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## Stop Trying to Get More Revenue from ATMs

**ATM deployers seeking to reverse an alarming slide in usage and revenue are looking to services like bill payment and prepaid phone top-ups to open new sources of fee income. Instead, banks should be looking at ATMs as instruments to cement ties to valuable customers, says Tony Hayes.**

I moderated a panel discussion on the future of the ATM industry featuring seven of the industry's thought leaders. What better forum to ask about ways to drive greater revenue from the ATM channel? Unfortunately, the panel could not identify any definitive strategies to create sustainable revenue growth for an ATM deployer. They offered numerous suggestions for ways to operate ATMs more efficiently, yet the answer for revenue growth seemed elusive.

Why is it so challenging for a deployer to grow revenue in the current environment? The industry is large, generating total fee income of approximately \$5 billion per year, with an average ATM surcharge of \$1.65 per off-premise cash withdrawal. And the industry is growing. There are more than 383,000 ATMs in this country, with more being added every day.

The answer to this conundrum can be traced to three underlying issues: ATM business models, shifting usage patterns, and deployer expectations.

### **ATM Business Models**

The fundamental drivers of the ATM business model are misaligned. On the income side, revenue is generated on a per-transaction basis (on foreign acquired transactions) through

surcharges and interchange. On the expense side, deployers incur operating costs (depreciation/lease expenses, maintenance, cash replenishment, processing, etc.) on a per-ATM basis. Put another way, revenue is variable, based on machine usage by non-customers, and costs are fixed, increasing with the number of ATMs but independent of machine volumes.

Revenues are driven by transactions, and the average number of transactions per ATM is declining at an alarming rate. Some of this decline is attributable to a shift in the composition of the ATM market. Approximately half of all ATMs in the U.S. are now operated by independent sales organizations (ISOs), and the average volume on an ISO ATM is just 355 transactions per month.

At the same time, some of the decline is the result of too many ATMs chasing too few transactions. In our work with a number of deployers, it is not uncommon to see annual per-ATM transaction declines of anywhere from 5% to 15%. And these declines apply to small credit union deployers as well as the largest ATM ISOs. For example, TRM, an ISO with over 21,000 ATMs, reported that its volumes



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fell from 387 monthly transactions per ATM in Q4 2003 to 348 transactions per ATM per month in Q4 2004, representing a 10% decline.

Compounding the decline in usage is a reduction in the number of non-customers using ATMs. Consumers have learned to equate foreign ATM usage with a fee (oftentimes two fees—a surcharge and a foreign fee), and are changing their behavior accordingly. Consumers may seek out their own financial institution's ATMs, or they may withdraw greater amounts of cash at any one time to limit their number of ATM visits. As a result, the ATM transaction mix is shifting toward on-us (free) transactions.

The net result for deployers: lower revenue per ATM. Between 2001 and 2003, the average revenue produced by an off-premise ATM declined by 11%, from \$1,075 per ATM per month to \$952.

### Shifting Usage Patterns

With the traditional revenue model under pressure, it has been suggested that bill payment, prepaid phone time, cell phone top-ups, ticketing, stamps, and more could be potential methods for growing revenue. But consumer adoption of these features has failed to materialize.

In the 30 or so years that ATMs have been in operation, only one new feature—mini-statements—has successfully been added to the standard four (cash withdrawals, balance inquiries, transfers and deposits). Of large banks, 87% now offer mini-statements at their ATMs, typically for a fee. Mini-statements offer a convenient service by repackaging existing bank data and do not require any special consumables; they don't occupy a

dedicated cassette or require interfacing with third parties. In many ways, they are an ideal 'value-added' ATM feature. However, even mini-statements may wane as more consumers adopt Internet banking.

Meanwhile, other functionality has never really taken off. Citibank pioneered ATM bill payment, but then dropped its program in 2001; Wells Fargo also discontinued their program. Stamps are being phased out by some leading banks (Bank of America eliminated stamps from Fleet ATMs following their merger). And the innovator in ATM check cashing, Mr. Payroll, has ceased operation.

Quite simply, consumers want fast, reliable, convenient, fee-free access to cash. Cash withdrawals accounted for three-quarters of all ATM transactions in 1998. They still accounted for three-quarters of all transactions in 2003.

### Deployer Expectations

Were it not for the ATM boom years of the late '90s, fueled by newfound surcharge income, the very question of growing ATM revenue would have seemed incongruous to a bank.

For most banks, ATMs were—and, in many cases, still are—a service channel designed to meet the needs of the bank's own customers. The goal is not to make money with ATMs *per se*; it is to attract, retain, and grow high-value customers with ATMs as a critical element in this relationship.

Wells Fargo clearly recognizes the value of ATMs. Their customers conduct as many transactions at ATMs as they do at branches, helping justify the bank's major investment in Web-enabling its ATMs and bringing greater personalization to the user interface. Similarly, JP Morgan Chase recently

announced plans to add an additional 1,000 ATMs to its fleet of 6,650 machines.

For banks without the scale of Wells Fargo or Chase, however, the question remains: How can ATMs support the bank's overall retail customer strategy and, in turn, indirectly support revenue growth?

► For some the right strategy will involve optimizing the bank's current ATM network, potentially implementing more customer-friendly capabilities, such as deposit automation.

► For others, the right approach may involve 'renting' ATM access from other deployers. In these so-called branding deals, a bank pays an independent deployer for the right to place its brand on the ISO's ATMs. The bank pays a flat monthly fee per-ATM, and the bank's customers get free access to those ATMs. In this manner, a bank can significantly expand its ATM footprint at a fraction of the cost of doing so by itself. Cardtronics, with 25,000 ATMs, is a leader in the rapidly growing field of ATM branding, and has recently announced deals with PNC Bank to brand 150 of its ATMs in Walgreens' stores in a five-state area.

► A number of smaller banks and credit unions (as well as some national payroll card issuers) have opted to participate in various surcharge-free programs, including sub-networks (NYCE's SUM, PULSE's Select-ATM, STAR's STARsf and so forth) and independently branded networks (Allpoint and MoneyPass, recently acquired by U.S. Bank).

► A fourth approach is to simply refund ATM surcharges, as Commerce Bank (NJ) now does.

In ATMs, as in many areas, it's all about having the right expectations. If banks start with the expectation of growing ATM revenue, they are likely to be disappointed. If, on the other hand, they start by questioning how ATMs can grow overall revenue, the results are likely to be much more productive. **DT**

### Average Monthly Revenue per Off-Premise ATM

| 2001    | 2003  | Change |
|---------|-------|--------|
| \$1,075 | \$952 | -11%   |

Source: Dove Consulting