Shared ATM Networks: The Nation and the Southeast

Banks are struggling to find a balance between competition and cooperation in the payments system. The race for control of ATM networks is heating up.

Slow to leave the starting gate, automated teller machines (ATMs) now lead the pack of new, electronically delivered banking services playing a major role in today's financial services revolution. The number of ATMs in operation in the United States is expected to reach 25,000 by year-end 1982 and each machine today is processing an estimated 7,200 transactions a month including balance inquiries.

The explosion in ATM popularity has led financial institutions with ATM networks to seek new ways to benefit from their investment in the technology. It has led others, such as the bankcard associations, ATM hardware and software vendors, supermarkets, and even individuals to search out profit opportunities in the field. And it has led smaller financial institutions to find cost-justifiable ways of providing ATM services to customers as a way of maintaining their positions in the competitive fray.

All of this exploration of ATM opportunities has produced a new race—the race for leadership in nationwide ATM interchange. The sharing of ATM networks at the national level is an extension of the sharing taking place in local and regional markets. It reflects a maturation of early ATM systems and the banks' changing ATM objectives that have accompanied that growth. It also indicates that barriers to interstate banking are under attack. Just as financial institutions used local and regional shared networks to get around state branching regulations, many are using shared nationwide networks as a first step in positioning themselves for interstate banking when geographic restrictions are lifted.

The Southeast is a relative newcomer to the ATM sharing arena. The competitive environment and branching regulations in the six states that constitute the Sixth Federal Reserve District favored the development of proprietary—rather than shared—ATM networks. However, the possibility of interstate banking is affecting banks in the Sixth District, one of the highest growth markets in the country. The nationwide sharing phenomenon has prompted some sharing initiatives in the Southeast.

3 The Sixth Federal Reserve District comprises all of Alabama, Florida, Georgia and parts of Mississippi, Louisiana and Tennessee. In this article these states are also referred to as the Southeast.
Nationwide ATM networks permit customers to gain direct access to their accounts at home even when they travel. More importantly, networks provide the infrastructure for other electronic banking services. The jockeying for position among nationwide ATM networks is early evidence of a battle among banks, major bankcard associations and nonfinancial organizations for leadership in the total electronic payments system that is still in its formative phase. It remains to be seen whether financial institutions can cooperate in developing bank-controlled electronic payments networks that will allow them to distinguish themselves from bank competitors in their primary markets and to meet customers needs. If banks fail to find a balance between competition and cooperation, others, such as retailers, could develop and control the systems, and banks would have to purchase access to those systems.

At the individual financial institution level, economic and competitive factors first influence ATM system design. As networks expand geographically and involve more than one financial institution, legal and regulatory issues help shape ATM developments. Shared systems at the nationwide level are influenced by all these factors and more. The alternative approaches to nationwide sharing reflect different viewpoints on the role that banks and the banking industry should play in the future payments system.

Institutions’ Objectives for ATMs

ATM network design begins at the institutional level. Before deciding to install ATMs or to join a shared ATM network, financial institutions must first identify their ATM objectives. These vary from bank to bank and depend on location, customer make-up, portfolio, competitors, and so forth. The objectives also are influenced by a wide range of external forces. Changing consumer preferences and technological advancements may lead an institution to install ATMs to enhance its image as a progressive, innovative organization. Banks in limited branching or nonbranching environments might implement ATM programs to extend their geographical market ranges. Another objective might be to control escalating labor and occupancy costs. Finally, confronted with continuing financial industry deregulation and the uncertainty of changing markets and competitors, institutions may adopt ATM programs for defensive or long-range positioning reasons or to preempt choice sites, such as airports or convention centers, where high transaction volumes might be anticipated to generate substantial transaction and interchange fee income.

Regardless of the circumstances, ATM objectives generally are expressed in both market and financial terms. A recent study suggests that the relative importance of objectives changes over time. Table 1 shows the results of a survey of commercial banks offering ATM services. The objectives of banks just getting into ATM services are somewhat limited in scope. Most banks starting ATM networks after 1980 named two predominant objectives. Fifty-two percent had defensive objectives (market-share retention), and 76 percent cited reduced lobby traffic as an important ATM goal. Financial institutions with networks older than two years perceive them as competitive weapons that can be actively promoted to increase market share. In addition, the financial objectives—reducing costs and generating income—come to the fore.

Cost reduction may become even more important in the mid 1980s. Recent cost estimates for ATM systems versus traditional teller systems demonstrate the potential for cost savings. In 1986 off-line teller transaction costs are forecast to reach 82 cents per transaction. For on-line teller transactions the estimate is 48 cents, and the cost per transaction is projected to be only 28 cents for ATMs. These cost differentials demonstrate the savings from less paper processing.

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Table 1. Impact of Network Maturation on Management Objectives
Percent of Institutions Setting Various Objectives

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>&lt;1975</th>
<th>76-77</th>
<th>78-79</th>
<th>&gt;1980</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased Market Share</td>
<td>40%</td>
<td>83%</td>
<td>73%</td>
<td>44%</td>
<td>40%</td>
</tr>
<tr>
<td>Defensive</td>
<td>41%</td>
<td>31%</td>
<td>41%</td>
<td>44%</td>
<td>52%</td>
</tr>
<tr>
<td>Cost Reduction</td>
<td>36%</td>
<td>42%</td>
<td>36%</td>
<td>44%</td>
<td>20%</td>
</tr>
<tr>
<td>Branch Reductions</td>
<td>26%</td>
<td>46%</td>
<td>14%</td>
<td>19%</td>
<td>28%</td>
</tr>
<tr>
<td>Reduced Lobby Traffic</td>
<td>70%</td>
<td>66%</td>
<td>73%</td>
<td>81%</td>
<td>76%</td>
</tr>
<tr>
<td>Other</td>
<td>26%</td>
<td>31%</td>
<td>27%</td>
<td>22%</td>
<td>24%</td>
</tr>
</tbody>
</table>


reduced or contained personnel costs, and reduced facilities costs from fewer brick-and-mortar branches.

Income is a mature ATM-network objective. Customers of mature networks are willing to pay for ATM services they have become accustomed to and attached to. This has allowed operators of networks to charge fees for ATM services without losing many customers. ATMs also can increase income via larger average balances and greater market share. Furthermore, the market segment attracted to ATM services is highly desirable. A recent survey by Payment Systems, Inc. (PSI) showed that ATM users tend to be affluent customers with upscale jobs and education—and with higher average balances.

These customers are also likely to accept other electronic payment services when they are introduced. For example, 63 percent of the PSI survey respondents who cited ATMs as an important factor in selecting a bank also showed interest in in-home banking. Building customer relationships is an objective incorporating plans for future services. It may not be an immediate ATM objective for institutions just entering the market, but its importance is increasing and will continue as interest in other electronic payment services grows in the late 1980s and early 1990s.

ATM Network Structures

Having identified its short and long-term objectives, a financial institution must also consider whether or not to share. There are valid arguments for and against ATM sharing, and there are many ways to structure such networks if an institution decides to share. Some alternatives include:

- Operating a proprietary ATM network;
- Selling a proprietary network on a wholesale basis to correspondent banks;
- Franchising a proprietary network;
- Entering into joint ventures with other financial institutions to operate a shared network of ATMs; and
- Participating in a shared ATM network operated by a third-party vendor.

Proprietary networks. Operating a proprietary network is a straightforward choice. A financial institution purchases or leases automated teller machines, acquires the necessary software or develops it in-house, installs the system and markets it, issuing cards of its own design. Advantages of a proprietary system are that the institution maintains complete control of the system and its services, and the product is

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4Payment Systems, Inc., op. cit. Table 31.
identified with only one institution. The disadvantages are that implementing and marketing an ATM network is costly, the volume of transaction is limited by the size of the institution's cardholder base, and there may be a very long payback period. In short, the proprietary ATM network is likely to have excess capacity that could be put to work profitably.

An institution can develop additional transaction volume, improve profitability and extend its geographic range by selling its ATM services to downstream correspondent banks. It can recover the cost of any additional ATMs by leasing them to the correspondent banks. It can generate revenue by issuing cards to correspondent banks' customers and by processing their ATM transactions. Yet it does not give up control. While the ATM network identity may be somewhat diluted because correspondent banks' customers associate it with their own banks, the product remains identified with the proprietor bank in its own market. Furthermore, the bank enhances the convenience for its customers by making its ATM product available in other market areas where they would not otherwise have access to their bank.

Another way in which an institution can use excess capacity and generate revenue is to franchise its ATM product. This is a way to recover some of the development costs of a proprietary ATM network without necessarily giving other institutions' customers access to the proprietor's ATMs. If the franchise agreement requires the franchise operation to get its ATM transaction processing from the lead bank, the originator of the service can earn fee income while the increased volume reduces its marginal costs. Like wholesaling, franchising may dilute the identity of the ATM service name as an unique product. However, by offering the franchise in selected markets and preparing to facilitate interchange among the franchised ATM operations, the lead financial institution may position itself for later entry into those markets.

Shared ATM networks. Sharing occurs when customers of one or more financial institutions have access to one or more transaction services at ATMs owned or operated by other financial institutions. Technically, then, a proprietary ATM service marketed to downstream correspondents is a kind of shared ATM network. It falls under the heading of proprietary networks, however, because of the issue of control. While a wholesale ATM network may be responsive to the needs of correspondent banks, the decision-making process is controlled by the wholesale financial institution. Banks participating in other kinds of shared ATM systems also forego some of the decision-making power inherent in proprietary systems. They may also give up the benefit of product differentiation, the unique identification of their ATM service as a product of their bank. On the other hand, they are able to provide ATM services to customers without bearing the total burden of development and operating costs.

An alternative to participating in a wholesale ATM network is a joint venture with other financial institutions. The joint venture's organizational structure and specific details of the ATM network operation are determined by the participating banks. They may determine jointly the kind of ATMs they will deploy, whether the ATMs will be individually or jointly owned, the particular software package to acquire or develop, whether the switch (the mechanism that directs the ATM transaction to the cardholder's financial institution) will be "in front" or "in back" of the bank and the pricing structure for interchange transactions made by one bank's customers at another bank's ATM. Details that must be worked out to implement an ATM network are numerous, and each shared system based on the joint-venture model may be unique in some ways. Nevertheless, all have in common the key features of shared access and cooperative control.

Third-party ATM networks provide yet another avenue into the ATM marketplace. Service bureaus, hardware vendors and software specialists are all marketing ATM processing, switching and other technical support to financial institutions today. Third parties can be quite flexible in what they offer. Their ATM-supporting services might run the gamut from issuing cards only through data processing for proprietary networks and switching for local shared services, to linking their service users together in a nationwide ATM interchange network. Third parties, in the business of selling technology,

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*When the switch is "in front" of the bank, the transaction is routed from the ATM directly to the customer's bank. When it is "in back" of the bank all transactions go first to the ATM-owning institution, which pulls out its own customer's transactions and then switches other bank customers' transactions to the appropriate banks.*
are interested in taking a leading role in the operation of the emerging electronic payments system. They are not necessarily interested in becoming banks in the traditional sense. Their technical support may be the advantage that influences one institution's decision to enter the ATM market via the third-party route. Another institution may fear that giving a nonbank third-party processor a substantial role in the payments system will pose a threat to its future growth.

Clearly, the factors that influence institutions' ATM decisions are reflected in the network structures themselves. Unshared proprietary networks offer product differentiation and identity in the marketplace, while shared networks promise economic advantages such as the potential for fee income and recouping or spreading product development and operating costs. The choice of an appropriate sharing structure is influenced by banks' philosophies on the issue of control and by their longer-term strategic goals. In addition, legal and regulatory factors have played a major role in the development of shared ATM networks.

The Influence of Regulation and Legislation on ATM Sharing

Many of today's shared ATM systems arose as a result of state legislation. The arrival of electronic funds transfer (EFT) services raised a number of federal antitrust issues. Questions concerned the ability of all financial institutions to enter and compete in an EFT market environment, the accessibility of EFT services to all consumers, and the potential for discriminatory pricing practices. The antitrust issues led to mandatory sharing provisions in the EFT laws in 24 states. In these states a financial institution must share its off-premise ATMs with any financial institutions that request shared access. Mandatory sharing protects small financial institutions by enabling them to deliver services similar to those of larger banks. While it may also have the perverse effect of discouraging larger institutions from deploying off-premise ATMs that smaller competitors would be free to share at little cost or risk, this does not appear to have occurred. Perhaps the incentive for fee income from transaction interchange is greater than competitive concerns.

EFT legislation in other states varies. Alternative legal environments offer such options as:

- Permissive/nondiscriminatory sharing, in which a financial institution can choose to operate a proprietary network (that shares with no one). However, if it does share, it is required to share with all.
- Permissive sharing, in which the financial institution may or may not share.
- Pro competitive sharing, in which a case-by-case analysis of the competitive impact determines whether a financial institution must share.

State branching regulation also has influenced many banks' decision to share ATMs. When most ATMs were being installed in branch locations, the power of proprietary ATM networks to provide additional convenience and attract new customers was less substantial in unit banking and limited branching states than in states with liberal branching laws. In states with restrictive branching laws, sharing offered a way for banks to extend their geographic market range. One recent study has shown that shared systems in unit and limited branching states outnumber those in statewide branching states 24 to 6.

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1Theresa A. Einhorn, "EFT and the Law," The Southern Banker, October 1982.
ATM Networks in the Southeast

Most of the six states in the Sixth Federal Reserve District have relatively liberal laws regarding branching and multibank holding companies and none has mandatory sharing provisions for ATMs. Prior to 1978, there was little incentive for southeastern financial institutions to develop shared ATM networks. Until that time, consumer acceptance of ATM services was an open question, and the number of ATMs in operation in the nation grew slowly. ATM growth was slow in the Sixth District, but it picked up substantially from 1978 through 1982.

Geographically, ATM growth has been concentrated in Georgia, Florida and Tennessee, with Florida leading the way. Much of that growth may be attributed to the number of densely populated SMSAs in these states and to their highly competitive environments. Early customers of ATM services generally were young, well-educated, upscale consumers living in SMSAs. Big city banks competed strenuously to attract these customers.

In the Sixth District, shared ATM networks emerged slowly. Apparently, large southeastern financial institutions did not see shared ATMs as a necessary vehicle to improved market location. The larger banks and multibank holding companies already had, or were actively developing, networks of branches and subsidiaries in choice locations by 1978 and had little to gain in terms of market access from ATM sharing arrangements. Instead, they followed a strategy of placing ATMs in their established branch and subsidiary banks. They concentrated on competitive objectives, using their ATMs to gain or retain market share. Some banks also promoted alternative products that competed with ATMs, such as check authorization and guarantee. Although a variety of ATM network structures now exist in the Southeast, the number of ATMs in proprietary networks far outnumber those in any other type of arrangement. One of the largest proprietary networks in Florida comprises more than 150 ATMs, for instance, and one in Georgia has more than 80 machines.

Not all larger banks in the region have maintained a strictly proprietary stance. First Tennessee Bank is one institution that has charted a different course. First Tennessee owns and operates the “Money Belt,” a proprietary network offered to correspondent banks in Alabama, Arkansas, Mississippi and Georgia as well as in Tennessee. “Money Belt” supports interchange among the correspondents and with First Tennessee, an attractive arrangement for smaller banks.

The “Money Belt” network is an extension of First Tennessee’s correspondent services line. The bank offers a variety of data processing services, including the Money Belt,” to its correspondents. The bank thus has a complete service package that many small banks (under $100 million in deposits) cannot afford on their own. First Tennessee estimates the potential market for their package of services at about 700 banks.

Georgia Express is a similar shared ATM network based in Georgia. Technically, Georgia Express is a third-party network. It is operated by First Financial Management Corporation, a service bureau subsidiary of First Railroad Banking Corporation. Presently Georgia Express offers ATM cash withdrawal services to 26 banks in 45 Georgia cities on an interchange basis. Most participating banks are small, with total deposits averaging $48 million. Although the service is presently limited to Georgia, First Financial Management provides on-line data processing to 165 banks in Georgia, Alabama and Florida. Thus the potential exists for Georgia Express to go interstate.

Georgia Express and Money Belt are not the only organizations in the region offering ATM services to smaller financial institutions. They are, however, the most fully developed programs being marketed today. Other southeastern banks that offer ATM services to respondents and small,
out-of-market competitors include Citizen and Southern and Trust Company, two of Atlanta's leading banks.

Apparently, wholesale ATM services are becoming an important component of the correspondent banking strategy of Sixth District commercial banks. Smaller banks need these services, and because of escalating labor costs they will continue to need them. As long as larger banks can deliver these services at attractive prices, both sides of the correspondent relationship can gain from the economies of larger volume processing. In addition, downstream sharing is a source of fee income, generated from ATM interchange, that the banks are beginning to tap. This income potential seems likely to continue growing as consumers in non-SMSA areas follow the lead of city dwellers and begin to view the convenience of ATM services as an essential banking need.

Two shared ATM networks that operate in Louisiana, MPACT and Pulse, differ from those elsewhere in the Southeast. Larger banks that often compete in the same market area participate in MPACT and Pulse. However, MPACT and Pulse are regional ATM networks based in Texas, and the leading financial institutions in the systems are Texas banks. MPACT and Pulse evolved in Texas in response to that state's unit banking and mandatory sharing laws.

It is too early to determine the effect that MPACT and Pulse will have on ATM sharing developments in the Southeast. However, their extension into Louisiana apparently relates more to the natural market area for these Texas-based regional systems than to a major effort to extend the scope of their activity geographically. Each of these networks has already announced ties to one of the emerging nationwide networks.10

Nationwide ATM Networks

The prohibition against interstate banking is inducing the development of nationwide ATM networks, although much of this influence may be indirect. Specifically, the prohibition is against taking deposits across state lines. Even if there were no legal constraints, it is difficult to conceive of a customer establishing a transaction deposit account (checking or NOW account) with an out-of-state bank whose only presence in the customer's community was an ATM. Thus it seems unlikely that ATMs would receive significant deposits from out of state consumers. One must even question the real value of ATMs' cash dispensing. Good substitutes, such as travelers checks, cash taken along on a trip and credit cards already exist.

Nevertheless, consumers may adopt nationwide networks because they perceive great value in being able to access out-of-state ATMs, regardless of whether they use a nationwide network or not. The perceived value of nationwide ATM networks could conceivably expand into a perceived value of nationwide banking. This could generate consumer support for the efforts of many banks to have the prohibition on interstate banking repealed. When the prohibition does fall, banks that participate in shared ATM networks would probably have a competitive advantage, having already established a presence in many markets via shared ATMs.

Today the legal standing of nationwide networks remains unclear. The Comptroller of the Currency and the Federal Deposit Insurance Corporation do not consider ATMs to be branches. This interpretation follows the leading EFT decision in Independent Bankers Association versus Smith, which distinguishes off-premise ATMs from brick-and-mortar branches.11 Even on an interstate basis, the Comptroller does not consider "common accessing" of terminals to be branching when there is no ownership of the terminal and a fee is paid for using another bank's ATM. However,

10MPACT is tied into Cirrus through the membership of Mercantile Texas Corporation—its parent organization, and Pulse is with RIA.

Viewed from this larger perspective, the emergence of nationwide ATM interchange signifies early jockeying for positions in the future electronic payments system.

some state laws conflict with the Comptroller's interpretation. For example, Illinois has a contiguous state requirement for electronic transaction interchange, and Florida prohibits the use of electronic terminals by out-of-state banks. In states where statutes or regulations disagree with the Comptroller's interpretation, national banks must comply with state laws. Nevertheless, banks in virtually every state, including Florida and Illinois, have announced plans to participate in one of the nationwide networks even though this participation may have to be limited until federal geographic restrictions or specific state statutes or regulations are changed.

Positioning for interstate banking is not the only impetus for developing nationwide shared ATM networks. Economic and competitive factors and the long-term payments system outlook also come into play. Dale Browning, president of Plus Systems, a nationwide shared system that will begin operations next year, cited five objectives for nationwide sharing of ATMs: "(1) Split the cost and risk of development of new products (2) Significantly lower the cost in the delivery of a product (3) Bring a national flavor to the services provided, and therefore enhance perceived value (4) Position regional banks as well as money-center banks to take immediate advantage of interstate banking liberalization (5) Overcome present geographic restrictions which do not apply to nonbanks."13

Perhaps it is significant that Browning's first objective implies the development of products beyond ATMs. Viewed from this larger perspective, the emergence of nationwide ATM interchange signifies early jockeying for positions in the future electronic payments system. It is easy to envision that the same switching systems now being developed for ATMs will be enhanced to facilitate interchange of transactions that originate from the point of sale. Ultimately ATM, point-of-sale and home-banking services must be integrated into a single network if the electronic payments system is to offer a true alternative to checks.

Large Banks' Approach to Shared Nationwide ATM Networks

It may have been the bankcard associations' plans for nationwide ATM services that made banks aware of the need to work together to develop alternatives that more fully fit their needs. The original Visa plan required participating banks to share all ATMs in their networks and to place the Visa logo on all machines. As the plan was originally proposed, consumers would have been able to use standard Visa cards, which provide little space for bank identification, to operate bank-owned ATMs nationwide. The system that Master Card proposed comprised 400-500 association-owned Master Teller ATMs, accessible with Master Cards, to be placed in strategic locations nationwide.

In the face of these initiatives by bankcard organizations, banks that had invested in developing proprietary ATM systems were concerned. The competitive benefits of proprietary ATM networks, the product differentiation that these banks had so carefully nurtured, could be lost. The possibility became clear that ATMs (and perhaps ultimately the electronic payments system) could become a utility that customers would identify with Visa and Master Card. Furthermore the bankcard associations' international presence could extend the utility concept to retail electronic payment services worldwide.

The competitive implications and preemptive possibilities inherent in the Visa and Master Card initiatives were too extensive to be ignored.

Large financial institutions responded with two alternative plans, called Plus and Cirrus. These alternatives permit banks with proprietary ATM networks to retain their competitive benefits in local market areas and still provide customers the convenience of nationwide ATM access.

**Plus System Inc.** Plus enjoys a distinct capital advantage. The initial fee for proprietary membership in Plus was originally $100,000, and 31 financial institutions subscribed to Plus at that price. That gave Plus a considerable capital base.

Plus also has the advantage of a pre-existing operating switch. Rocky Mountain Bank Card Association has operated a shared regional ATM system, also named Plus, in Colorado, Utah, Nebraska, Kansas, Arizona, California, Idaho, Montana, New Mexico, Nevada and Iowa. It owns the switch that the nationwide Plus system will use when it goes on line next April.

In the Southeast, Plus has succeeded in attracting First Atlanta Corp., Southeast Bank in Florida, First Tennessee Bank, and Louisiana National Bank in Baton Rouge. These banks, like all Plus charter members, have exclusive rights to the Plus name in respective territories that may encompass an entire state. They have the right to sponsor non-equity participants in their territories if they choose. Equity members also have voting rights over the future destiny of the Plus system. These features give equity members a considerable degree of control, at least in their own territories.

**Cirrus System, Inc.** Cirrus, the second large national ATM network, began about the same time as Plus. It is based on the same general concept but features a lower entry cost. Cirrus members' voting privileges and exclusive market territory rights are similar to Plus, and equity members have the power to approve any sponsored members. Cirrus equity members pay an initial $25,000 fee for membership. While this price may be a marketing advantage, it also left Cirrus cranking up operations with a substantially smaller capital base than Plus.

Cirrus members in the Sixth District are Trust Company of Georgia and Sun Banks of Florida. Trust Company has already begun to market Cirrus to downstream banks. In October it announced a statewide shared network that will be open to banks, savings and loan associations and credit unions. Participants, who do not need their own ATMs to join the Georgia network, will become corresponding members of Cirrus.

### The Regional Shared ATM Networks' Approach

The nationwide ATM network that reflects the position of the generally smaller banks presently sharing local and regional networks is Regional Interchange Association (RIA). An outgrowth of the Regional Interchange Working Group, which began meeting in June 1981, RIA has signed up 13 large regional shared networks. In all, its members operate terminals in more than 27 states.

The RIA philosophy clearly differs from that of Cirrus and Plus. Cirrus and Plus are dominated by large commercial banks with exclusive territories and rights to determine which other banks in their territories, if any, can offer customers the benefits of these two nationwide systems. RIA's objective is to unite regional and local shared systems in a national alternative to Visa and Master Card. However, RIA participants have no exclusive market rights. From the RIA perspective, ATM interchange may become a utility, but it should be a utility in which smaller financial institutions have a substantial voice. A statement from the Regional Interchange Working Group's original proposal reflects its dedication to allowing smaller banks to share in the system's control. The statement referred to the Visa and Master Card proposals, and it noted that "when measured by credit card outstandings, some 125 banks held 80 percent of the total credit issued." This suggests that smaller banks may feel they have an inferior position in the bankcard associations.

Even though the shared control philosophy is not common to Sixth District financial institutions, First Financial Management Corporation and one Sixth District bank holding company, Flagship Banks in Florida, have joined RIA. Since no out-of-state bank's customers can access ATMs in Florida at present, Flagship may view its membership in RIA as participatory research. It is not clear, then, whether the cooperative utility philosophy regarding nationwide ATM networks has actually found a foothold in Florida.

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15Telephone conversation with James Martin, Chairman and President, RIA, November 1982.

Perhaps Publix Supermarkets, Inc.’s determination to establish its own network of ATMs in its 260 Florida retail locations has prompted Flagship Banks’ participation in RIA. The Publix efforts did prompt formation of a seven-bank study group to explore a statewide shared ATM network controlled by banks. In addition to Flagship, participants in the study include Atlantic Bancorporation, Barnett Banks of Florida, Inc. Exchange Bancorporation, First Florida Banks, Inc., Florida National Banks of Florida, Inc. and Southeast Bank, NA. These are seven of the eight largest bank holding companies in the state.¹⁷

It is not surprising that these banks perceive the Publix ATM initiative as a significant threat. The retailer claims 25 percent of the grocery market in Florida. Its stores are located primarily in upscale neighborhoods. And all stores are equipped with electronic scanners that read the Universal Product Code (UPC) and record purchases automatically. (UPC is the bar code printed on most items found in grocery stores.) If Publix succeeds in signing up a substantial number of financial institutions, including some of the largest banks, as participants in its ATM system, the arrangement could easily evolve into a retailer-controlled point-of-sale network. Florida banks are concerned that Publix’ next step could be to become a retail bank, accepting deposits from many of the 15,000-20,000 customers who visit each of the chain’s supermarkets every week.¹⁸

Financial institutions throughout the nation also face competition from retailers like Sears and Kroger, who are aggressively entering the financial services field. Both banks and retailers can benefit from the economies of electronic payment transactions. However, from a marketing perspective the two industries seem far apart. Retailers want all banks to participate in a single point-of-sale service accessible to the stores’ customers regardless of where they bank. Many bankers, on the other hand, prefer to operate proprietary systems to attract customers to their banks. Thus far, banks and retailers have found no effective compromise on this point, although some retailers have conceded that a limited number of competing systems could be advantageous to them. Limited competition could enable retailers to negotiate favorable terms for their participation and still provide the broad bank coverage they need to serve their customers.

Florida may be a bellwether state. A major Florida retailer has seized the initiative, establishing its own ATM network and selling participation in it to banks. The success or failure of that effort holds important implications for the financial services industry nationwide. Will Publix’ initiative be emulated in other areas? It is almost certain that it will. For example, Southland Corp. has announced plans to install ATMs in some or all of its 7,000 Seven-Eleven stores.¹⁹ Will major banks, the leaders in their markets, join these retailer-operated systems? It is possible. Sun Banks of Florida, the state’s third largest bank holding company, joined the Publix ATM network in October. Will large commercial banks, without the impetus of regulation, forego their preference for proprietary ATM services and form shared networks accessible to customers of major competitors in the same marketplace? The answer to this question is least clear. The work of the seven-bank study group in Florida may offer a clue. The group’s existence itself is noteworthy, for

¹⁸Ibid.
there is no precedent for cooperative efforts on the part of banks in that state. But the incentive is great. Control of an emerging payments system may be at stake.

Conclusion

The race to establish nationwide networks is a battle for control. Some major banks recently have concluded that control of the payments system is an important competitive advantage for the industry—one that has suffered, perhaps, from neglect.\(^20\) These banks believe fees for payment transaction processing will prove an increasingly important source of revenue in the new age of deregulated banking. They seem determined to keep that revenue in the banking industry by maintaining control of the emerging electronic payments system. They view such nonbank entities as Sears, Merrill Lynch, American Express and even the bank credit card organizations as competitors for that control. The threat of outside competition is inducing banks to cooperate and share. Yet banks face a dilemma. The colleagues they seek to cooperate with are competitors as well.

Perhaps the real importance of the ATM sharing phenomenon, then, is that it represents banks’ struggle to find a comfortable balance between competition and cooperation in the payments system. In the emerging electronic payments system, banks are seeking opportunities to gain a competitive edge vis-a-vis other banks. However, it appears that the needs of payments system users are not always well met by banks’ competitive stance. Users need a system that facilitates payments regardless of where they bank. It remains to be seen whether financial institutions will succeed in developing cooperative organizational structures for a system that protects and enhances their competitive positions. If they are not successful in the near future, others, such as retailers or the bankcard organizations, may preempt the industry’s control by designing systems that meet their own and their customers’ needs and selling banks access to those systems. The ATM sharing competition is only the tip of the iceberg for the emerging electronic payments system in the nation and in the Southeast.