BRINKS GLOBAL AMS

ATM POOLING vs OUTSOURCING

PROs and CONs and what delivers the best of both worlds?

ATMIA EUROPE; OCTOBER 2024

Anne Richard Schaafsma
Head of Business Development,
Global ATM Managed Services


pooling
V
outsourcing

OUR **AGENDA**

Outline:

ATM Pooling vs. Outsourcing

Financial Institutions have grappled with the cost and complexity of owning and managing ATM channels for years. Some have decided to pool ATMs with competitors, others have decided to outsource ATMs to a 3rd party. What are the pros and cons of each path and how can banks navigate a course that delivers the best of both worlds?

1. **Market developments**
2. **The reasons for pooling and/or outsourcing**
3. **Some predictions (and some US experience)**
4. **Benefits and Challenges of ATM pooling vs ATM outsourcing, and some best practices for pooling**
5. **Best practices for selecting a reliable partner**
6. **Conclusions**

1a. MARKET DEVELOPMENTS

ATM Pooling and Outsourcing is getting more traction:

a) **ATM Pooling examples:** Scandinavia, Netherlands, Belgium, UK, Ireland, France, Germany

b) **ATM Outsourcing examples:** In the past years many banks, all over the world, started outsourcing their ATM estates, it often comes in 'waves', country by country

c) **Cash Cycle outsourcing by banks:** joint cash centers, joint networks, joint CiT, Retail solutions

d) Worldwide the # of ATM's of FI's is declining, IAD ATM numbers are growing

e) The number of privately owned ATMs is growing; hardware ownership and P&L responsibility after pooling/outsourcing often changes. The trend to privately-owned ATMs is undeniable, and not just in the U.S.… 60% of ATMs in both the UK and India are privately owned

f) **The market consolidates; fastest in the markets with the biggest decline in ATM transactions:**

- Less CIT companies;
- Declining ATM HW sales and 'new' HW players trying to get a market share;
- More multi-vendor services:
  - second line maintenance and
  - ATM software

1b. SOME CASE EXAMPLES

- **Large banks in Ireland and Greece are divesting their off-branch ATM fleets**
- **One of the largest banking groups in France divested its entire ATM fleet**
- **TecBan in Brazil is one of the largest ATM pooling organizations in the world**
- **Banks in the Philippines outsourcing ATMs**
- **One of the largest banks in the Baltic States is divesting its ATM fleet**
- **Several large banks in MEA are divesting their ATM fleets**
- **One of the largest banks in the UK is setting up mini-branch pods, driven by ATMs**
- **And many more pooling and outsourcing initiatives are being studied**

1c. SCOPE OF THE OUTSOURCING

The larger the scope, the larger the synergy and savings

- **Physical Management & Connectivity**
  - 'Owning' ATM Terminals; Optimizing Coverage
  - Parts Supply & Management
  - Managing Installations/Changes
  - Servicing ATM Terminals (Cash)
  - Servicing ATM Terminals (1st & 2nd Level Maintenance)
  - Processing Transactions
  - Providing Bank/Network Sponsorship
  - Routing Transactions Through Payment Networks
- **Optimization & Support**
  - Forecasting Cash & Managing Reconciliation
  - Provisioning Cash if necessary
  - Balancing Terminals/Managing Settlement
  - Managing Risk; Mitigating Fraud
  - Maintaining Call Centers (customer and technical)
- **Technology & Strategy**
  - Managing Placement Strategy & Agreements
  - Managing Terminal Technology Stack & Updates

2. WHY POOLING OR OUTSOURCING?

Driven by economics and 'access to cash' regulation:

- Reduced ATM withdrawal volume over the past years (2015 was peak volume in the UK) has driven up ATM unit and transaction costs. As ATM volume declines, owning and operating an ATM network becomes increasingly costly
- Banks have redirected their spend toward digital channels, away from physical channels (branches, ATMs). The ATM channel is no longer 'core' business and having their 'brand' on the ATMs is no longer a necessity in the Digital age
- Scale cost advantage has shifted to private deployers, as they now have larger ATM fleets than any one bank
- For Banks it is difficult to increase usage fees to their customers, meaning that most banks now run an unprofitable ATM channel that is reliant on a broader customer relationship for funding
- Banks can no longer control interchange, as it smacks of collusion… something no one wants
- Banks will increasingly be aware that the network they have built is an asset that can be monetized at an attractive value, certainly in a declining market. Private operators are interested in taking over, as they can operate the network often at lower costs than the banks can
- Declining ATM estates leads to complaints of the end-users and the regulator steps in to guarantee 'access to cash', the burden of this is less expensive if a bank can share this with other banks
- ATMs of different FIs are often close to each other, it makes sense to share networks and reduce the number of duplicate ATMs

3. SOME PREDICTIONS

>80%

of the ATM fleets in Europe, and the UK, will be privately-owned and operated within 10 years

Closures

More bank branches will be closed, ATMs will be installed in convenient non-bank locations

Markets will adapt to a ‘reasonable’ pricing to guarantee access to cash for the society

- Access to Cash regulation will create a minimum level of ATMs (accessibility/affordability)
- Consumer demand for (free) cash withdrawals increases the need for the lowest possible costs and quality UX
- Regulated (access/DCC) fees

This shift will come in the form of:

- Increased interchange
- Surcharge-free network fees, ‘access to cash’ must be guaranteed by FI’s
- Bi-lateral agreements between issuers & acquirers (no interchange applicable)
- Costs of ‘On-us’ transactions, in non-bank owned networks, lower than the interchange

Digital Growth

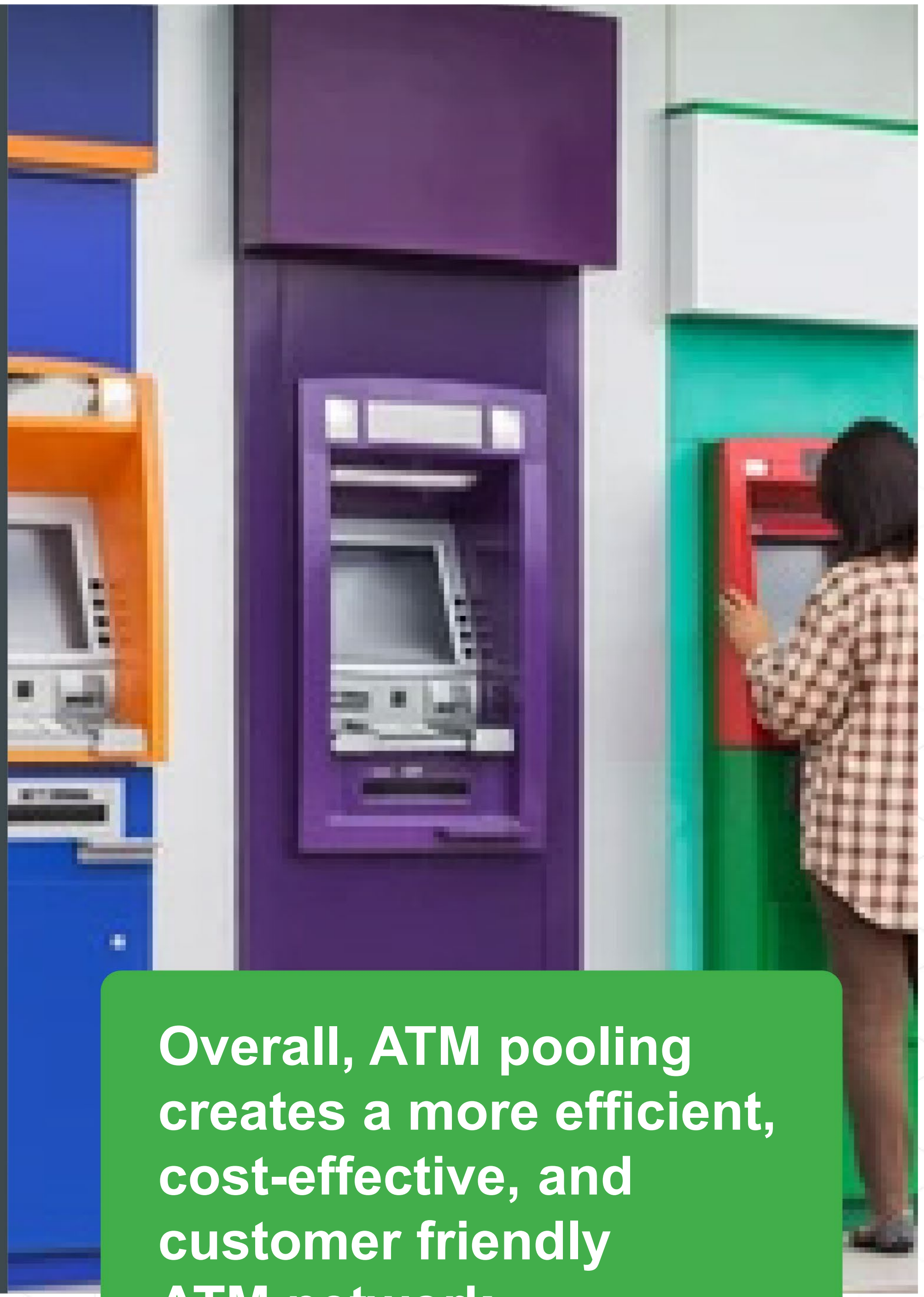
We will see a further growth of Digital Banks (like Revolut), not owning ATM networks

10 YEARS

The remaining FI-owned and controlled inter-bank payment networks in Europe and the UK will be in private hands within 10 years

4a. BENEFITS OF ATM POOLING VS ATM OUTSOURCING

	POOLING	OUTSOURCING
Cost savings	Yes	Yes
More focus on core business	Yes	Yes
Less staff necessary	Yes	Yes
Better accessibility of the ATMs	Yes	-
Financial inclusion	Yes	-
Modernization and better security	Yes	Yes
Environmental benefits	Yes	Yes
Less compliance challenges	Yes	Yes
More flexibility / scalability	Yes	Yes
‘Unburdening’ the bank from cash handling	Yes	Yes
Easier to reduce branches	Yes	-
Bundling experience and know-how	Yes	Yes
Improved ATM uptime	Yes	Yes
Access to expertise	Yes	Yes
Complexity of the project	Yes	Yes
‘Time to market’	Long	Short



Overall, ATM pooling creates a more efficient, cost-effective, and customer friendly ATM network

4b. CHALLENGES AND RISKS OF POOLING VS OUTSOURCING

	POOLING	OUTSOURCING
Complex agreements	Yes	No
Regulatory compliance	Yes	No
Technological integration	Yes	No
Security concerns	Yes	Less
Customer experience	Yes	No
Operational logistics	Yes	No
Long implementation process	Yes	No
Difficult to find the right implementation team	Yes	No
Initial investment	Yes	No
Loss of control	Yes	Less
Communication issues	Yes	No
Hidden costs	Yes	No
Dependence on provider	Less	Yes
Quality control	Yes	No
Cultural and time zone differences	No	Yes

By being aware of these risks and implementing strategies to mitigate them, banks can better manage their ATM outsourcing arrangements

4c. WHAT ARE SOME BEST PRACTICES FOR SUCCESSFUL ATM POOLING?

1. Clear (cooperation) agreements	**2.** Regulatory compliance discussed at the early stages of the ‘merger’ process	**3.** Technological Integration, preferably no legacy, starting from ‘scratch’	**4.** Robust Security Measures	**5.** Consistent ‘state of the art’ Customer experience
6. Initial Investment Planning	**7.** A robust implementation plan	**8.** The right implementation and development team (experienced)	**9.** Continuous monitoring and Improvement	**10.** Selecting the best sub-contractors/ partners, this needs partnership capability

11. Efficient Operations (Cash management and Reconciliation, Operational Logistics, (customer) service desk, using the right data) >> using the best systems available

12. (Using) Customer feedback

5. WHAT ARE SOME BEST PRACTICES FOR SELECTING A RELIABLE OUTSOURCING PARTNER?

Define Clear Objectives:

- **Evaluate expertise and experience:**
  Look for partners with proven expertise in your industry.
- **Assess technological capabilities:**
  Ensure the partner has the necessary technological infrastructure and capabilities.
- **Check regulatory compliance:**
  Verify that the outsourcing partner complies with relevant regulations and standards.
- **Look for partnership capabilities:**
  Some partners are more open to customization than others.
- **Consider cultural fit:**
  Cultural compatibility can significantly impact the success of the partnership.
- **Review security measures:**
  Data security is paramount.
- **Evaluate communication and transparency:**
  Effective communication is key to a successful partnership.
- **Scalability and flexibility:**
  Ensure the partner can scale their services according to your needs and adapt to changing requirements.
- **Conduct due diligence:**
  Verify the partner's credibility and reliability.
- **Establish clear and doable SLAs:**
  Ensure accountability and set clear expectations.
- **Define 'output' goals:**
  A detailed scope description right at the beginning avoids unnecessary customization later.

6a. ATM OUTSOURCING VS. ATM POOLING: SOME CONCLUSIONS ‘USE THE BEST OF BOTH WORLDS’

ATM Pooling

Saving Operational costs:
Sharing ATMs among multiple banks offers great potential for reducing operational costs.

Increased Accessibility:
Customers benefit from a broader network of ATMs, enhancing convenience and reducing out-of-network fees.

Resource Optimization:
Pooling resources leads to better maintenance and higher uptime of ATMs and reduction of SG&A costs.

Financial Inclusion:
Enables deployment of ATMs in underserved areas, extending banking services to a wider population.

Environmental Benefits:
Fewer redundant ATMs lead to lower energy consumption and reduced environmental impact. Improved work planning leads to a smaller CO2 footprint.

ATM Outsourcing

Cost Savings: Reduces operational costs by leveraging the expertise and economies of scale of specialized providers. Combined with ATM pooling the total cost saving potential is even larger.

Time to market: Experienced outsourcing partners can implement much quicker compared to setting up an ATM pooling organization to handle the day-to-day ATM management.

Access to Expertise (know-how and experience): Provides access to advanced technology and industry expertise, ensuring efficient and secure ATM operations. New ATM pooling organizations have to get access to this knowledge and experience. This will take time.

Scalability: Offers flexibility to scale the ATM network up or down based on demand without significant capital investment.

Regulatory Compliance: Outsourcing partners often handle regulatory compliance, reducing the burden on the bank. They have the experience.

Security Concerns: Handling sensitive data raises security and privacy concerns. ATM outsourcing vendors have this experience.

6b. SOME CONCLUSIONS
'THE BEST OF BOTH WORLDS'

At some point, Banks will realize that ATM pooling is more trouble than it's worth… that 'central planning' through a horizontal cooperative is a burden and delivers sub-optimal results

ATM Outsourcing is ideal for banks that want to reduce operational burdens and are looking for specialized expertise. It offers shorter 'time to market' compared to ATM pooling

ATM Pooling is beneficial for cost efficiency and increased accessibility, but it requires complex agreements and technological integration and will take more time compared to ATM outsourcing:

- *Complex Agreements: Establishing agreements between multiple banks can be difficult and time-consuming.*
- *Technological Integration: Integrating different banks' systems and technologies into a unified network can be challenging.*
- *Security Concerns: Shared ATMs might become targets for fraud and cyber-attacks, requiring robust security measures.*
- *Customer Experience: Maintaining a consistent customer experience across a shared network can be difficult.*

Specialized ATM Managed Services providers have more experience and know how, and will deliver greater cost savings, more quality, more flexibility compared to a bank running a small ATM estate

Find a partner that offers the largest potential in reducing your costs and improving the ATM network uptime:

- *Reduces your environmental impact / CO2 footprint, delivers the best synergy in a large part of the Total Cost of Ownership (the 'boots on the ground' services), combine transport and maintenance networks*
- *That uses multi-vendor software for your ATMs. This offers more flexibility and less vendor lock-in situations*
- *Has proven partnership capabilities*

6c. HYBRID MODELS
'THE BEST OF BOTH WORLDS'

The pooling company is coordinating with the stakeholders such as the member banks and authorities. Services are over time outsourced, more and more, to specialized service providers

Hybrid models make sense; banks merging their ATM estates and outsourcing services and/or parts of the ATM estate to specialized vendors

Both companies, the ATM pooling company and the service providers, should do what they are good at, the service providers to maximize cost savings and improve ATM uptime and the pooling company to adhere to 'cash access' regulations and manage the stakeholders

The service providers, based on 'output' guarantees, deliver the daily services, including cash- and hardware ownership and all necessary software and transaction processing

Geldmaat outsourced 750 coin devices to Brink's where Brink's was leading the project development and implementation and now is responsible for the full solution

More information on: https://brinks-ams.com/

BRINKS GLOBAL AMS

THANK YOU