

A First Data White Paper

# **Breathe New Life into Your ATM Program with Progressive Marketing and Customer Relationship Management Tools**

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With ATMs saturating the market and declining revenues per machine, forward-looking financial institutions are rethinking their ATM strategy and moving toward exciting new technologies.

## Introduction

Much to the dismay of the financial services industry, the ATM gold rush is drawing to a close. Since the introduction of surcharges in 2009, automated teller machines (ATMs) have served as a significant source of revenue for financial institutions. However, changes in consumer behaviour, market saturation and rising operational costs have led to declining ATM profitability in recent years. Financial institutions must now reconsider their ATM strategies as they face a profound transformation in the ATM banking landscape.

Although consumers continue to list the location of ATMs as one of their most important criteria in choosing a financial institution, data from industry experts like Dove Consulting, the American Bankers Association and others show the average number of transactions per machine is declining, as is the average revenue per machine.

The Reserve Bank of Australia (RBA) research shows that average transactions per machine decreased by approximately 20 percent from 2008 to 2013 (-4 percent annually). This comes as the total number of ATMs in Australia has begun to flatten out, from a peak of 30,794 at March 2012 to 29,989 as of June 2013. This trend can be explained, in part, by the continued increase in the use of credit and debit, which combined have grown from representing 69 percent of total card usage market spend in 2008 to 76 percent in 2013. This increase in payment card transactions has reduced the need for consumers to withdraw cash as frequently. Additionally, consumers have grown weary of paying ATM surcharges and have subsequently reduced their visits to ATMs—a trend that is likely to accelerate as the swift adoption of contactless payments and cash at POS continues. A 2013 First Data Australian consumer survey showed that most consumers go out of their way to avoid paying a direct charge at an ATM. Quite often convenience is not enough of a motivator to make people use their non-bank ATM (fee free), with 57 percent of respondents only using their bank's or banking partner's ATMs in order to avoid paying fees. In addition, ATM profitability has suffered because of increases in operational costs, especially costs associated with compliance and security, and maintenance of outdated legacy software and hardware.

Given these changes, financial institutions must make important decisions regarding their ATM fleets, and many will react by pulling unprofitable machines and delaying or forgoing upgrades on remaining machines. But, financial institutions may be inhibiting their growth if they devise strategies based on the premise that ATMs are simply cash dispensing machines. In order to compete in a competitive economic environment, financial institutions must take advantage of ATMs as important mechanisms for building and enhancing customer relationships.

As the most highly used customer access channel in retail banking, the ATM is a critical customer touch point. Recent ATM innovations offer financial institutions the opportunity to transform the ATM

from a cash dispenser to a customer relationship management tool, helping to enhance loyalty among all customers, particularly those who almost exclusively use the ATM. From transaction personalisation to customised, one-to-one marketing capabilities, the future of ATMs is in their value as customer relationship and marketing vehicles, allowing financial institutions to mitigate the trend of declining ATM profitability while maximising the potential of their ATM programs.

**This paper covers new developments, functionality support services coming to market in the ATM industry within Australia. It also highlights opportunities for shifting the ATM experience from a homogenous customer encounter into a more targeted user experience.**

## The State of the ATM Industry

The first full-service ATMs were introduced in the early 1970s, but it was not until the mid-1980s that the ATM became part of mainstream banking, giving financial institutions the unprecedented opportunity to provide customers with around-the-clock banking services. During the last four decades, the deployment and use of ATMs has grown exponentially, with units popping up not only at financial institution branches, but also in convenience stores, shopping centres, pubs, clubs and fast food restaurants and various other retail outlets. The primary purpose of ATMs during their initial phase was to offer convenience to customers, as well as to provide a lower-cost customer service channel for simple transactions like deposits and cash withdrawals.

The proliferation of ATMs accelerated when operators realised that in addition to providing a cheaper and more convenient way to service customers, the surcharges associated with the ATM had the potential to add up to a significant amount of revenue. However, since ATM surcharges were introduced in March 2009, the industry has seen a shift in consumer behaviour resulting in a rise in at-own<sup>1</sup> ATM transactions. From 2008 to 2013, at-own ATM transactions increased from approximately 52 percent to 60 percent of all transactions.

The traditional metrics used for gauging ATM performance—transactions, revenue and profit per ATM—have been declining in recent years, indicating the density of ATMs per capita has likely now reached unsustainable levels. In June 2013, the Australian market saw year-on-year transaction and device growth of -4.4% and -1.7%, respectively. In addition to possible over-penetration of ATMs in the market, consumers are more frequently turning to debit and credit cards rather than cash to pay for purchases, resulting in fewer trips to the ATM. At the same time, the cost of regulatory compliance, security, cash replenishment and back office operations continues to increase. According to both the RBA and a 2010 Edgar, Dunn & Company report, site costs for non-branch ATMs have been rising rapidly. Since 2008, average site costs per transaction for the industry as a

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<sup>1</sup> At-own ATMs means those domestic ATM cash withdrawals initiated using a debit card at an ATM or cash dispenser where the card used to initiate the transaction is issued by the same institution that owns the ATM or acquires the transaction.

whole increased by 19 percent, with a 40 percent increase for independent operators. Although the cost increase has been less drastic for financial institutions, it is important to note that while they do experience high transaction volumes, approximately 80 percent of transactions do not incur a direct charge. As a result, these fees typically do not cover the direct cost of providing their ATM networks.

Yet even as profit margins and use declines, consumers continue to view ATMs as an essential banking channel, and for many consumers the ATM has replaced the in-bank experience. In fact, according to recent First Data research in Australia, almost 60 percent of people surveyed use an ATM at least once a week. The number of ATM locations offered by a financial institution can represent a significant competitive asset, regardless of declining overall use. As surcharge rates for non-bank customers continue to rise, the value customers place on convenient, free access to ATMs becomes an important tool for financial institutions in attracting and retaining customers.

The perplexing new role of the ATM as a popular and formerly lucrative banking channel that now loses money is leading financial institutions to redefine how they analyse the value of their ATM fleet.

→ If the ATM is not a stand-alone profit centre, then is there value in the ATM as a full-function customer delivery channel?

→ Or, is the ATM simply a machine for dispensing cash?

Financial institutions that answer “yes” to the latter question will develop strategies to minimise their investment in ATMs, such as reducing the number of machines and offering customers a functional, but generic user experience. However, failing to extract maximum value from a key strategic asset like an ATM fleet could be a costly mistake.

In order to compete successfully, it is in the best interest of many financial institutions to leverage their ATM investment. Recent advances in ATM technology offer new opportunities to transform the ATM from a cash dispenser into an effective customer relationship and marketing vehicle.

## What's New With ATMs

The modern consumer is constantly demanding new services, and wants to be able to use these services anywhere and anytime. This market demand, coupled with advances in technologies, is driving rapid change across the payments industry, with institutions needing to constantly update their services to stay relevant and competitive. Even though the basic functionality of ATMs has remained relatively unchanged since their introduction four decades ago, recent technological progress is giving ATMs new life—and providing important opportunities for financial institutions to profoundly change the ATM's role in customer interactions.

### Microsoft® Windows®-based ATM Operating Systems and TCP/IP Communications

Perhaps the most important development in ATM technology is the decision by ATM manufacturers to open up system architectures by deploying Windows-based operating systems instead of the OS/2-based proprietary systems that ATMs have been running for years. While the migration to Windows creates some security-related operational challenges, the new systems are much easier to connect to back-end applications, such as customer relationship management (CRM) software, require less customisation and integrate easily with "off-the-shelf" products for ATM enhancement. The new systems also have the potential to provide a dramatically more engaging user interface and overall customer experience.

The introduction of TCP/IP (the Internet Protocol suite that includes Transmission Control Protocol and Internet Protocol) communications for ATMs provides much faster connections for processing transactions, which gives financial institutions the ability to send and receive more data, such as graphics and real-time promotional messages, without slowing down the total transaction time. This results in an increased capability for banks to use highly customised target marketing to cross-sell products to ATM users.

### ATM Prepaid Services

This self-service functionality is quick and easy to use for cardholders, while increasing customers' overall appreciation and value of the financial institution. Additional benefits include bringing in new types of customers, which allow for additional cross selling opportunities of other products.

To date, some of the major financial institutions offer prepaid mobile top up. First Data will be the first to market in Australia to offer prepaid voucher purchase for telco, music, online gaming and international calling cards through its direct connected Cashcard branded network.

## Transaction Personalisation

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Transaction personalisation gives financial institutions the opportunity to provide a more engaging and less time-consuming ATM user experience by customising the most frequent transaction conducted at the ATM— the withdrawal. To speed up the transaction time, this service allows cardholders to create a profile at the ATM with the ability to choose their fast cash amount, as well as language and receipt preferences. ATM users simply enter their PIN and confirm the transaction, instead of inputting an average of 17 to 20 keystrokes for each transaction. These personalisation enhancements not only improve the customer experience, they also shorten the transaction time, making each ATM more efficient.

## ATM Advertising

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Until recently, the ability to modify an ATM screen or use graphics was inefficient and expensive for financial institutions. Graphics had to be installed manually at each ATM by financial institution staff or an ATM service provider. The introduction of Microsoft Windows software and TCP/IP communications makes it markedly easier for financial institutions to distribute graphics to their ATM fleets. Now it is relatively simple for a financial institution to remotely modify marketing messages across its ATM fleet or at individual ATMs to cross-sell banking products and services, as well as promote the financial institution's brand. Graphics



and marketing messages are now commonly used to communicate with ATM users while they wait for their money, with the advertising message holding their undivided attention on the "idle loop" and "please wait" (transaction in progress) screens. Financial institutions can also more easily measure return on investment and campaign success with remote tracking of results through the campaign life-cycle. With this capability, the ATM has transformed from a stand-alone cash dispenser into a dynamic customer relationship and direct marketing vehicle.

Through First Data's on-screen advertising options, financial institutions can increase brand awareness through community and welcome messages, or run targeted advertising campaigns to promote products and services. Additionally, redemption codes and website addresses on receipts help to convert advertising into sales dollars. Campaigns are remotely implemented and audiences can be targeted by card BIN, ATM location, time of day... etc. allowing differentiated marketing campaigns to be deployed on a single device. By leveraging networks such as First Data's Cashcard

Network, for the first time in Australia, financial institutions can now target their own cardholders away from their network.

## Dynamic Currency Conversion

Within Australia, First Data, Travelex and BankTech (Eftex) are only now beginning to enable Dynamic currency conversion (DCC) at ATMs. DCC provides international cardholders the opportunity to perform withdrawals in their own currency. If the card is capable, the functionality will display on screen and customers can opt in to receive the service. The main benefits for cardholders is the ability to understand and know exactly how much will be debited from their account for their withdrawal rather than being surprised by their statement at the end of the month.

First Data's DCC@ATM solution enables international MasterCard cardholders the opportunity to perform withdrawals in any one of 17 currency options.

## ATM PIN Change

ATM PIN change solutions offer cardholders convenience and security while provide flexibility and choice to manage their PINs using their preferred service channels and in their own time, 24/7, 365 days year. Traditional PIN mailers can be slow, susceptible to delivery delays and are also open to thieves intercepting card and PIN mail with the intent to commit fraud. New secure PIN distribution channels enhance the customer experience and reduce both time and risk.



First Data's wide range of PIN management solutions provides choice to issuers' customers through broad geographic coverage and large demographic preferences.

## The ATM—an Untapped Marketing Channel

With newspaper and magazine readership decreasing rapidly and “do not call” lists increasing, the traditional options for reaching customers with targeted marketing messages are narrowing. The tightening of the lending environment is also affecting marketing efforts, as financial institutions cut back on direct mail while seeking less expensive alternatives for reaching consumers.

**Go directly to your customer.** A key tenet of effective (and cost efficient) marketing is to go where the customers are—and for financial institutions, a good portion of their clients and prospects are at ATMs. These self-service delivery channels are not just a convenience for customers, but a primary point of banking. In addition, these channels provide a captive audience for marketing purposes as customers wait for pages to load or transactions to complete.

**Personalise the message for your customer.** The newer ATM technologies also offer financial institutions the ability to manage marketing campaigns remotely. Graphics and messages can be downloaded from a central location to individual ATMs or to groups of ATMs, allowing for local and regional marketing campaigns or even campaigns targeted to a specific ATM location.

The advent of Windows-based ATMs, simple ATM integration with CRM software and TCP/IP communications make it easier and less expensive for financial institutions to create and distribute targeted marketing campaigns. Customers are easily identified through their cards at the ATM, which makes personalised marketing fairly straightforward. For example, financial institutions can promote specific credit card, mortgage or other financial products specifically to those ATM users who are prequalified. Other customers and non-customers may see alternate types of promotions at the ATM, including online banking or deposit account offers. Financial institutions also can monitor how each customer responds to an offer and rotate messages depending on the response. Or, for even more effective results, financial institutions can integrate their systems with powerful marketing analytics tools that allow more complex, real-time responses as customer data is gathered. This will help to dramatically increase the effectiveness of ATM marketing by applying complex predictive algorithms based on customer demographics, behaviour and preferences.

**Use your ATMs as an effective marketing channel.** Using advances in technology to transform the ATM into an effective marketing channel provides financial institutions a host of benefits, and for return on marketing investment, the ATM has the potential to become a profit centre once again.

→ **Customisation** – Through transaction personalisation options, customers can preset their preferences for the types of transactions they want to perform and the information they want to receive, which leads to feelings of personalised relationships and loyalty

- **Brand reinforcement** – ATM screen graphics and messaging can be made consistent with the financial institution's other marketing channels, reinforcing messages with each ATM transaction. Additionally, providing the latest value added functionality such as pre-paid services may improve customers' perceptions of financial institutions as innovative.
- **Cross-sell opportunities** – One-to-one targeted messaging via an ATM can result in higher response rates than from other marketing channels. Additionally, financial institutions have the opportunity to cross-sell to non-customers who use the financial institution's ATMs
- **Customer data** – Marketing programs can be refined even further to target customers based on user information and specific responses (i.e., customer data) captured at the ATM
- **Cost savings** – ATM marketing campaigns can be less expensive to create and distribute than marketing through traditional direct channels
- **Advertising** – Some financial institutions have partnered with local merchants to deploy ATMs in their locations, offering coupons and other incentives to drive ATM traffic and increase merchant ticket sizes

## Conclusion

With increasing ATM operational costs, fewer transactions per ATM and decreasing direct ATM profitability, financial institutions are taking a new look at the role ATMs have in their strategic plans. As Windows-based ATMs become the standard, ATMs have the potential to evolve from cash dispensing machines into customer-centric portals. Financial institutions may retain or gain an edge over the competition by leveraging the advanced functionality that is now available—and given the current economic environment, First Data strongly believes it is an optimum time for financial institutions to capitalise on this opportunity.

Financial institutions that do not leverage their ATMs as customer relationship tools and marketing channels are missing the opportunity to mitigate the accelerating decline of direct ATM revenue and profitability. For many customers, the only significant interaction they have with their bank is via the ATM—so it is essential this contact is convenient and engaging for the customer, as well as persuasive and profitable for the financial institution.

All of these objectives can be accomplished if financial institutions breathe new life into their ATM fleets with enhancements like transaction personalisation and targeted marketing. The competitive ramifications of these innovations should certainly not be overlooked, either. ATM transactions represent a unique opportunity for financial institutions to communicate with non-customers. Currently, approximately one in five financial institution ATM transactions are conducted by non-

customers. Direct communication with this group occurs through promotional messages marketing the financial institution's products and services, and also through the quality of the transaction experience itself—which can be dramatically improved with an upgraded ATM system. As next generation systems are deployed more widely, ATM messaging will become pervasive and aggressive, and no financial institution can afford to stand idly by while its competitors leverage the channel for brand reinforcement and targeted marketing.

As financial institutions begin actively making changes to turn their ATM fleets from cash dispensers to customer relationship and marketing channels, they also have to change their way of measuring the effectiveness of the investment. It becomes obvious that the old metrics for measuring ATM profitability—revenue per machine, transactions per machine, etc.—will no longer apply. The effectiveness of an ATM fleet or an individual ATM becomes tied to more complex measures like cross-sales per machine, retention of ATM users versus non-users, new customers per machine and others. Understanding these more relevant measurements will enable financial institutions to better devise and execute their new ATM strategies.

### **The Global Leader in Electronic Commerce**

First Data powers the global economy by making it easy, fast and secure for people and businesses around the world to buy goods and services using virtually any form of payment. Serving millions of merchant locations and thousands of card issuers, we have the expertise and insight to help you accelerate your business. Put our intelligence to work for you.

First Data offers comprehensive, cost-effective solutions that can help financial institutions maximise their ATM program. Whether your financial institution has one ATM or a fleet of thousands, First Data can provide the tools and expertise to take your ATM program to the next level. Our customer relationship tools can help you strengthen customer relationships by improving the cardholder interaction at the ATM, while enhancing cross-sale and revenue opportunities. Our performance management products can help you improve operational efficiencies, maximise your headcount and gain greater control over your ATM program.

For more information, contact your First Data Sales Representative or visit [firstdata.com.au](http://firstdata.com.au).