ATM Outsourcing: Turning Costs into Profits

New hardware and software are revitalizing ATMs, but the cost can be high. Now there’s a way for financial institutions of all sizes to upgrade to the latest ATM technologies, and improve their bottom lines too.

Introduction

Without a doubt, ATMs are critical to the success of any financial institution. Today’s customers want and expect immediate access to their money—no matter where they are, day or night. Yet while your customers may take ATMs for granted, you know that behind the scenes, owning and operating a network of ATMs is a complex endeavor. Whether it’s replenishing cash, clearing up paper jams, fixing broken parts, processing transactions, or upgrading hardware and software, ATMs need constant attention.

For the past three decades, successful financial institutions have incorporated the time and money needed to operate ATMs into their business plans, keeping their customers happy and their financial statements healthy. But the ATM landscape is changing, and what was once a simple proposition—providing customers with cash—has become much more complex, forcing financial institutions with technologically-obsolete fleets to take a closer look at their ATM operations and consider upgrading.

ATMs are still the leading touch point for a financial institution to interact with both customers and non-customers, and the quality of the ATM customer experience drives customer loyalty. According to a 2007 Javelin Research study, 42 percent of bank clients cite ATM access as a key criterion for selecting a financial institution. As many financial institution customers interact solely with their financial institution via the ATM, an upgraded ATM fleet with the latest technology and functionality can be an important competitive differentiator. Conversely, a fleet of outdated ATMs can cost you customers—especially savvy online banking customers who have become accustomed to advanced features and a personalized online experience.

And, according to Harris Interactive, 29 percent of participants in an ATM study said they would likely follow up on an offer given during wait time at the ATM if it could be immediately initiated. In addition, Tower Group estimates that there are roughly 200 trillion seconds annually of “please wait” messages at ATMs worldwide, offering financial institutions considerable free air time to promote banking products and services.

The advent of Windows-based ATMs, simple ATM integration with CRM software and TCP/IP communications makes 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 personalized marketing fairly straightforward. The examples below illustrate the many ways you can leverage personalization to enhance the ATM experience:

→ **Customization** – Through transaction personalization 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 personalized 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

→ **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
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→ 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

In addition to the marketing advantages of an ATM upgrade, regulatory changes, particularly Triple DES (3DES) compliance, often mandate new investment—in both hardware and software. And that cost can be high, particularly for financial institutions with large ATM fleets. But beyond the capital cost of such investments is the additional labor cost. Many financial institutions lack staff with the technical expertise to manage a fleet of new Windows-based ATMs. Unlike OS/2-based ATMs, Windows-based ATMs require ongoing maintenance for virus protection and security. As such, it is essential for financial institutions to consider partnering with a trusted provider to operate these new machines. This becomes particularly important for financial institutions that have merged or acquired smaller financial institutions: Managing regulatory compliance is even more difficult and potentially costly in a mixed ATM environment.

Unfortunately, upgrading to new technology can be a daunting and expensive undertaking for financial institutions. According to industry data, an upgraded ATM can cost in excess of $55,000, and depreciates an average of $11,040 per year. Nonetheless, financial institutions that are unwilling or hesitant to upgrade risk losing customers to the competition because of their obsolete legacy technology.

There is a better way.

Upgrading to a Better Way

Clearly, what was once a relatively straightforward and undemanding part of retail banking—dispensing cash to customers—has become much more complicated. Financial institutions must upgrade aging fleets in order to stay competitive and comply with regulatory requirements, but they also have to cope with increased demand on their internal resources should they decide to upgrade to new technology on their own.

Many financial institutions have been outsourcing elements of their ATM operations for years, such as terminal driving and transaction switching. But now many financial institutions are looking for a long-term, integrated partnership with a single provider that takes a full-service approach to ATM management.

Ideally, a complete ATM outsourcing provider offers a comprehensive solution that includes:

→ New equipment leasing that provides the latest in ATM hardware and software from a leading manufacturer

→ Performance management services such as monitoring to ensure optimal ATM availability and data analysis for real-time transaction information

→ Servicing that remotely monitors machines for issues such as jammed cash dispensers, and provides on-site maintenance

→ Cash replenishment and funding with daily ATM balancing

→ Cash management services to help forecast cash needs for each ATM in the fleet

→ Customer relationship management services that allow you to capitalize on the ATM as a channel for targeted advertising of services to customers

→ Deposit automation services with check imaging, which allows financial institutions to make deposited funds immediately available to customers

A complete outsourcing solution makes sense because it provides a cost-effective way to upgrade to new ATM technology, while relieving much of the day-to-day burden associated with operating a fleet of ATMs. Yet beyond enhancing general operational efficiency, outsourcing helps financial institutions manage ATM costs in other ways.

Going by the Numbers

ATM outsourcing replaces the unpredictable operational costs of owning and operating ATMs with controlled, predictable expenses. And by leasing hardware and other equipment, rather than purchasing it, expensive capital investments are avoided. There are other costs to consider, as well. According to industry research, ATM maintenance costs are growing 7 percent per year and
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the cost of cash funding is increasing 11 percent annually. Needless to say, these expenses create a considerable strain on any financial institution’s bottom line.

In addition to expense reduction, outsourcing frees up bank personnel for other daily operational needs. ATM deposit automation functionality, for example, can maximize productivity in the back office. This technology, which eliminates paperwork for deposits, streamlines transactions by automatically directing them to the financial institution’s back-end systems.

Outsourcing can also help a financial institution manage cash replenishment. Ensuring each ATM has the appropriate levels of cash is essential to customer satisfaction and loyalty. But managing cash replenishment can be difficult for a financial institution to handle on its own, and advanced technology can sometimes make that function even more complex. Typically, most financial institutions spend about six hours per month on emergency cash replenishment for each ATM. Estimating $18 per hour, that cost can add up quickly. An outsourcing partner can monitor the cash amount at each ATM, ensuring the right amount is always at each ATM.

Lastly, an outsourcer with experience in leveraging 1:1 customer marketing via the ATM can help banks more quickly reap the loyalty and cross sales benefits that are enabled by these newer technologies.

Conclusion

Outsourcing offers you the dual benefits of helping manage costs while providing the ability to upgrade to the latest, most innovative technologies. It puts a long-term focus on achieving peak levels of ATM performance, which also creates customer satisfaction and the opportunity to increase revenues through cross-sales and additional transaction fees.

Outsourcing also enables small and mid-sized institutions to offer the same sophisticated ATM experience to their customers as the largest financial institutions, which can afford more expensive, strategic investments in the latest ATM technology.

With outsourcing, you benefit from improved ATM performance, predictable monthly expenses, and the opportunity to focus on the critical, profit-generating activities of your business.

First Data has created an ROI model to help you evaluate whether our full-service outsourcing model is the most cost-effective way for you to leverage new ATM technology. Contact your sales representative to learn more.

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