

InvAsset's Voice



THE DISAPPEARING MICRO ATMS OF INDIA **CHALLENGES AND THE ROAD AHEAD**



India's Best Performing and Most Customer Centric PMS

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In the heart of rural India, where the hum of daily life intertwines with the rhythm of agriculture and local trade, micro ATMs once stood as silent warriors of financial inclusion. They were more than just devices; they were bridges that connected millions of Indians to the formal banking system, often for the very first time. But today, these champions of convenience are disappearing at an alarming rate, leaving behind stories of despair, struggle, and missed opportunities.



A VILLAGE'S LIFELINE

Picture a small village in Uttar Pradesh, where Ramesh, a farmer, relies on his monthly welfare payments to sustain his family. Every month, he visits the local kirana store, where a micro ATM operated by Sunita, a business correspondent (BC), provides him with quick access to his funds. For Ramesh, the micro ATM is not just a machine; it's a lifeline that saves him the arduous journey to the nearest bank branch, miles away.

But one day, Sunita informs him that the service is no longer available. The micro ATM has been withdrawn due to regulatory and operational challenges. Ramesh's story is not unique. Across India, millions like him are grappling with the repercussions of a shrinking micro ATM network.



THE RISE AND FALL OF MICRO ATMS

Micro ATMs were introduced as a revolutionary solution to bridge the gap in India's financial infrastructure. Designed to function as portable extensions of bank branches, these devices enabled BCs to provide banking services in the most remote corners of the country. Powered by Aadhaar-enabled Payment Systems (AePS), micro ATMs allowed users to withdraw cash, check balances, and even deposit money using biometric authentication.



In 2023, micro ATMs were at their peak, with over 16 lakh devices operational across the country. They played a crucial role in ensuring financial inclusion, particularly for rural and semi-urban populations. However, by November 2024, this number had dropped to 14.43 lakh, marking a decline of 1.76 lakh devices within a year. The reasons behind this decline are manifold, but they all point to a system struggling under its own weight.

THE ROLE OF MICRO ATMS IN RURAL INDIA

To understand the significance of micro ATMs, one must delve into the fabric of rural India. In regions where traditional banking infrastructure is sparse, these devices emerged as a beacon of hope. For beneficiaries of government welfare schemes, migrant workers, and daily wage earners, micro ATMs were often the only accessible point of contact with the formal banking system.

Consider Lakshmi, a widow in Tamil Nadu, who relies on her widow's pension to make ends meet. With the nearest bank branch located 20 kilometers away, she turned to the local BC, who operated a micro ATM. For Lakshmi, the device was not just about convenience; it was about dignity and independence. But when the micro ATM was removed due to regulatory changes, Lakshmi found herself at the mercy of intermediaries, who often charged exorbitant fees to help her access her funds.



THE REGULATORY QUAGMIRE

The decline of micro ATMs can be traced back to May 2024, when the Indian Banks' Association (IBA) introduced stringent new directives for BCs. These directives mandated that BCs must complete a certification exam conducted by the Indian Institute of Banking and Finance (IIBF) within six months of their appointment. While the intention was to ensure better-trained operators, the move inadvertently created barriers for rural Bcs.

The exam required training, which only at select the country. For traveling to these time-consuming

Additionally, the was deemed too for BCs with limited

backgrounds. As a result, many BCs chose to abandon their roles, leading to a significant reduction in the micro ATM network.



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THE TAXATION TANGLED WEB

Adding to the woes of BCs were the taxation rules under Section 194N of the Income Tax Act. This provision imposes a 2% tax deducted at source (TDS) on cash withdrawals exceeding ₹20 lakh annually for individuals who have not filed their income tax returns. While BCs are exempt from this rule, their transactions often trigger the TDS due to the nature of their operations. This dissuades banks from supporting BCs, further eroding the micro ATM network.

For example, Rajesh, a BC in Bihar, recounts how he had to pay the TDS out of his own pocket when the bank refused to exempt his transactions. “I barely earn enough to support my family, and now I’m being penalized for providing a service to the community,” he laments.

THE HUMAN COST OF DECLINE

The disappearance of micro ATMs has far-reaching consequences, particularly for India's most vulnerable populations. Migrant workers, who often rely on cash for their daily expenses, are among the hardest hit. In cities like Chennai, micro ATMs were a lifeline for laborers who received their wages in cash. With the devices now vanishing, these workers face longer commutes and higher costs to access their money.

In conflict-prone areas like Jammu & Kashmir and Manipur, the impact is even more pronounced. Frequent internet shutdowns in these regions make digital payment solutions like UPI unreliable. For residents of these areas, micro ATMs were often the only viable option for accessing cash. Their decline has left a void that is yet to be filled.

A GLIMPSE AT THE NUMBERS

Data from the Reserve Bank of India (RBI) paints a stark picture. While the number of micro ATMs has declined, the value of transactions conducted through these devices has risen. From ₹26,203 crore in January 2023, the transaction value increased to ₹31,480 crore by October 2024. This paradox highlights the continued reliance on micro ATMs, even as their numbers dwindle.



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

THE DOMINANCE OF PAYMENT BANKS

Payment banks, which account for 74% of India's micro ATM network, are among the hardest hit by this decline. Fino Payments Bank, NSDL Payments Bank, and Airtel Payments Bank are the leading players in this space. However, even these giants are struggling to maintain their networks. NSDL Payments Bank, for instance, saw its micro ATM count drop from 4.95 lakh in March 2024 to 2.92 lakh by November 2024.

THE FUTURE: UPI VS. MICRO ATMS

As the micro ATM network shrinks, the Unified Payments Interface (UPI) has emerged as a potential alternative. UPI adoption has been growing rapidly, driven by government initiatives and NGO-led financial literacy programs. In states like Uttarakhand, UPI is increasingly being used to transfer welfare payments directly to beneficiaries.

However, UPI is not without its challenges. In areas with poor internet connectivity, UPI transactions often fail, leaving users frustrated. Additionally, for populations accustomed to cash, the transition to digital payments is not straightforward. Behavioral and cultural factors play a significant role in determining the success of digital payment solutions.

THE WAY FORWARD



The decline of micro ATMs underscores the need for a balanced approach to financial inclusion. Policymakers must address the systemic issues that have led to this decline. Simplifying the BC certification process, revising taxation rules, and investing in fraud prevention technologies are critical steps in this direction.

Moreover, banks and payment companies must work together to create hybrid models that combine the strengths of micro ATMs and digital payment solutions. For instance, integrating UPI with micro ATMs could provide a seamless experience for users, bridging the gap between cash and digital payments.

CONCLUSION

The story of India's micro ATMs is one of resilience and challenge. These devices have transformed the lives of millions, bringing banking services to the doorstep of rural India. Their decline is a wake-up call for all stakeholders in the financial ecosystem. To ensure that the dream of financial inclusion does not fade, India must find innovative ways to sustain and expand the micro ATM network, while embracing the possibilities of digital transformation.

For Ramesh, Lakshmi, Rajesh, and countless others, the micro ATM is more than a machine; it is a symbol of hope. And hope, as they say, is the foundation of progress.

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