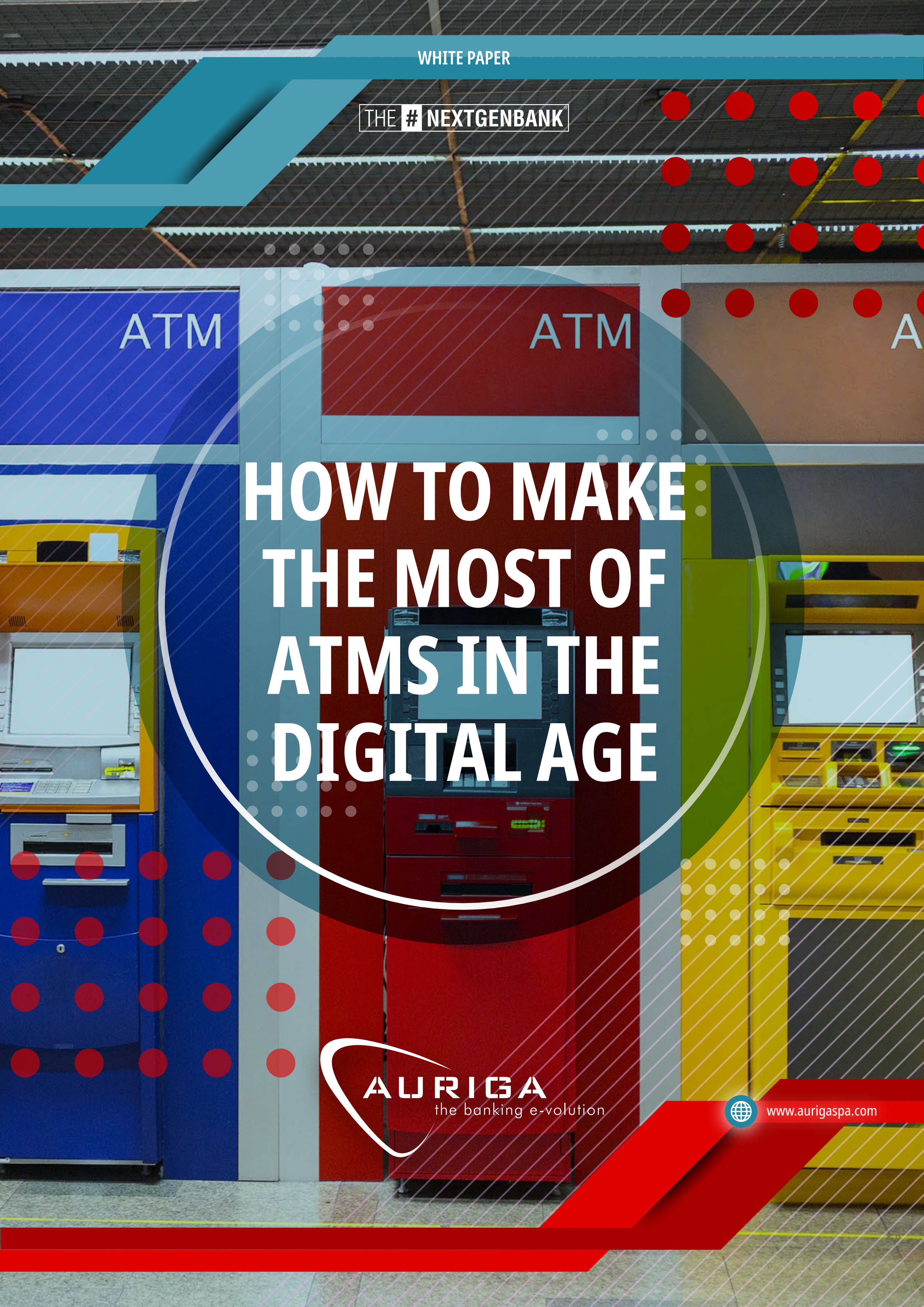
WHITE PAPER

THE # NEXTGENBANK

HOW TO MAKE THE MOST OF ATMS IN THE DIGITAL AGE



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The financial services sector is an increasingly competitive space with ongoing competition between legacy banks, challengers, and neo-banks alike. They are experiencing dramatic changes in customer habits that are being intensified by the impact of the pandemic. Digital transformation has accelerated in response to customers' apparent appetite for smart and digital-first services.

This has challenged the role of the ATM as an important channel for accessing banking services. Indeed, people seem to be turning to electronic payments and significantly cutting their use of cash and thus their use of ATMs.

However, the extent to which demand for cash has collapsed is questionable. Cash usage may have receded at the start of the pandemic, but there is a resurgence underway internationally. The amount of cash being circulated through ATM networks is now rising in aggregate, while the numbers of ATMs reduce. RBR's Global ATM Market and Forecasts research predicts that the compound annual growth rate (CAGR) of worldwide cash withdrawals will in fact increase by more than 2% by 2025.

Nonetheless, the role of the ATM is being queried and could be under threat. The operational costs for running ATM fleets are high and rising, as banks must meet the additional costs of preventing and mitigating fraud and cyber-attacks on ATMs and ATM networks. Banks are continuing to close cash machines rather than action policies that improve ATM security, minimise total cost of ownership, as well as enhance, modernise, and personalise customer experiences.

This simplistic approach should be called into question as it involves banks losing connections with customers and communities, which suffer from a loss of access to not just cash but financial services that are vital to local economic health. There have been some innovative community initiatives to address this such as the Community Access to Cash pilot schemes in the UK, which bring back banking services to underbanked communities, boost local economies, and return payment choice to local hands. But so far these projects have been a drop in the ocean when measured against the volume and geographic spread of branch and ATM network closures.

So, the onus is on banks and ATM owners to consider more imaginative strategies that preserve and even improve access to cash and services, while addressing operational costs and changing customer habits. This requires overcoming challenges that stem from how ATMs have been neglected and siloed compared to other digital channels that banks have embraced over recent years.

ATMS CAN OFFER A LOT MORE TO CUSTOMERS

First of all, we must bust a myth. There is so much more to ATMs and self-service than simple cash-and-dash hole-in-the-wall machines. As long as they exist, ATMs remain the most convenient way for consumers to access cash, for banks to make it available and to be a secure, easy to use platform for offering access to other key banking services, impacting positively on both customer journey and brand perception.

ATMs can be a vehicle for transforming banking services as they did when they first appeared.
Banks should make the most of self-service devices, though this is dependent on utilising the correct technology and IT infrastructure. With the proper choices, banks can use their ATM infrastructure to deliver key banking services for communities that risk being underbanked including opening and managing accounts, bill payments, and loan applications.

As for the parallel trend of branch closures, digital self-service banking can be at the heart of branch transformation initiatives.
In many places, multi-functional self-service devices are helping to introduce an extensive number of services and capabilities 24/7 at a lower cost and still provide greater customer convenience, enhancing and complementing in-person interactions.

Likewise, assisted self-service terminals (ASSTs) can deliver innovative in-branch services and this technology is gaining ground. RBR calculates that 340,000 assisted self-service terminals have already been deployed worldwide to allow users to perform an even wider range of transactions, with the help of bank employees. By automating transactional tasks, it will free up time for branch staff to offer sales, support, and advisory duties. ASSTs benefit banks by bridging the gap between physical and digital channels. As we emerge from the pandemic human touch, which has been overlooked but continues to be valued for certain transactions, can create an enhanced approach and personalised customer service.

MAKING ATMS COST-EFFICIENT AND PROFITABLE

Minimising the total costs of ownership of ATM fleets is challenging, especially given their geographical dispersal. Developments in state-of-the-art cash management systems can help considerably but more radical strategies should also be considered.

While it has its roots earlier in the century, ATM pooling is beginning to be taken up more widely. The strategy consists in two or more banks deciding to hand over the ownership of their ATM fleet to a separate entity, which will operate this shared fleet. By sharing operating costs and pooling capital expenditure, this approach aims to further reduce the cost of ownership and management of physical ATM estates.

While ATM pooling enables banks to rationalise their ATM networks, by removing duplicate ATMs in a location, it can be the driver for revitalising their ATM fleets in terms of how they can re-map the location of ATMs to better serve communities and changing customer behaviour. ATM pooling can unlock the flexibility to relocate ATMs to sites with higher footfall, which might include retail or office parks and new transportation hubs.

However, by reducing operating costs, pooling also enables the banks involved to ensure that widespread cash services are maintained for the future especially to customers in locations where relatively low demand would render a branch or duplicated bank ATMs uneconomical.

ATM pooling also allows banks to ensure that widespread cash services are maintained for the future, in an efficient and cost-effective way, especially for customers in locations where relatively low demand would render a branch or multiple bank ATMs uneconomical. At the same time, centrally monitored and proactive cybersecurity services that are critical to assuring ATMs are a safe and secure channel can be shared.

By running a separate ATM pooling entity, banks create the opportunity to rethink ATM strategy and consider how ATMs can become a revenue generator. Using a unified approach to how the infrastructure is developed and managed, banks can consider how additional services and marketing initiatives can be deployed across their shared ATM estate either uniformly or to help differentiate each bank's brand.

What is exciting about pooling is that is a proven strategy that is working in many countries already. The Geldmaat initiative in the Netherlands is a cooperation between three major banks to guarantee the availability and accessibility of cash for their combined customers. Other banks, such as BPCE in France, are also externalising the complete management of their ATM channel. Belgium's four largest banks have formed a separate company called Batopin to rationalise their self-service networks and ensure 95% of citizens are within five kilometres of an ATM.

BREAKING WITH TRADITION AND RAISING UP THE NEXT GENERATION ATM INFRASTRUCTURE

Innovating with ATMs to preserve and expand access to cash and services is inhibited by legacy infrastructure. This is long overdue an upgrade, as without this, the channel will be unable to modernise and function alongside the next generation of delivery channels as they arrive, and to support innovative strategies like the lean bank branch or ATM pooling.

An ideal infrastructure based on a channel integration model allows both the integration and the isolation of external entities like the switch, authorisation and core banking services. This creates an opportunity to share services across all channels.

The end-to-end proposition boasts the following key benefits:

- Increased choice and freedom from the constraints of the legacy model.
- Enhanced customer satisfaction, through a simplified, consistent omnichannel experience, including self-service, branch, and digital channels.
- Broader transaction support, up to 100% of counter transactions.
- Ability to speed up modernisation, by isolating the terminal management layer and switch, reducing the time to integrate new channels.
- Faster time to market, through configuration and scripting.
- Lower cost of ownership by:
    - providing greater choice of hardware
    - reduced cost of cash through improved forecasting and cash recycling
    - cloud deployment reducing investment in hardware and software
    - simplified management of the ATM environment by smaller teams
- Increased security and reduced costs of security failures.
- Revenue opportunities
  (through targeted advertising, additional product sales and fee income from 3rd parties).

What is key to this new channel integration model is how it allows a much simpler, more cost-effective, standardised, and generally, accepted interface that is usually based on international standards, like ISO-8583, ISO-20022 or web services. Notably, these interfaces are not cash focused so can expand the range of services delivered on the ATM infrastructure, and simplify backend reconciliation. This standardised approach that supports so many more functions removes many of the complexities that have dogged ATM management and, more broadly, enables self-service branch automation and ends the isolation of the ATM channel from other digital channels. In other words, the ATM becomes part of the omnichannel experience that customers expect from any service nowadays.

The next generation ATM infrastructure enables a modular approach that can accelerate time to market for branch automation and self-service innovations. A single point of control of the branch automation channel means there is no serious time lag when defining, agreeing, coordinating, or implementing services across different channels. This allows banks and ATM owners to extend automation to cover all the functionalities currently managed within the branch, meaning that banks can deploy new lean branch concepts that automate the transactional banking services. This can comprise 24/7 availability of routine and complex services by leveraging video banking technology that can enable subject matter experts, in fields like large loans or mortgages, to be shared and made available on demand across all branches.

In this digital age and how the pandemic has accelerated the use of new channels, customers demand consistency between mobile and physical channels that they use for their essential services and especially banking. Having ATM software and infrastructure that enables seamless alignment with current and future needs is going to be imperative for current and future banking. Together with imaginative strategies around future bank branches and ATM pooling, next generation ATM technology can meet new customer demands, lead to greater usage, and reduce the cost per transaction of maintaining a self-service or branch channel in our communities.

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