Position: ATMIA[1] believes the practice of selling ATMs to private investors involves key risks which should all be identified upfront during negotiations and that this disclosure of risks should be part of best practice in the private investment model for ATM sales.

Background

One fairly recent ATM business model involves selling ATMs to private investors, who then lease them back to the seller or a third party for a fixed or variable rental. However, this type of arrangement creates a risk of loss for the investors when the ATM placement fails to support the anticipated rate of return on investment. This is particularly the case when the lease arrangement is accompanied by 'guaranteed' rates of return, when it is not always possible to guarantee transaction levels for ATM installations, particularly at new sites. When the guaranteed returns are funded by further ATM sales, the arrangement has the hallmarks of a ponzi scheme.

Problems with this model have resulted in substantial bad publicity to the ATM industry.

It should be noted that only a tiny fraction of ATMs are sold in today's worldwide industry using this model. Nevertheless, it is important to adopt best practice in each case. Unfortunate examples of private investments in ATM sales and leases which have failed are very much the exception rather than the norm in an otherwise robust, well-governed and well-established ATM industry.

[1] The ATM Industry Association is a global, non-profit trade association serving all businesses and groups in the ATM industry. The association is made up of over 2500 members in 60 countries. We currently represent over one million ATMs internationally. For more information go to – www.atmia.com.

Statement of Position

This model can only work if all the key risks involved are identified and discussed during negotiations, especially if the potential investors are using life savings to fund the purchases. It is vital to safeguard against significant personal losses of private savings by informing the private investor of such factors as past performance of similar investments and the on-going risks of failure.

Another best practice should be to exclude guaranteed investment returns on ATM installations, which create the risk that the arrangement comprises a ponzi scheme.

Rationale for Position

Significant risk factors, listed below, and bad publicity for the ATM industry arising from this business model, have prompted the Association to issue this position paper as a necessary word of caution.

- One important risk is that the ATMs sold will not achieve the average number of monthly transactions projected at the time of the sale, or that the ATM may, in fact, become unprofitable; in these cases, such ATMs will not generate adequate revenue to fund the "guarantee" return promised to the capital investors, raising the financial risk profile of the company adopting this model.
- There are important contractual risks in that the model depends upon third-party service-providers actually delivering on all their contractual obligations for servicing, maintaining and replenishing machines on an on-going basis.
- Further risk factors include the need for a continued appetite of private investors to invest in ATMs in order to keep supplying new ATMs to ensure growth of the company employing this business model and funding ongoing guaranteed returns – an unlikely scenario given the bad publicity which has already been generated.

Recommendation

For the above reasons, ATMIA strongly recommends the immediate implementation of these best practices for all private investment business models for ATM sales, given that the current situation is clearly untenable.