

Part 1: The Many Faces of ATM

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In the first of a 3-part series, this article outlines the evolution of the ATM and its transformation beyond the function of a cash dispenser.

The origin of the ATM is an interesting one. While the concept was developed in 1939, the first ATM using encoded cheque for cash exchange was produced in 1967. The following year, the first cash dispenser prototype was developed but it was not until 1971 that the world saw the first modern ATM complete with cash dispensing, cash deposit and funds transfer functions.

Singapore was amongst the earliest in the region to have its first ATM in 1980 but services were limited to cash withdrawals and balance enquiries. Withdrawals were also restricted to small amounts when these machines went off-line usually from 11 pm to 7 am next day.

Twenty-five years later, there are 1,600 ATMs on the island for a population of 4.2M. With 385 ATM per Million Population, it is amongst the highest in the region after Hong Kong and Taiwan. Besides finding ATM in shopping centres, MRT stations and other convenient locations, service offerings at ATM expanded rapidly over the years. From concert tickets to postage stamps, one can pay bills, bid for new shares, purchase unit trusts, place term deposits, buy pre-paid mobile phone cards, apply for loans and other services at the ATM.

Despite the government's constant drive to promote cashless transactions, ATM cash withdrawals continued to grow, albeit at a slower pace in recent years. This writer estimated that in 2004, ATM cash withdrawals was over 250M or an average of 4 to 5 cash withdrawals per ATM card per month. Singapore's experience is not unique as other countries shared similar experience. Take Vietnam for instance, ATM numbers in the country grew exponentially from less than 200 machines in 2002 to over 850 by end-2004. While the ATM penetration is still very low, industry sources estimated that cash withdrawals per ATM card is about 2.5 per month – a remarkable phenomenon considering that Vietnam is still in its early development.

The rapid growth in ATM network size and card base was motivated by several reasons.

Since the mid-80s, banks began to experience high costs of growing and staffing their branches. Cost of processing cash at the ATM was significantly lower than at branches so the cost displacement model was developed to promote the ATM as an alternative to branches. Customers' demand for extended banking hours further reinforced the need to have more machines.

From late 90s, bank consolidations were taking place rapidly and with mergers, branch locations were rationalized leading to some closures. Other than phone banking, ATM was again the main alternative to service disgruntled customers.

Whether by design or otherwise, banks also argued that the ATM/debit card was the catalyst for cashless transaction and they have the statistics to show.

According to NETS in Singapore, the total number of cashless transactions over their network grew from 189M in 2000 to 252M in 2003. Meanwhile, cheque payment value fell 3% in 2003.

As the number of ATM locations flourished, delivery channel planners in banks began looking at these machines as customer touch points, an extension of their service network. Other banks discovered that the ATM channel has become a revenue model through earnings from acquiring foreign cards. Yet some banks with large ATM network capitalise on their scale to offer "idle" ATM screens for advertising to third parties.

By then, the ATM has also evolved into a multi-function terminal capable of providing most banking services but without the personal touch. Only a few banks have leveraged on Customer Relationship Management (CRM) strategy to provide personalised customer experience and permission-based marketing at the ATM. This will be explored in greater detail in the next article in the 3-part series.

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