

# **ATM Transactions versus Paper Based Transactions in Consumer Retail Banking**

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## **Abstract**

*ATM or Automated Teller Machine has been the norm of the day in e-banking. ATM has made it possible to do banking outside the bank premises and that too without any restrictions of banking hours. ATMs have gained importance as a delivery channel for banking transactions. It saves time for the consumers and cost of services operation for the banks. ATM has made consumer banking more service oriented and user worthy. A pre-designed questionnaire was administered to selected 100 respondent account holder of a number of banks. The findings indicate that ATM is a frequently used medium for money withdrawal from the bank. It has been found that ATM is more frequently used for drawing cash but in terms of money withdrawal the volume of money withdrawn is either almost equal to the cheques or lower than the cheques. Although 84 percent of the respondents use ATM of their own banks for most of the times, they do use ATM of other banks infrequently. Generally people are satisfied with their ATM services, however the degree of satisfaction varies to some extent among the users.*

**Keywords:** ATM, E-banking, Quick banking services, cost saving banking

## **Introduction**

ATM or Automated Teller Machines are fast replacing the cheques as a convenient way of drawing money from the banks. In a way ATMs are now rewriting the rules of financial transaction. A person no longer needs to carry a wallet full of paper money on his person. All he needs to do is fish out an ATM card, insert it in the slot, punch in a few details and go home with hard cash. ATMs are the first well known machines to provide electronic access to customers. With the advent of ATMs banks are able to serve their customers outside the banking hall. ATM is designed to perform the most important function of the bank, the money transaction. It is operated with plastic card with its special features. The ATM cards are replacing the cheque, personal attendance of the

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customer, banking hour's restrictions and paper based verification. It has made hard cash just seconds away all through the day at every corner of the globe. ATMS allow a card holder withdrawal of money from the account, making balance inquiries and transferring money from one account to another.

ATMs appear to be the single largest investment in the e-banking sector. Banks started e-banking for two main reasons. Large branches were too expensive to establish and second services like ATM and electronic fund transfer gave advantage to the practicing banks. Although e-banking started during the seventies, in Pakistan first ATM machine was established in Habib Bank Limited at its Head Office branch on the I. I. Chundrigar Road in early eighties. Since then it has been a long way, and ATMs have become a common sight in the cities of Pakistan. It has gained importance as a delivery channel for banking transactions in Pakistan, mainly in the cities. While the ATM is a great service for customers, for the banks it means immense savings on the cost of operations. The ATMs of a bank are connected to the accounting platform of the bank through ATM switches. Interbank ATM networks are created by setting up apex level switches. Interbank ATM networks are created between the ATM switches of different banks. The interbank ATM networks facilitate ATM card use of one bank at the ATM of another bank. This is done mainly for basic services like cash withdrawals and balance enquiry. Banks other than the bank of account holder charge a fee for providing the ATM facility to the customers known as interchange fee. This fee is later charged to the card issuing banks. Banks with larger ATM network treat interchange fee as an important stream of revenue.

ATM is one of the several online banking services. There are 9,541 bank branches in the country (Daily Times, 2011). Out of these 7,416 bank branches (78 percent) are offering online banking facilities. There are 14 million ATM cards in the country, making 41.5 percent transaction in terms of volume and 12.5 percent in terms of value. ATMs are very convenient mode of payment for general consumers, more so for smaller and frequent transactions. This is a good e-banking service offered by the banking organizations. Delivering financial services through ATM networks is bringing a fundamental shift in the banking services industry. The leap change in consumer banking is making this services industry more consumer oriented and user worthy. It has also increased the privacy in the system. The ATM system of financial transaction has also increased the privacy of the consumers to a great extent. The technical advantage has brought radical changes in the convenience of the consumers as well. However, in the wake of accurate personal identification problem password and PIN seem to be lacking to

some extent. (Fatima, 2011). The problem has raised the need for biometric identification system. Biometric system is more personalized and individualized and therefore more accurate. In Pakistan this system has not been introduced yet, but we are sure with the rising cases of ATM robbery this will soon come to Pakistan also.

### Literature Review

ATM does not mean a plastic card with a PIN (Personal Identification Number) but the services of the bank for which the customers get from the ATM card i. e. fast cash withdrawal, view account balances etc. The power of cash explains the importance and benefits of ATM. In banking terms innovation is defined as the use of new knowledge to offer new products or services that customers want (Sing et al, 2002). According to the authors the new knowledge refers to technological or market knowledge, processes and techniques that go into products or services. ATM is considered a revolutionary innovation. It has dramatically changed people's behavior in order to obtain faster and more convenient banking services.

ATM is fundamentally a new distribution channel that have changed the traditional distribution system of the bank (Young, 2001). Consumers feel more satisfied in using ATMs over the traditional system. ATM was followed by Internet banking. Majority of the banks took time to implement internet banking because they were not sure of the internet banking benefits (Sheshunoff, 1999; Slywotzky, 2001). A study conducted in USA found that internet banking remained stagnant during the mid to late nineties with only less than 10% of the people utilizing the service (Polatoglu and Ekin, 2001). Usually there are two types of fees for the use of ATM services (Mcandrews 23). Wholesale fees paid by the banks to other banks and retail fees paid by the person conducting the transaction to his or her bank or to the ATM owner.

Banks should rethink their earlier strategies or risk obsolescence. It is more appropriate to see a value added relationship with the end customers rather than concentrating on new products into the relationship (Wind, 2001). Customer expectations of personalization will escalate with the increase in technological capabilities of the banks (Lemon and Rust 2001). Electronic customer relationship will be a matter of fundamental change, involving the process reengineering throughout the banking sector. Additionally the e-banking solution must have consistency and collaboration across the different channels.

A number of electronic banking factors were investigated by Gikandi and Bloor, (2009) in Kenya. They carried out two surveys, one in 2005 and another in 2009 as the follow up of their earlier survey to monitor the trend in four years. The result showed that there was a

marked shift in the importance of e-banking drivers between the two periods. The growth of online banking is evident almost everywhere including UK where there has been 174% increase in the number of users between 2001 and 2007 (APACS 2007). The reasons are simple, Online banking is convenient for customers and reduces the staff costs for the banks. According to Omar (2011) majority of customers in Pakistan are satisfied with Internet banking services mainly because of its high reliability, easy maintenance and safer operations. But this has also given rise to banking frauds (Drimer, Murdoch and Anderson 2009). Al-Smadi (2011) has assessed the performance of Jordanian banks over a ten year period (2000 – 2010) and found that in Jordan, e-banking has affected the performance of banks negatively. More customers still prefer the conventional banking system over e-banking. However, this finding does not correlate with our other findings by rest of the authors who think that e-banking does improve the banking performance to a great extent. Banks have adopted electronic banking services as a part of modern banking systems of which ATM is a component. E-banking appears to take eventually the conventional banking procedures. However, in remote areas confidence building measures for the consumers appear to be a major factor for its uniform acceptance.

ATM has its own advantages for the consumers. Quickness and easiness have become the catchword for its usefulness. It may be said that banking today is undergoing radical transformation and ATM is playing a vital role in its transformation. This transformation is the result of transformation in the client industries of the banks. The market has been very competitive. Those banks that are using the technology resource effectively have the opportunity to secure real competitive advantage in the fast changing industrial environment. At the same time liberalization and globalization have been recognized as the key elements in the facilitation of e-banking. The rapid changes and increasing challenges in the international scene have further made e-banking a necessity. In order to meet the challenges it has become imperative to open up to the advantages of e-banking in general and ATM use in particular. ATM offers significant benefits to the depositors as well as the banks. It enables the depositors to withdraw cash at more convenient times and places as compared to banking hours and bank branches. ATM also reduces the cost of servicing the depositors. Cumulatively the benefits are multiplied when banks share their ATMs with other banks. In this case the depositors of other banks access their accounts through ATMs of other banks. Most ATM networks are the result of joint ventures with a number of banks. ATM network organizations are engaged in a host of activities supporting the ATM owner.

According to a latest report a Japanese bank is going to launch card less ATM. (Ricci 2012) This ATM will use palm scanning biometric technology to identify its customers. The bank claims that such a card is being launched for the first time in the world. This will be particularly useful when the customers want to access their account in times of some disaster. In Japan biometric sensor technology is widespread. By placing their hand on the reader machine and entering key details, the technology allows the customer to proceed with the normal banking transaction like money withdrawal etc without any card. The technology is able to differentiate individuals from a large number of users. Card less banking via mobile phones is already in practice, this latest development goes a step further by completely removing the need for any card or device.

### Objective of the study

Objective of the study was to find out the practicing trend of ATM transactions versus paper based transactions in consumer retail banking In this regard the following hypothesis was formulated:

- H1: ATM is used more than the paper based transaction in the process of money withdrawal
- H2: Bigger amount is withdrawn through cheques

### Sample and methodology

A pre-designed questionnaire was administered to 100 respondent account holders of the following selected banks of Gulshane Iqbal, Karachi having ATM booth attached to their branch:

Habib Bank Limited	20
Bank Al Habib Limited	20
United Bank Limited	20
Allied Bank Limited	20
Faisal Bank	20
Total	100

While all the private banks have ATM services it was surprising to find that National Bank neither have online facilities nor ATM booth in its most of the branches that includes main city areas of Karachi like Gulshane Iqbal. Initially we tried to survey the people who come out of the ATM booth. But experience revealed that when people coming out of the ATM booth were intercepted, they got scared and refused to cooperate in any manner in answering the questionnaire. Therefore, people were interviewed inside the bank branch who visited there for some financial services.

Period of the survey was January 16 – 20.

### Limitation of the Survey

The survey was conducted based on clustered convenient sampling and therefore cross section of the population has not been covered.

#### *Result / Analysis for Table 1*

- As high as 88% of the respondents operate ATM at least once in a week or more.
- As high as 95% of the respondents use cheque or other system (money transfer) once in a month or less.
- The findings indicate that ATM is a frequently used means for money withdrawal from the bank.
- Based on the above findings the H1 (Hypothesis 1) is accepted.

Table-1: Frequency of ATM versus manual operation

	ATM Operations	Cheques and other system
3 times or more in a week	32	0
1-2 times a week	56	0
Once in 2 weeks	9	5
Once in 3 weeks	0	0
Once in a month	3	30
Less than once in a month	0	65

#### *Result / Analysis for Table 2*

- More than 80% of the respondents withdraws 39% or less money through ATM and 60 percent or more through cheques and other systems (e. g. money transfer etc)
- Almost 20% of the respondents withdraw almost half of their money per month through ATMs or cheques.
- The findings conclude that ATM is more frequently used but in terms of money withdrawal the volume of money withdrawn is either almost equal to the cheques or lower than the cheques.
- This may also be because of the reason that there is a ceiling of withdrawal of money through the ATM. Another reason may be that the chances of robbery are higher at the time of money withdrawal through the ATM as compared to through cheques.
- The H2 (Hypothesis 2) is therefore accepted.

Table-2: Value wise transaction in percentages

	ATM Operations	Cheques and other system
<20%	39	
20% - 39%	42	
40% - 59%	19	20
60% - 79%		43
80% - 100%		37

*Result / Analysis for Table 3*

- As high as 84% of the respondents use ATM of their own banks for 60% or more times. They use ATM of another bank for 50% or less number of times. This shows that despite the fact that respondents do have their own ATMs but for certain reasons of preferences they do use the ATM of another banks as well.

Table-3: Number of times ATM of self bank versus others are used

	ATM of OWN bank	ATM of another bank
Less than three times		16
3-5 times	16	77
6-8 times	66	7
8-10 times	18	

*Result / Analysis for Table 4*

Main reasons for using another ATM were mostly due to faults of the ATM or ATM is not available for operation (closed). In 19% cases it was stated that 'own ATM is not in the close vicinity'. This also indicates that choice for using ATM of another bank is not an option that the respondents use without valid reasons.

Table 4: Reasons for using another ATM

	N= 100
Own ATM out of order	33
Own ATM door is closed	27
Own ATM out of cash	21
Own ATM is not in the close vicinity	19
Any other reason	

*Result / Analysis for Table 5*

As high as 77% of the respondents replied that they are highly satisfied with their ATM operation. Another 23% replied that they are satisfied with their ATM operation. The findings indicate that as such there is no complaint about the operation of ATMs despite the fact they do operate ATM through another bank.

Table-5: Level of satisfaction with ATM

Level of satisfaction	No: n=100
Highly satisfied	77
Satisfied	23
Neither satisfied nor dissatisfied	
Dissatisfied	
Highly dissatisfied	

**Conclusions**

In view of the above findings and literature review we form the following conclusions:

- That ATM is quite frequently used by bank account holders.
- The use is more than the manual operation (using cheques etc). However, since large amounts cannot be withdrawn through ATM, cheques are still the preferred option for withdrawing larger amounts.
- People generally use the ATM of their own banks unless there are valid reasons for not doing so. They use ATM of other banks only when the option to use their own ATM cannot be exercised.
- All of the ATM users are either highly satisfied or satisfied with the use of their ATMs.



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