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# Facilitating Branch Transformation with ATM Outsourcing

## Introduction

Simply put, success in the banking industry means growth in deposits and loans, improved efficiency ratios and, ultimately, higher net income. However, the traditional strategies for achieving these outcomes – centered on building physical presence and investing heavily in local marketing – have given way to new electronic banking paradigms where competition is won or lost in mobile apps, online banking and nimbleness of service delivery across a range of channels. The critical challenge for financial institutions today is how to optimize and blend their digital and physical channels to best serve customer segments with often diverging needs.

Why is optimization so critical?

- Consumers demand a consistent, simplified experience across all channels.
- Financial institutions (FIs) must continually strike a balance between reducing total cost of ownership and investing in the products and services that attract and retain account holders and generate greater revenues.
- Financial institutions need the flexibility to respond to rapidly changing market conditions.

For many FIs, a major aspect of channel optimization means moving away from the mindset of managing facilities (i.e., branches) and equipment (i.e., ATM fleets) to a more strategic way of thinking – the distribution of products and services in a consistent manner across all channels, whether physical or digital.

At the intersection of these channels is the ATM.

## Why the ATM is Important - Cash and Points of Presence

Consumers don't want cash OR debit OR credit OR mobile, they want cash AND debit AND credit AND mobile. As new payment and service channels proliferate, they are not eliminating the need to support and provide for other channels, notably cash. Thus, while financial institutions focus their battles on retaining and attaining cardholders via popular digital channels, the tried-and-true value of ubiquitous cash access nevertheless remains a key choice factor.

Multiple studies<sup>1</sup> have demonstrated the resilience, even continued dominance, of cash, which garners an equal or nearly equal share of payments versus debit cards and exceeds credit cards in the US, UK and other large markets. For example, a study from Mercator Advisory Group revealed<sup>2</sup> that 22% of consumers spend from \$20 to \$50 in cash per week, while over 50 percent spend at least \$50. Cash is here for the long term and ATMs are a major source of that cash.

Furthermore, the physical presence of a financial institution still matters – branches and ATMs with prominent brand placement drive consumer awareness and play a critical role in financial institution choice. It's simply not enough to have a great online user experience or a best-in-class mobile app – those electronic banking solutions are, and always will be, virtual while consumers live in a physical world – after all, no mobile phone dispenses cash.

While physical presence and the ATM in particular, is crucial, the ATM has become table stakes – a financial institution will easily fall out of consideration without a robust cash access strategy. Yet the ATM channel is no longer the critical differentiator it once was, nor is it a core competency of many financial institutions. This reality leads to a new paradigm in which financial institutions battle in cyberspace and with rapid product innovation while outsourcing critical but non-core operations to others. Following this trend, many financial institutions today are considering outsourcing all or part of their ATM operations – both on- and off-premise – to third party specialists.

<sup>1</sup> Federal Reserve Bank, November 3, 2016, "State of Cash: Preliminary Findings from the 2015 Diary of Consumer Payment Choice"; PYMTS.com, March 3, 2017, "In the US Cash is Sticking Around" and August 26, 2016, "How Germans Use Cash - How It's Changing"

<sup>2</sup> Mercator Advisory Group, April 28, 2016, "Self-Service, ATM and Other Channel Banking: Expand My Options"

## Not Your Mother's Outsourcing (or Today's ATM Outsourcing)

ATM outsourcing is not new. Deployment, maintenance, installation, etc. – each of these tasks for managing the ATM channel has for years been outsourced to some degree. But in the past, the decision to outsource ATM management activities was often made piecemeal as an individual cost-saving venture and rarely included the outsourcing of the hardware, interface, or experience design. This approach may have reduced some costs, but resulted in vendor management challenges while leaving the ATM experience to languish.

Today's market requires a strategic approach. Banks and credit unions are closing branches to reflect the realities of mobile and online-first banking while creating smaller, thinner physical footprints.<sup>3</sup> Coupled with this is the consumer's expectation of choice and control in almost every aspect of their lives.<sup>4</sup>

For financial institutions, that means providing consistent and available services across multiple banking channels – your ATM channel should be just as easy to use and accessible as your mobile channel, your physical presence just as engaging and exciting as your online experience. Simply outsourcing for the sake of cost optimization is no longer enough – outsourcing to redefine the channel, to tap into exciting innovations and new thinking, is the future of ATM outsourcing.

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## Managing A Complex Channel

The ATM channel is capital intensive and the physical nature of the ATM means location is also critical. For many financial institutions, competing with the largest banks and their ATM technology innovation, is a significant, if not insurmountable, challenge.

The ATM is a complex amalgamation of technologies – software, robotics, computers, networking and much more – burdened with continuous physical needs – more cash, more paper, unfortunate coffee spills and part failures – and ever-changing security, regulatory and network requirements. When an incorrect software patch can open the door to hackers or prevent thousands of cardholders from receiving their cash on a Friday night, the stakes are high!

<sup>3</sup> PaymentsSource, July 25, 2017, "What ATMs' Mobile Makeover Means for Independent Machines"

<sup>4</sup> Customer Experience Insight, June 30, 2016, "Customers Want More: 5 New Expectations You Must Meet Now";

Forbes, December 12, 2016, "They're Not Making Customers Like They Used To: Changing Customer Service Trends and Expectation"

A channel as complex and as critical as the ATM cries out for outsourcing, but even outsourcing itself, the way it has been traditionally done, can be a burden and logistical nightmare. With so many potential vendors – cash forecasters, armored carriers, service technicians, communications vendors, real estate managers, UX designers, security engineers and dozens of others – simply managing them is a Herculean chore, never mind ensuring the job is done right.

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## Benefits of ATM Outsourcing Done Right

Every financial institution has its own reasons for ATM outsourcing – perhaps to extend a physical presence into a new market or to allow for realignment across a pared-down branch network. Regardless of the starting point, an ATM outsourcing solution done right provides key benefits:

**Flexibility** for the financial institution to quickly scale up or down as necessary. An engaged ATM outsourcing relationship provides a financial institution with options to change the breadth of its presence with much greater speed.

**Cost savings** and resource efficiency gains from moving internal resources out of non-core activities and consolidating vendor engagements vs. a multi-vendor outsourcing model.

**Alignment** of user interface design and functionality with other digital channels, ensuring a robust and consumer-first experience.

**Access** to world-class ATM innovation including new hardware deployment and new service availability.

**Service excellence** across ATM operations and locations through the agnostic selection and management of the best available service and hardware vendors in each market.

**Relief** from the burden of constant technology and regulatory compliance upgrades and changes.

# What To Look for in ATM Outsourcing

ATM outsourcing covers a wide range of services and often means different things to different people. To find the right fit, financial institutions should expect a number of deliverables from prospective providers:



Flexibility with regard to hardware ownership. Does the FI want to own the ATMs and have a third party operate them? Or does it want to divest ownership as well?



Comprehensive solution set. Look for cash management services, including provisioning, forecasting and monitoring, as well as streamlined vendor management, including maintenance, armored services, vault cash and call centers. An outsourcing partner can also manage site-specific tasks, such as site installation, exterior signage, first-line and second-line maintenance and total installation, move and change (IMAC) services.



Robust transaction processing services are fundamental. Financial institutions should ask about the network connections available and look for the ability to host check processing either in-network only or via shared deposit networks. Other important services include network settlement and dispute resolution, multi-language support and value-added transaction capabilities and types.



Secure, high-availability transactions and overall network and physical security. See page 6 for more information.



High-availability, "bank grade" solution. The provider's business continuity plans, analytics, 24/7 service monitoring and incident management and investigation capabilities should all be explored and evaluated.



A robust suite of fleet management tools accessed through an easy-to-use online portal that gives transparency on ATM performance.



Examples of detailed deployment project plans and timelines that indicate extensive experience executing similar projects.

## Security and ATM Outsourcing

Protecting cardholder data associated with financial institution partner transactions is essential. Certifications that should be maintained and/or completed annually include:

- PCI DSS Compliance audit - managed by an independent council and audited by Qualified Security Assessors
- PCI PIN certified
- LINK security assessment and Interac assessment
- Sponsor bank network compliance audit
- SSAE16 assessment SOC 1 and SOC2
- Business IT Security Assessment Standardized Information
- Gathering (BITS SIG) - document communicates controls to existing and prospective customers

## What's Your Cash Access Strategy?

Competition for cardholders is fierce and comes from traditional players as well as new entrants like Apple, PayPal and online-only banking services.

For many financial institutions, meeting the needs of customers and members in this fast-moving, self-service world requires a strategic pivot to focus more resources, both in dollars and hours, on digital channels and emerging product trends while remaining competitive by reducing costs and optimizing assets. However, this is sure to fail if still critical cash access and physical infrastructure are not properly addressed. This is why the ATM is and will remain, critical even as the channel's power to directly win customers is diminished.

ATM outsourcing allows a financial institution to enjoy the best of both worlds – a modern, robust cash access strategy that nicely integrates with new and existing digital channels, while redirecting resources to the critical, increasingly digital, battlefields of consumer choice dominating the financial industry today and into the future.