



# Fifty years of the ATM in light of Competition Policy



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In my book "Cash and Dash: How ATMs and Computers Changed Banking", which will be presented in Mexico City's ITAM on September 13, 2018, I use ATMs to look into the long-term impact of the first wave of banking digitalization. In the history of disruption that these technologies have played, it is interesting to see how they influenced the dynamic of economic competition and the judicial frameworks that uphold it in various countries. This is because ever since their introduction at the end of the 1960s, ATMs have played an integral part in industrial competition policies, and have drawn the interest of both antitrust regulators and those involved in supervising banking collusion.

In the United States, for example, back when the geographic limits on expansion still held sway, some states considered ATMs as equivalent to a branch office and, therefore, subject to the same authorization procedures. Meanwhile other states, like Iowa, demanded that all banks in the state should have unrestricted shared access to any ATM. This kind of rule would jeopardize the strategies of many banks, who saw ATMs as an alternative distribution channel to branch offices, and one which could preserve or even attract new business from people who were at the time migrating out towards the suburbs of major cities while also offering a possible comparative advantage over banks that lacked ATMs.

In 1985 a ruling by the Supreme Court of Justice struck down state norms that considered ATMs to be equivalent to bank branches. By that time there existed approximately 60,000 ATMs in just under 250 shared networks across the United States. Ten years later, in 1995, the number of ATMs had doubled to nearly 123,000, while the number of shared networks fell to 50. Today, estimates place ATM numbers in the United States around 430,000, with five shared networks accounting for over 80% of traffic.

The inverse progress between the number of ATMs and the number of shared networks led to a major effort to understand the role of ATMs as barriers to entry into the personal deposit sector and the growing cash withdrawal sector. Thus, for example, the seminal work by Michael L. Katz and Carl Shapiro uses ATMs to introduce the concept of network economies(\*). However, even today the main conceptual and empirical interest is focused on calculating the various determining factors for interchange fees generated in a shared network.

Ever since the end of the 1990s countries such as Germany, the Netherlands, Spain, the United States and the UK have seen significant changes in the industrial organization surrounding ATM shared networks and the markets for personal deposits and cash withdrawal. This change came about thanks to the ever-growing participation of non-bank specialized financial intermediaries in their management of



ATMs (also known as Independent ATM Deployers or IAD). At first, IADs were essential in complementing the dissemination and penetration of their own ATMs over those installed by banks, especially in locations such as supermarkets, bars or small businesses, all of which may be unconnected and far away from the nearest branch.

The rise in the use of digital payments and the diminishing use of cash has led to a more reasoned approach to the number of branches and ATMs in many countries. As a consequence we also see a reduction in the number of IADs, followed by the creation of global giants such as Cardtronics, Euronet and Payment Alliance, each of whom control hundreds of thousands of ATMs scattered across several countries and continents.

Some countries have recently developed competitive frictions between IADs and banks. In the UK, for example, the total number of ATMs climbed from 63,924 units in 2007 to 70,536 units in 2017. Over the same period the number of ATMs from IADs went from 32,823 units (50 percent of the total) in 2007 to 39,584 units (56 percent) in 2017, while banks went from 19,496 (30 percent) to 27,170 (39 percent, respectively). Over the last two years banks have pushed a policy to reduce interchange rates and force the departure of IAD's in the country, or at least a reduction in the number of ATMs under their control. British competition authorities have taken note, and may possibly examine whether this policy is uncompetitive in itself.

It is expected that by 2020 nearly four million ATMs will be active around the world, as a result in the above-mentioned reductions in industrialized countries while faced with the rise of ATMs in Russia, China and the Persian Gulf. Under this scenario only a few banks propose to completely eliminate their ATM network (whether their own or shared.). Furthermore, it is very unlikely that the ATM is a martyr in the war against cash money and the cashless society, since today ATMs are a proven, robust, standard technology adopted by the bank client, released around the world and located in convenient locations for the customer. Furthermore, only the ATM and the branch are seen as distribution channels controlled 100 percent by the bank and, therefore, are key to the operation requiring verification of a "customer present". In conclusion, it is likely that ATMs will continue to give us something to talk about in terms of competition policy.

(\*) Katz, M. L. y Shapiro, C. "Network Externalities, Competition, and Compatibility". *The American Economic Review*, 1985, vol. 75, número 3, 424-40.

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