

# The ATM Grows Up

As ATM technology matures, banks must decide how this channel is best used in different scenarios

Written by an independent journalist on behalf of ACI Worldwide



The crystal-ball gazers have been predicting new generations of ultra-smart, multi-function ATMs for the best part of a decade. New card, messaging and presentation technology seems to promise a self-service utopia for consumers. But banks and other ATM deployers will have to think through their strategies carefully. What needs will drive the new technology, what kind of ATM is going to develop where, and why?

The key trends are technology evolution and diversification. Already, ATMs divide into three categories, says Financial Insights analyst Richard Bell. These are:

- Non-bank ATMs with cash-only functions, essentially vending machines that sell cash;
- ATMs owned and operated by banks, including both cash-only and cash/depository machines;
- Web-enabled ATMs – advanced ‘smart machines’ with both traditional and more advanced functions, typically supported via web interfaces.

Bell emphasises that smart machines are a long way from taking over the world: crucially, the evolution of ATMs will depend on local consumer needs and the business drivers of different operators.

The new potential for ATMs is enabled by a number of technological developments. Key areas are:

- Increased flexibility of ATM operating platforms and messaging protocols;
- Web-enabled ATMs;
- Chip-based cards.

For those banks that choose a leading-edge strategy, this technology will help the drive towards intelligent marketing. It will enable new cross- and up-selling capabilities, supported by more integrated and effective customer data management in the back office.

## Interoperability and communication standards

ATM manufacturers are beginning to standardise on operating systems and messaging specifications. The XML-based Interactive Financial eXchange (IFX), for example, is now recognised as the standard messaging format for bank/ATM interfaces. Previously, each manufacturer used proprietary messaging formats, limiting banks’ choice of ATM model. At the front end, together with Web technology, IFX will radically improve banks’ freedom as to how the ATM screen appears to the customer. It will enable more attractive interfaces and opportunities for strengthening the bank’s brand, or selling advertising space.

Currently, IFX and similar standards are concerned mainly with the transaction process. But IFX creates the potential for streamlining back-office processes, and even reusing certain types of ATM code across different bank systems, enabling transactions initiated across any channel to be processed in the same way.

## Web technology

Banks are also increasingly moving to TCP/IP networks. With improved screen presentation and growing integration of ATMs with back-office systems, this will further enhance ATM marketing possibilities. Current dual connections are based on traditional dedicated networks, either IFX or another standard, combined with a TCP/IP network. This may use the public Internet, but is typically based on an intranet. This dual messaging capability will support multi-channel communications, enabling a second channel capable of transmitting Internet information or television-quality pictures to the ATM.

“We expect the adoption of public Internet to be driven by performance improvements, and stronger guarantees relating to availability and delivery,” says Richard Bell, Financial Insights analyst.

# ATM maturity

Although the Internet is not currently reliable enough, Bell expects ATM networking to move from dual IFX-style and TCP/IP messaging, towards a single Internet connection. “We expect the adoption of public Internet to be driven by performance improvements, and stronger guarantees relating to availability and delivery,” he explains.

Many banks are already experimenting with use of idle cycles in their ATMs for advertising. The convergence of technologies, and increased database interoperability, will enable marketing to be increasingly personalised. Tailored offers based on centrally-gathered data will initiate automatically as the customer engages with the ATM.

## Smart cards at the ATM

The MasterCard and Visa chip-based EMV specifications will further increase ATMs’ marketing potential. EMV’s main driver has been reduction of fraud and bad debt – but the potential ranges far beyond crime limitation. An EMV chip has an intelligent processor, memory, logic and different slots, like a filing cabinet for applications. As it is capable of running multiple applications, the chip creates extensive opportunities for non-bank partnerships, such as loyalty schemes, ticket purchases and other digital content.

It is likely that banks and other ATM networks will play a central role in integrating loyalty schemes and services. Customers are more likely to trust banks to load applications than high-street retailers, and ATMs are the logical place to acquire new applications.

Despite EMV’s potential to revolutionise the card industry, institutions are not yet leveraging the new technology, but focusing mainly on roll-out and security. Andy Brown, senior product manager at ACI, says: “The potential hasn’t been thought through yet. For example, who owns the real estate? Card issuers are keen to protect their brands, but there’s a clear possibility that EMV-enabled cards may become available through high street retailers.” With card functionality devolved to retailers, independent operators could form partnerships with travel, entertainment and digital content providers, using EMV-compliant machines to move beyond cash vending and create a broader consumer experience at their networks.

## ATM strategies

As ATMs and the card industry evolve, banks face a fundamental decision as to how they view their own machines. Are they a ‘must-have’ drain on resources, expected by consumers, that simply make cash available outside bank hours? Or is the ATM network a service channel in its own right, and the new technology an opportunity?

ATM ownership is no longer confined to banks. White-label cash dispensers, owned and operated by non-bank entities, are also competing for customers. White-label machines are most prevalent in

the US, but are beginning to spread, pulling traffic away from branded, bank-owned institutional machines and increasing pressure on ATM operating costs.

If ATMs simply provide ready cash, then banks are likely to view them as a cost centre and little else. In this case, it is often more practical and economical to outsource. In less developed countries, outsourcing enables banks to offer higher levels of self-service to customers, without heavy infrastructure investments, while regulatory pressures and falling interchange fees are driving some banks in developed countries to do the same. There can also be other benefits from outsourcing. For example, The Bank of Ireland recently contracted Wincor Nixdorf to set up and manage its ATM network, which will enable it to concentrate on its core competencies and make its cost structures more flexible, while keeping up with major technological developments. Using this outsourced service the Bank of Ireland’s ATM network will grow from 546 to 1,046 machines.

Banks’ attitudes to their ATMs will also affect their attitudes to surcharging. In cases where banks see their ATMs simply as an expensive headache, those that have not outsourced will often surcharge to cover their operating costs.

But not all banks see their ATMs as a headache. Some see their ATMs as integral to their brand, and view surcharging as damaging to successful positioning as a service organisation. Particularly in countries where competition between banks is heavy, such as Spain and the UK, diversification of services will turn banks’ ATMs into part of the company’s competitive strategy. Bob Ainey, business development manager for ACI in the Middle East, says that ATM coverage in the Gulf Co-operation Council (GCC) countries is “approaching saturation point”.

**“Smart ATMs inside banks is the major focus now,” Ainey says. Even in countries where ATM deployment is still the objective, such as China and parts of Eastern Europe, a shortage of branches creates opportunities for ATMs to increase banks’ reach and service capabilities.**

## Branch renewal

As competition between banks grows, many are upgrading their branches to cater to higher net worth clients, and push the lower net worth ones to use ATMs. This drive for branch renewal aims to free staff for higher-margin sales, advice and customer service activities. For example, one bank in Bahrain will not cash personal cheques or perform savings withdrawals if the amount is within the cardholder’s ATM limit. Ainey says: “GCC banks are constantly looking at new and innovative services for ATMs and kiosks.”

# ATM maturity

Smart ATM features will vary according to local requirements, such as the obligation in Holland or Germany to provide printed statements. They will also reflect the bank's customer base. Form factors and ATM capabilities will become increasingly diverse, offering keyboards for customer data inputting, browser-based, Web-enabled interfaces and increasingly sophisticated capabilities, from bill payment facilities and chequebook printing, to complex account administration.

For example, one Islamic bank in Qatar enables customers to donate money to a selection of charities through its ATM network. In Japan, customers can scan their passbook barcode into branch ATMs and pay their utility bills. Meanwhile, in the UK, Nationwide's new 'fast cash and cheque' branch ATMs are taking tailored customer service to new levels. Along with rapid, automated cash and cheque processing, Nationwide's machines incorporate passbook recognition. Though they might seem old-fashioned, passbooks are an important element in Nationwide's service offering. Chris Shott, business development manager for Nationwide, says: "Our customers like passbooks. But they had to be dealt with over the counter, which was time-consuming and expensive. Our new internal branch ATMs deal with passbooks automatically – we've lowered our operating costs, and speeded our customer service."

Nationwide's aim is to provide a faster, more efficient service so that customers spend less time in queues and in branches. "Our strategy is to be innovative, but not for its own sake – the aim is to provide added value, for us and for our customers," says Shott. Response has been good: with the new machines in 15 percent of Nationwide's branches, the last 18 months have seen 25 percent of routine transactions move to the ATMs. Shott is sceptical of ATM outsourcing: "I can understand why some banks do it. But for Nationwide, ATMs are an integral part of our core business."

## Outside the branch

Nor will smart machines be confined to branches, as competition between ATM operators drives diversification of services in high-street ATMs. According to Bell, the adoption curve for smart ATMs in the high street will be slow, reflecting the cost of new technologies and infrastructures. However, high street ATM deployment will move gradually towards Web-enabled devices, with improved levels of personal information and better interaction with customers. According to Brown, in countries where uptake is advanced, EMV technology may also become a weapon in the war for wallet-share. Institutions will develop loyalty schemes and consumer-focused partnerships to entice customers to their ATMs.

Meanwhile, countries where ATM deployment is recent or ongoing will have the opportunity to move straight to IFX messaging and other advances in ATM technology, un-hampered by legacy networks. In these countries, where bank branch density is often low, ATMs can absorb some of the functions of a branch.

For example, in countries such as Slovenia and Slovakia, shortage of utility payment points is driving the popularity of bill payments at ATMs. Cash recycling is also popular in both Greece and Eastern Europe. Cash recycling enables retailers to make cash deposits at ATMs, which are automatically scanned and credited to their accounts. The ATM then dispenses the notes again.

**"Where banks don't have extensive branch coverage for deposits, and local merchants want to offload their cash, it's really a win-win situation," says Rod Bungey, business development manager for ACI in Eastern Europe. "It's certainly cheaper than opening a branch."**

Another area of growth throughout Europe is mobile top-up services. Available in Spain for some years, and extremely popular across Eastern Europe, the service has recently been launched in the UK by LINK, the busiest shared ATM network in the world. At Co-operative Bank ATMs, customers can access additional options that enable them to top-up their pre-pay phones on any of the four major UK mobile networks. Unlike scratch cards, the transaction is entirely paperless, and the network operator automatically credits the desired amount to the chosen number.

Richard Pitt, business development manager at LINK, emphasises that the market will continue to evolve. "Once the type of transaction is established, there's no technical reason why these can't be done against any credit product," he says. So what is next in line for smart ATMs? "That's the 64,000-dollar question," says Pitt. Unlike in Eastern Europe, he believes bill payment at ATMs will not take a large share of the market in Western Europe, as the choice of payment channels is wider. But the expansion of Internet services and the need for prepaid accounts will make pre-pay "a strong area for development."

# ATM maturity

New services will have to fit specific criteria: they must be quick, virtual transactions, and conducted on a fairly frequent basis. “It’s an area of great potential, but it’ll take time for consumers to become accustomed to different types of transactions,” says Pitt. Both banks and independent operators will have the opportunity to create situation-specific services in an ever-wider range of locations, tailored to entertainment, travel, communication and enhanced shopping experiences.

## A strategic decision

With new technologies opening such varied possibilities, banks and ATM operators will have to decide what their ATMs are. For those deciding to ‘keep it simple’, competition and the costs of EMV compliance may make outsourcing the only realistic option. But they may be missing out on crucial opportunities to re-architect their service offering and leverage marketing and partnership opportunities. Banks choosing the ‘smart’ route will have to research their customer base thoroughly, as ever more sophisticated ATM functionality creates the opportunity for a truly custom service.