivity and cash handling and management is the responsibility of the sponsor bank. The best part is that the ATM is under the brand and logo of the sponsor bank. Thus this model is about a shared network that results in tremendously cutting costs within banks.

The other parts of the country namely the tier III to VI cities have not witnessed any impressive growth in the number of ATMs which could have popularised the concept of personal banking in rural areas. Therefore, RBI recently relaxed its policy on the setting up of the ATMs and allowed the participation of non-banking institutions to set up the White Label ATMs. (They are owned and operated by the non-banking companies and function just the same way as any other bank-run ATM). These ATM's are purely manages by third party service providers and have their label. These are branded non bank ATM machines. Cash handling, management and logistics are provided by third party. The role of the concerned bank is only limited to provided account information and back end money transfers to the third parties managing these ATM machines. This move by the RBI would help in expanding the reach of banking services in the rural areas as the non-banking companies have to maintain a certain ATM ratio between the rural and urban India.

As the ATM network expands more and more people will have easy access to cash as any customer with an ATM card can access white label ATMs. However, the RBI norm allowing five free ATM transactions will not be applicable to these ATMs. While the non-banking company won't be allowed to charge a customer directly for the transaction, the costs are expected to be displayed upfront on the screen. It is likely that the bank may recover the transaction charge from the customer separately. There is an authorized Grievance Redressal Mechanism available to the users of WLA for resolving any failed or disputed transaction. However, the primary responsibility to settle the grievances of customers relating to failed transactions at WLAs will vest with the card-issuing banks.

BANKS TO BENEFIT

White-label ATMs will be a blessing for banks as well, which currently work hard with smaller deposits and declining demand for loans. White-label ATMs act as a tool for customer acquisition as well as servicing for them. Banks will be able to save costs, which are currently being incurred on network expansion and maintenance. In a bid to increase the penetration of banking services, the Finance Ministry has favoured setting up of white-label ATMs in the country. It will help sponsored banks/lead bank of a district to set-up ATMs without incurring capital expenses for owning money dispensing machine. Banks supported with introduction of white label ATMs, as such machines are likely to reduce pre-transaction cost for them and will be free from the problems relating to maintaining and running such a payment channel. The proposal to expand the ATM network, whether owned by banks or otherwise, to hitherto unbanked areas is no doubt a welcome addition to the banking network, as it will not only help to inculcate banking habit among the rural population, but will also result in financial inclusion of a large number of people who are presently outside the banking system. WLAs will serve as an extended arm of a bank and provide cash dispensation to their account holders at a nominal cost, without the need to set up a branch or an ATM of their own, thereby considerably saving on cost which can very well be used for their mainline operations. It is by promoting the habit among the banks' customers of using ATMs over a longer period, all the banks will benefit tremendously as it will result in lesser customers visiting the branches to withdraw cash and other banking needs, thereby saving in transaction costs, man-power cost, and fewer customer complaints of delay and such other problems generally encountered in branches of banks due to heavy rush observed particularly during the first week of the month. The basic purpose of setting up is to enhance the financial inclusion. A bank can save huge costs on account of setting up ATMs. On an average, a bank incurs a capital expenditure of around Rs 3-4 lakh per ATM buying. Additionally, operation costs come in the range of Rs 40,000-50,000 per month per ATM depending on certain factors like rent, security and electricity. Managing a payment channel like ATMs is a big problem for banks. If a third party is ready to manage the operations entirely, then it reduces the capital expenditure for banks considerably. The banking sector expects three ATMs for every one branch in the next five years which cannot be fulfilled without the introduction of white-label ATMs in full-fledged.

HOW DOES THE CUSTOMER BENEFIT

Ever thought of booking an air ticket using the ATM or paying your insurance premium through the neighbourhood cash dispenser ? or how about using the ATM to advertise your new business ? All this and much more will be possible with ATMs being rolled out by Non-Banking Companies i.e. White-Label ATMs.

The Reserve Bank of India, in 2012, allowed Companies registered under the Companies Act, 1956 to open ATMs (White Label ATMs), to ensure more geographical reach and financial inclusivity, keeping in mind the population of the country. This was done to keep the customer services in check throughout the entire banking process. As the ATM network expands, more and more people will have easy access to cash as any customer with an ATM card can access white-label ATMs. However, the RBI norm allowing five free ATM transactions will not be applicable at these ATMs. While the non-banking company won't be allowed to charge a customer directly for the transaction, the costs are expected to be displayed upfront on the screen.

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Tata Communications Payment Solutions Limited (TCPSL) launches *Indicash* - India's first ever white label ATM network

Tata Communications Payment Solutions Ltd. (TCPSL), a subsidiary of Tata Communications, rolled out the first-ever white label Automated Teller Machines (ATMs) network under the brand *Indicash* . First it was Tata Communications Payment Solutions Ltd (TCPS), a wholly-owned subsidiary of Tata Communications Ltd, which in June 2013 set up white label automated teller machines (ATMs), or WLAs, Tata Communications plans to deploy 15,000 *Indicash* ATMs in three years— 67% of which will be in semi-urban and rural areas and 33% in metro and urban markets. Now Muthoot Finance Ltd, a gold financing company has announced that it plans to set up 250 such ATMs in the next three months. Ever since the announcement of WLA licence was made by the Reserve Bank of India (RBI) in February 2012, 13 non-banking finance companies (NBFCs) have been given in-principle approval to set up WLAs. Until now, only TCPS has started operations and aims to set up 15,000 ATMs in the next three years; Muthoot Finance is expected to follow. Last year, the Reserve Bank of India , had allowed corporates to set up white label ATMs to increase the penetration of ATMs in several areas of the country.

The first *Indicash* ATM was inaugurated at Chandrapada, a rural village in Thane district ,Maharashtra in the presence of senior RBI officials. TCPSL will deploy 15,000 *Indicash* ATMs in three years. Nearly 67 per cent of the ATMs will be deployed in semi-urban and rural areas, and the balance in metro and urban markets. TCPSL will engage with national and regional banks to support its rollout plans. In this front, the company has tied up with Federal Bank, which has been designated as a sponsor bank to take care of cash operations, dispute resolutions and regulatory reporting. Like most other bank ATMs, *Indicash* offers a host of cash and non-cash services such as cash withdrawals, balance enquiries, mini-statements and PIN change. The *Indicash* ATMs have been designed to eliminate several concerns of cardholders. The *Indicash* machines are Dip machines, which cannot swallow cards. In words of TCPSL CEO Mr. Sanjeev Patel “ Our goal is to rollout 15,000 ATMs by 2016. With *Indicash*, we will be going into far reaching geographies using our experience and expertise in navigating and optimising technologies, for challenging Indian conditions,”. Of the 13 in-principle approvals given by the RBI over the last several months, only Tata Communications has received certificate of authorisation to commence operations. The rest have to still get their act together.

Muthoot Finance, SREI Infrastructure Finance, Vakrangee Software, Prizm Payments and AGS Transact are among the 13 that have got in-principle nod. Most of the applicants had sought approval under Scheme A, which asks for three rural branches against one in urban areas. AGS Transact is still trying to finalise all the arrangements and has not set a definite timeline to start operations.

Tata Communications started the rollout of white label ATMs in June and is targeting 15,000 ATMs by 2016. It has tied up with Federal Bank, which will take care of cash operations, dispute resolution and regulatory reporting aspects. “In-principle approval to 12 others does not mean much. The idea is to trigger them into action. Maybe, they are waiting to see whether Tatas white-label business makes money and then start their operations,” the RBI official said.

However, these companies have another grouse – the RBI has not yet granted them their demand to extend the licence period to 5 years from the current one year. The companies say this initial authorisation of one year is too less to plan long term and attract equity.

Non-banking Companies which include TCPSL, Muthoot Finance and SREI, will act as financial services kiosks and make money from services . TCPSL response in Bangalore is tremendous the average transactions per day for an ATM are 140 , but Indicash ATMs are doing 200 transactions.

RBI ISSUES GUIDELINES FOR WHITE LABEL ATMs OWNED BY NON-BANKS

White-Lable ATMs have been in news in February 2012 as RBI issued the draft guidelines for the same. RBI has issued the following draft guidelines on white-Lable Automated teller machines :-
(These draft guidelines are of some use only till RBI comes out with final guidelines)

- Non-bank entities should have a minimum net worth of Rs 100 crore as per the latest financial years audited balance sheet, which is to be maintained at all times.
- Non-bank entities that intend setting up, owning and operating ‘White Label ATMs’ (WLAs) would service customers of banks in India, based on the cards (debit/ credit/prepaid) issued by banks, the RBI said.
- Non-bank entities will have to obtain authorization from the RBI under the Payment and Settlement Systems Act 2007 within four months from the date of issuance of these guidelines.
- WLA Operator would be permitted to earn extra revenue through advertisement and by offering value added services. The advertisements placed on such ATMs would be subject to Advertising Standards Council of India (ASCI) codes and other regulations.

Entities shall commence setting up and operating WLAs only after it has been authorized to do so by the RBI under the Payment and Settlement Systems Act, 2007. WLA Operator shall declare one “Sponsor Bank” , who will serve as the Settlement Bank for the settlement of all the service transactions at the WLAs. The Sponsor Bank should be a member of one of the ATM networks authorized by the RBI and also be a member of the RTGS. Cash Management of the WLAs shall be entrusted to the Sponsor Bank, who may have necessary arrangements in this regard with other banks for servicing cash requirements at various places. At no point of time, the WLA Operator or his agents shall have access to the cash at the WLAs. Settlement of all the transactions at the ATMs shall be done only in the books of the Sponsor Bank through the ATM Network with whom the WLA Operator has established connectivity. Maintenance and servicing of the WLAs shall be the sole responsibility of the WLA Operator.

The Reserve Bank of India’s (RBI) drive to extend the reach of automated teller machines (ATM) into rural hinterland is stuck in a state of uncertainty, with most successful applicants for white-label ATMs not still showing definite signs to start operations. The central bank started the process of roping in non-banking companies in setting up ATMs over a year ago to widen the reach of this facility beyond tier I and II cities, where the deployment is much more compared with the rest of India.

The RBI in its draft guidelines has suggested that the operator of the WLAs will be entitled for fees to be collected for every transaction completed by using their WLAs as detailed here under :

1. “Being non-bank owned ATMs, the guidelines on five free transactions in a month for using other bank ATMs would not be applicable for transactions effected on the WLAs. The charges for the transactions should be displayed on the screen before the customer initiates the transaction.
2. The WLA operator would not be entitled to any other fee from issuer bank other than the ‘interchange’ fee payable to the ‘acquirer’ bank under the present bank-owned ATM scenario. The WLA operator shall also not be permitted to charge any fee from the customers for the use of the ATM resources”.

WHAT PROBLEMS ARE LIKELY TO BE FACED BY BANKERS AND CUSTOMERS :

Though the cost benefits are immense, banks are cautious of the lending risks in partnering with them. As white-label ATMs are owned and operated by independent entities including corporate, and they do not come under the jurisdiction of the banking regulator. The banking regulator also feels allowing corporate to own ATMs will result in their virtual entry into banking, which goes against the current policies for entry into banking. The RBI is also worried that white-label ATMs will raise the cost of banking for retail customers, as each white-label ATM operator will have its own cost structure, which may not adhere to the overall domestic banking structure. This has been the experience internationally, as well. The RBI is not very happy with the lack of clarity on who will address the customers grievances in the proposed new system. The central bank believes that the Indian market is not yet ready to adopt a white-label model. Some bankers, too, are wary about the instances of counterfeit currency entering the system. For, internationally, retailers that own white label ATMs, and not banks, load cash into the machines.

Bankers are already sounding caution about the pitfalls of white label ATMs. The first and foremost concern for customers will be the inconvenience they may feel in case of failed transactions on WLAs. In such cases the dispute resolution mechanism will involve three entities — the WLA operator, the sponsor bank of the operator, and the customer's bank. The WLA operators being non bank entities and running purely on profit basis may take longer time or avoid payments on account of failed transactions. The second concern for customers will be the high cost they are likely to pay for use of such ATMs.

While the primary responsibility to redress grievance of customers relating to failed ATM transactions will vest with the Issuing Bank, the Sponsor Bank will provide necessary support in this regard, including making available relevant records and information, to the Issuing Bank. For this purpose, the Sponsor Bank should have necessary arrangement with the WLA Operator. The extant directives of the RBI on the time-lines for resolution of complaints of failed ATM transactions would also apply to transactions at the WLAs. For delay in resolution of such complaints attributable to the Sponsor Bank or the WLA Operator resulting in payment of penalty to the customer by the Issuing Bank in terms of the directives of RBI, the Issuing Bank shall be compensated by the Sponsor Bank. The Sponsor Bank may have appropriate agreements with the WLA Operator for recovery of such amounts.

However, if the proposed rules are implemented, the customer will lose the benefit of free five transactions in a month, if he uses the WLAs and will be charged for every transaction as decided by the operator of the WLA. This will be a disincentive for the banks' customers to use these WLAs. As is well known, ATMs are predominantly used by the middle and the lower middle-class of our population, who are sensitive to bank charges. It is therefore, necessary for the RBI to ensure that the present benefits available to banks' customers are not curtailed, nor the operators are allowed to charge fancy rates for using their ATMs.

More than anything else, the RBI should not lose sight of the most important aspect of inherent risks involved in allowing private entities to set up, own and operate WLAs as there is a distinct difference in attitude between banks and the private parties in owning and operating ATMs. Banks today look upon ATMs as a service to their customers and not as income generating activity per se, and take enough care to protect the interest of their customers with a view to protect their own image. All over the world ATMs are the cause of a large number of bank frauds, and India will be no different, more so when the nameless WLAs are installed, where the emphasis will naturally be on generating more income and protecting the interest of the user may receive secondary importance. RBI should consider the interest of banks' customers paramount and safety of their money more sacred than rushing ahead with white label ATMs to be set up by private parties, for any hasty decision can jeopardize the interest of the public with dire consequences.

As the saying goes, "it is better to be safe than sorry" and hopefully RBI appreciates this in its own enlightened self interest. While it is too early to gauge how white-label ATMs will impact operators and banks, the clear winner is going to be the customer, who will have wider and easier access to a host of financial services under one roof. After demonetisation Cash availability is still a major problem for us especially in rural areas where most of terminals are deployed.

ATM TRANSACTIONS NOW GROWING AFTER DEMONETISATION SHOCK :

The amount withdrawn from ATMs has gone back to pre-demonetisation levels of Rs 2.53 lakh crore in October 2017, almost on par with the Rs 2.54 lakh crore withdrawn from ATMs in October 2016 which was pre demonetisation. Amount of cash per day per ATM device is also back to Rs 4.08 lakh, close to the Rs 4.13 lakh it was in October 2016, indicating that cash supply is back to normal. ATMs continue to be relevant. The reality is less cash and not cashless. For example lot of payment wallets only work in the metros and not in the rural areas. Operators have not even reached the targets set out to them by RBI with only around 14000 ATMs at present, the central bank could be looking at the reasons behind deployment not picking up pace.

One of the major reasons is the low interchange fees for ATM transactions. The white label industry was conceived to allow non banking entities to deploy ATMs in rural areas to drive financial inclusion. While eight entities which were licenced to operate as WLAs, industry executives say they faltered majorly after interchange fees for financial transactions were slashed to Rs 15 from Rs 18. Interchange fee is the amount paid by the bank whose card is being used to the ATM operator.

Additional functionalities on ATMs would further help them raise more money through fees, and for that they need the support of National Payments Corp of India. Fees earned through bill payments, peer to peer transfers through ATMs and also card less withdrawal through Aadhaar could help them attract more footfall. Central government approval will not be required now for foreign direct investment (FDI) in ATMs, set up by non-banking entities. The move would boost financial inclusion programme of the government and facilitate funding of infrastructure in this business. Participation of foreign investors in the sector will contribute to furthering financial inclusion. White-label ATM operators in the country include Srei Infrastructure Finance Ltd, Muthoot Finance and Vakrangee Software. In the past these ATM operations were struggling to be viable operations. FDI will definitely help to improve the funding to the capital intensive WLA infrastructure business. Muthoot Finance is seeing this as a boost to the WLA business due to more long term funds flowing to this business. In 2014, RBI had allowed usage of international credit, debit and prepaid cards in these ATMs in a bid to make it a viable project. However, it was still felt that this was not sufficient to push the rollout of ATMs from the slow lane. Any non-bank entity intending to set up WLAs should have a minimum net worth of Rs 100 crore.

White Label ATMs are not free to use. The first five transactions are free every month, but subsequently a transaction fee of Rs.15 and balance inquiry fee of Rs.5 which is the commission paid by your bank to the White label Company. As the White label company cannot directly charge money on you, doesn't mean White label ATMs are totally free, because your bank will cut those charges from your account. These Non-banking entities earn on a commission basis, for example, a fixed amount for the transaction, say Rs. 15 every transaction. They also earn through advertisement hoardings inside the ATM premise.

CONCLUSION :

It was in the Late 80s that the first ATM in India was opened. In 2012, RBI gave the authorization to open White label ATMs and in 2013, the RBI started giving licenses. The Reserve Bank of India, in 2012, allowed Companies registered under the Companies Act, 1956 to open ATMs (White Label ATMs), to ensure more geographical reach and financial inclusivity, keeping in mind the population of the country. Indicash is the leader in WLA, being owned by Tata Group, it has set up more than 60% of the White Label ATMs, i.e. 9,000 ATMs as on October 2016. This was done to keep the customer services in check throughout the entire banking process. There are eight WLAOs in the country including Tata Communications Payment Solutions Ltd (9,060 ATMs), BTI Payments Pvt. Ltd. (4,096 ATMs), Hitachi Payment Services Pvt. Ltd. (652 ATMs) and Vakrangee Ltd. (328 ATMs). As at November-end 2016, WLAOs were collectively running 14,564 ATMs. The schemes that regulate the opening of such White Label ATMs have ensured that these institutions don't just keep in mind the incentives, but also cater to the needs of the rural masses in the country. Only after they open a given number of WLAs in rural centres, will they be allowed to open a WLA in an urban setting.

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