



Why Do Bank Automatic Teller Machines Shut Down at 7 P.M.?

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The day after I arrived in Kobe, Japan, in May 1995, I opened a bank account. My English-speaking secretary patiently explained to me the routine rules of banking. She informed me that the weekday service hours of the bank's automatic teller machines (ATMs) are as follows:

From 9 A.M. to 6 P.M.:	No charge for ATM transactions
From 6 P.M. to 7 P.M.:	103 yen per transaction
From 7 P.M. to 9 A.M.:	Closed
Saturday:	Limited hours

Japan has been a leader in both the development and adoption of ATM technology. From 1969 to 1995, private banks in Japan installed about 105,000 machines. In addition, the Postal Savings Office (see chapter 22) has about 23,000 machines. In 1975, private banks started a joint venture company called Nippon Cash Service to allow some banks to share machines. Japan's ATM machines represent an investment of over one trillion yen (10 billion U.S. dollars). ATMs cut the cost of handling routine cash withdrawal and deposit transactions by a factor of

about 10. Consequently, banks in Japan, as elsewhere, prefer that customers conduct their transactions on machines. Many Japanese machines offer advanced technical features (e.g., hot pressed and cleaned notes) and bank customers, especially the young, like to use ATMs. Having incurred the substantial fixed costs of putting machines in, why would the banks limit their service hours? In contrast, machines that allow you to borrow money against your credit card, or even take out a car loan, are open twenty-four hours a day. Over my three months' stay in Japan during the summer of 1995, I asked the same question of many of my friends and acquaintances. They suggested several possibilities.

Why Such Limited ATM Hours?

- It would be inconvenient for the bank staff to keep ATMs open at night.
- It would be unsafe to have ATMs open at night.
- Bank employees oppose longer hours for ATMs because it will reduce employment.
- Japanese people do not need to withdraw cash from ATMs in the evenings or weekends.
- Banks have insufficient computing capacity; they need the computers at night to update the ledgers, so they shut down the ATMs.
- It is no problem for my wife to go to the bank during the day to withdraw the cash we need.
- If the ATM runs out of cash in the evening or weekends or breaks down, there will be no one to service the machine.
- Japan's government (Ministry of Finance) does not allow the banks to extend ATM hours.
- The six major banks in Japan, instead of competing by offering better services to consumers, act like a big cartel.

There is at least some truth to most of these explanations.

Convenience of Staff

It would indeed be inconvenient for the bank staff to keep the ATMs open after hours. The ATM lobbies in Japanese banks often have attendants who greet customers on arrival and offer any help that may be needed. The need for help has generally disappeared as customers quickly learned to use the machines for routine functions soon after they were introduced, but the staff and the greetings remain. If around-the-clock ATM service also meant around-the-clock staff attendance, it would indeed be inconvenient for the staff.

Why staff the ATM machines? Having staff at the machines eliminates a good part of the economic advantage of ATMs, and also limits their hours. The explanation offered is that the Japanese demand and expect a high level of service from their retail establishments. It is easy to confirm this level of service and quality in department stores, hotels, restaurants, and shops, and virtually everywhere else. For example, department stores assign women employees to push elevator buttons in automated elevators and to announce the floor level and the major departments on each floor even though there are lighted signs in the elevators and just about everyone in Japan is literate.

Demand for High Level of Service

Whether Japanese consumers actually demand this high level of service with the attendant high prices is not clear. We would not know until retail establishments that deliver low-quality and less service at lower prices enter the market. Crowds at Daiei discount supermarkets seem to suggest that not all Japanese belong to the Bloomingdale set. Given a choice, many will pick cheaper goods and services. Not all Japanese consumers may want to have ATM attendants standing around. Some may prefer longer ATM hours instead. Why isn't this choice available?

Security

Concern about safety of nighttime operation of ATMs was surprising. Japan is, without question, among the safest places in the world to live, even after counting the Tokyo subway gassing by the Aum Shinrikyo sect just before I arrived in Japan. The Japanese are very much aware of this difference in living environment, especially in comparison to the United States, which is widely seen as an unsafe place to live. My friends did not know of a bank robbery, or of a bank customer being robbed after withdrawing money from the bank, even though the Japanese routinely withdraw and carry large amounts of cash. In Japan, where cash is still preferred over credit cards for routine purchases, it is not unusual to carry a thousand U.S. dollars' worth of currency in one's wallet. Yet, the concern about the safety of nighttime ATM operation was the most frequently given reason for their shutdown at 7 P.M.

In addition to the safety of the customers, banks could be concerned about the safety of the machines. At Sakura Bank, the limit on individual withdrawals is half a million yen per transaction, and I can withdraw money several times a day compared to \$200 per day in Pittsburgh National Bank's unguarded sidewalk machines. On average, each Japanese machine must hold a great deal more cash than a U.S. machine. Even if the probability of a break-in in Japan is low, the expected loss from break-ins into Japanese machines that hold a lot more money could be higher. If this is the reason for restrictions on hours of ATM operation, banks could install unguarded sidewalk machines open twenty-four hours a day with smaller daily withdrawal limits. Secured machines in supervised bank lobbies could continue to serve for larger withdrawals during restricted hours. Banks have not offered this option.

Employee Opposition

Opposition of bank employees to the introduction of ATMs is understandable. The presence of attendants in ATM lobbies is

probably a compromise between management and employees. Bank unions in Kansai (Osaka-Kyoto and vicinity) are said to be weaker than in Kanto (the Tokyo area). Consequently, Osaka-based city banks (Sanwa and Sumitomo) have been most aggressive in banking automation and in trying to expand ATM banking hours.

The textbook story about Japanese industrial organization is that Japan has enterprise unions while the United States has industry unions. Japanese unions are said to protect the viability of the firm, while the U.S. unions insist on their wages and benefits even at the risk of driving some firms into bankruptcy. Would bank employees in Japan insist on retaining obsolete jobs—the featherbedding practices that drove the U.S. railroads into the ground? In Kobe, passengers enter and exit through automated turnstiles at the privately owned Hankyu Rail Line, but the recently (1987) privatized JR lines still use uniformed staff to stamp and take tickets. All six city banks in Japan have long been privately owned (see chapter 25).

If the reluctance to let existing employees go is an important consideration (see chapter 13), one might have expected that the banks would gradually phase in the extra, unmanned ATM hours as their employees retired. But ATM hours have remained frozen, and banks complain of insufficient, not surplus staff. Overstaffing in banks is hardly limited to the ATM lobbies. Compared to U.S. banks, Japanese bank branches have made relatively modest use of computers and software.

Lack of Demand for More Service Hours

Absence of personal need to withdraw cash in the evenings can easily be understood as a statement of habit. Until banks extended their hours to evenings or weekends, and ATMs opened not so long ago, consumers in the United States also arranged their affairs in such a manner that there would be little need to withdraw cash during the hours banks were not open. Of course, U.S. banks offer the convenience of personal

checking as well as extensive use of credit cards, substantially reducing the need for cash transactions. Yet, it is in Japan, where cash transactions remain the norm, that ATM technology remains underexploited.

Insufficient Computing Capacity

The insufficient computing capacity explanation for shutting down the ATMs in the evening was given to me by a friend who worked on designing the financial transactions electronic network for Japan's telecommunications company NTT. Though computers are more costly in Japan than in the United States, upon further reflection, considering the low cost of large computing power and the huge Japanese investment in ATM networks, it is difficult to take this explanation seriously.

After-Hours Servicing

Servicing the ATMs during evening and weekend hours hardly requires continuous presence of staff on the spot. ATM technology has matured to a high level of mechanical reliability. Mechanical functioning, cash balance, and even vandalism can be continuously monitored from a centralized remote location that dispatches a mobile service unit. This service function has already been refined to make Japan's vending machine industry the largest in the world (see chapter 17). In any case, the same banks have no difficulty keeping their loan machines open twenty-four hours a day.

Government Regulation

Japanese law does not require banks to obtain permission from the government to change the ATM hours; it only requires them

to inform the Ministry of Finance (MOF). Therein lies the rub. In the United States, if there is no specific rule that prohibits some activity, Americans assume that it's okay to go ahead and do it. I was told that in Japan, that was not the case. Japanese banks have to ask formal or informal approval, sometimes called guidance, from the MOF first, even if existing rules and regulations don't specifically prohibit certain activities. If the assumption in Japan is that you can't do it if you don't have permission, it would represent a regulatory philosophy distinct from U.S. practice—you can do it unless it is specifically prohibited.

What Happened in 1978?

The week before I was to return from Japan, a colleague on the Kobe University faculty gave me some old newspaper clippings from *Nikkei Shimbun*, Japan's equivalent of the *Wall Street Journal*. I summarize the stories with their dates in chronological order:

October 3, 1978, Morning Edition, Page 3:

Sumitomo Bank announces that it will extend its ATM hours from 9 A.M.–5 P.M. to 8 A.M.–7 P.M. on weekdays and from 9 A.M.–2 P.M. to 8 A.M.–4 P.M. on Saturdays. Fuji Bank and other city (major) banks are opposed to the idea. It will be costly for them. Sumitomo offers a compromise of a smaller extension. Fuji is still opposed because “it does not add to consumer convenience,” and wants the MOF to mediate.

October 19, 1978, Morning Edition, Page 1:

The Antitrust Committee (AC, Japan's equivalent of the U.S. Federal Trade Commission) suspects that the meeting of the six banks about the operating hours of ATMs may have violated the law because such a meeting is unfair restraint of trade used to pressure Sumitomo to change its proposed ATM hours. President of the Bank Association, Mr. Matsuzawa (who is also the head of Fuji Bank), said that the change in operating hours of

ATMs requires the report to the MOF only so that individual banks can decide what is best for them. Neither the Bank Association nor meetings with other banks decide the hours or put pressure on Sumitomo Bank.

October 19, 1978, Evening Edition, Page 1:

The head of the MOF's Bureau of Banking said that, in principle, the decision to change the hours of ATM operation is up to individual financial institutions under the law. We want to make sure that appropriate competition is working among the financial institutions.

October 25, 1978, Morning Edition, Page 3:

Sumitomo Bank extends its ATM hours by fifteen minutes on weekday mornings and by one hour on evenings, leaving the Saturday hours unchanged. The extension is implemented in three metro areas only. President of the Bank Association, Fuji Bank's Mr. Matsuzawa, said that there was no agreement among the banks about this problem. The meeting of the six banks was a regular meeting for the purpose of discussion only, not for deciding anything.

October 29, 1978, Morning Edition, Page 5:

In meetings with the Antitrust Committee the six banks insisted that they did not collude or decide in their meeting of low-level executives who, in any case, do not have the authority to make such decisions. The practice of *gyōsei-shidō* (administrative guidance) from the MOF is appropriate. Banks themselves depend on *gyōsei-shidō* from the MOF. That is, city banks have a strong tradition of *yokonarabi* (level behavior) because they are afraid of too much competition. After the AC's investigation, other banks will follow Sumitomo and extend their hours also. However, people doubt if this new movement will continue in the face of strong *yokonarabi* tradition. In spite of the MOF's announcement about its intent to promote competition, every aspect of banking remains highly regulated. After the shock has passed, things will return to business as usual. The chairmen of the AC are always officials from the MOF or the Bank of Japan. This investigation was unusual in that the AC went into an area that had been sheltered (taboo) before. However, the AC will

not look deeply into *gyōsei-shidō* or *yokonarabi*. The investigation was just a warning against excessive collusion. The MOF publicly insists on an attitude of nonintervention. However, everybody knows that the other banks asked the MOF to stop Sumitomo, and many take it for granted that the MOF played its coordinating role by convincing Sumitomo to cut back on the proposed extension of its ATM hours.

Correspondent's Remark: The MOF's intervention and banks' behavior show that they do not care about customers.

Three years earlier, in 1975, Sanwa Bank had announced twenty-four-hour banking service on its ATMs. The MOF slapped it down because the other city banks, who did not have the technological capability to match it, opposed the plan. Ironically, that opposition was led by Sumitomo Bank.

Government-Managed "Appropriate Competition"

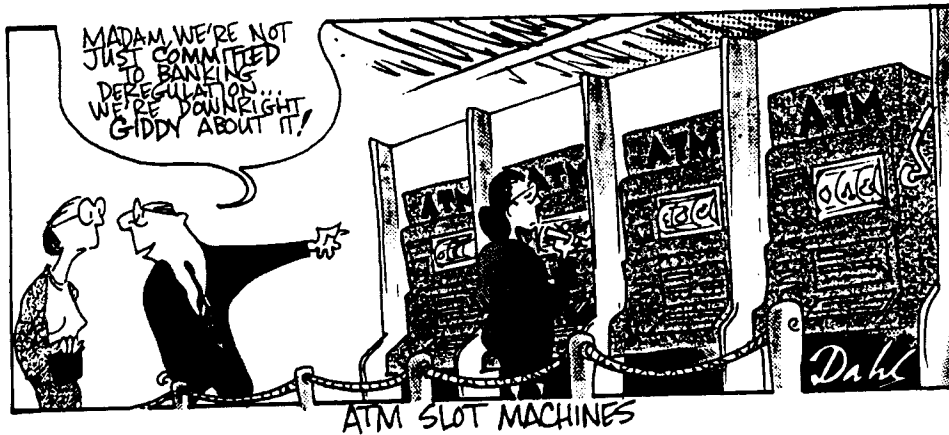
With a few exceptions, ATM hours have remained unchanged. Appropriate competition seems to be a euphemism for tightly controlled competition in Japan's banking industry. Other dimensions of competition are similarly controlled by the MOF. For example, Japan has relatively few but larger bank branches in relationship to the United States. In Japan, unlike in the United States, major banks have a nationwide network of branches. Banks need permission from the MOF to open branches, and the Ministry performs a careful balancing act among the major banks in allowing new branches to be opened. ATMs can be placed only at branches, or within a specified distance from the branches. Consequently, areas with high foot traffic, such as train stations and company cafeterias, have only a few ATMs.

In addition to the operating hours, pricing of ATM services is also of interest. For example, my bank had no charge from 9 A.M. to 6 P.M., charged 103 yen from 6 to 7 P.M., and made it

impossible to withdraw cash after 7 P.M. The fee is highest during the hours many office workers leave for home, and may want to stop at the bank to withdraw cash. The fee could be interpreted as a congestion charge during the high-demand hours if the congestion were not the result of limited ATM operating hours. Congestion charges (i.e., higher prices during busy hours) does not seem to be the norm in other sectors of the economy, except on tour packages. Uniformity of the "congestion charge" across banks and cities suggests a centralized origin (such as the Ministry of Finance), or at least an oligopolistic wink-and-nod understanding, rather than a response to local conditions. Today, but not necessarily in the past, different banks, even in the same U.S. city, often set different fees for the same service.

Certain practices reduce effective competition among the major private banks for customer deposits and accounts. Most employers allow employees the choice of only one bank in which they can have their pay deposited directly. Given the absence of personal checking (see chapter 9), it would be quite inconvenient for an employee who is determined to take advantage of the better services of one bank to shift his money from the bank selected by his employer for direct deposit. Most banks don't even try to attract more retail customers by offering better or more convenient services, hours, location, and so on.

In postwar Japan, banks were supposed to support industry by lending to and investing in Japanese corporations. Banks were not interested in providing consumer services—either deposits or loans. This system was enforced by government "window guidance" that allowed banks to borrow from the Bank of Japan at very low interest rates and in turn allowed the banks to lend to businesses at low interest rates. If any bank got out of line, it was "guided" away from the window. Now, the capital control has been lifted and the old system is breaking down, though its remnants linger. Services for bank consumers are still poor (e.g., no personal checking), though they are better than they were a



decade or two ago. Under "appropriate competition" among major banks, enforced by the MOF, evolution of the whole industry is held down to the rate at which the slowest of the city banks is willing to move.

Why would the government of Japan be a party to this resistance to change? It is possible to argue that a limit on ATM hours, like the absence of personal checking, forces people to carry more cash in their wallets. Since cash is an interest-free loan to the government, it saves about a trillion yen in interest payments on the 37 trillion yen (300,000 yen or 3,000 U.S. dollars per capita) of bank notes in circulation. In comparison, the United States is estimated to have only about \$1,000 in bank notes in circulation per capita and, unlike Japan's, more than half of U.S. currency is believed to be held outside the United States.

It is difficult to apportion the responsibility between the banks and the government. Whoever is to blame, the result is that the price of ATM transactions is zero during working hours, 103 yen in the most popular time slot after work, and rises to a priceless infinity after that.