
# Solve Your Physical Distribution Challenges – Quickly and Easily

February 2022

Using a Surcharge-Free ATM Network to
Gain Competitive Advantage

For more information visit ncr.com

## The need to compete - from the street corner to the metaverse - is driving a re-imagination of physical distribution strategies that provide always on, always nearby convenience

# Introduction

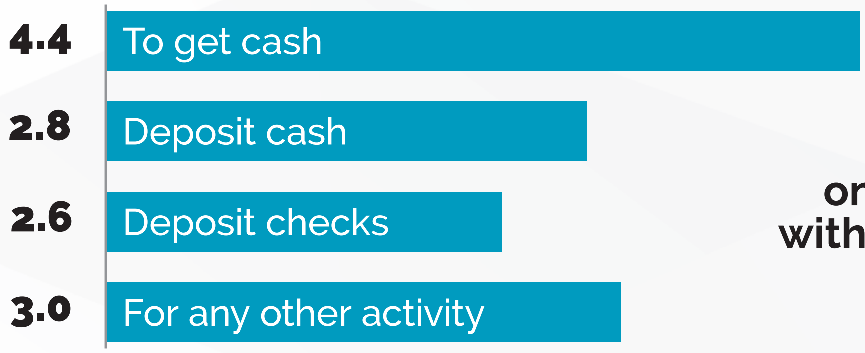
The digital revolution is creating a pivotal transformation in the financial services industry. Accelerated by market forces, such as new entrants in the banking space, financial institutions are adapting fast to meet consumer demands for convenience, digital engagement, and self-service. As they work through this process, banks and credit unions are reevaluating what is, and is not, critical to their channel infrastructure.

Most visibly, the transformation embodies the shrinkage of branch networks, reduced operational costs, and redeployed capital to digital initiatives. All three of these activities, although on the radar for some time, were brought into sharp focus by the pandemic. Financial institutions and fintechs are rethinking channel distribution strategies to offer greater flexibility for account holders to enjoy convenient, and surcharge-free access to their cash.

# ATMs and Cash Access Are Service Differentiators

ATMs play a vital role in the payments landscape, even as consumers embrace digital banking. Cash is a popular payment method for many people. For instance, Mercator Advisory Group's North American PaymentsInsights, 2020 Technology Survey[1] found that on average, consumers withdraw cash at an ATM four times a month.

**Average ATM Transactions per Month**

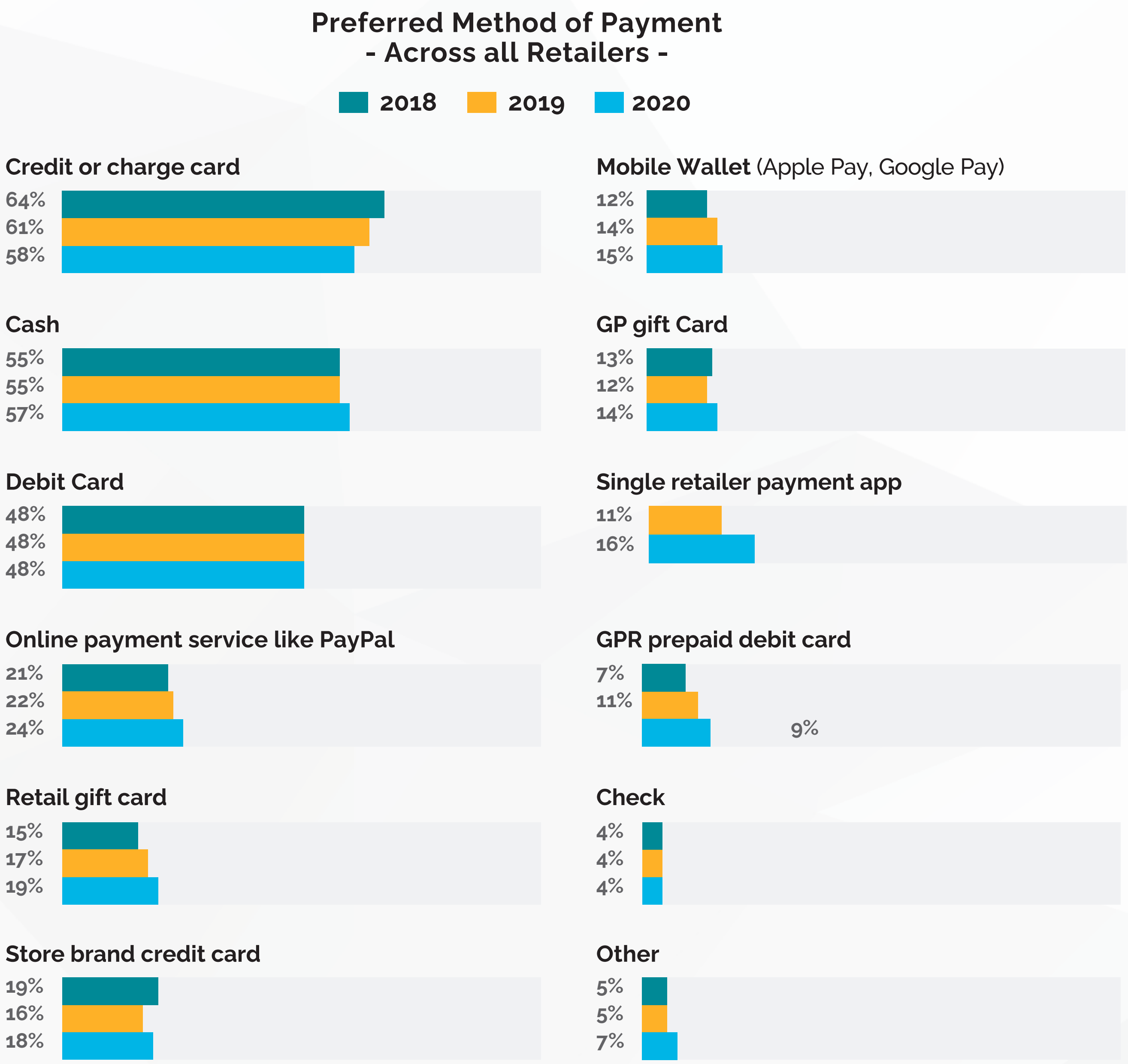



**on average consumers withdraw cash at an ATM 4 times a month**

***Q16. How often would you say you use an ATM to get cash, make cash or check deposits, check balances, or any other purpose?***

Although newer, non-cash forms of payment, such as digital wallets and mobile apps are gaining users, cash continues to be the preferred way to pay for many payment instances, such as smaller transactions and personal services. And ATMs remain the most popular way for financial institution account holders to access cash.

When it comes to paying for goods and services, consumers mostly stick with tried and true payment methods – cash, credit cards, and debit cards. In the 2020 Mercator Buyer PaymentsInsights Survey, when consumers were asked about their preferred payment methods across 21 different retailer types, credit card came top at 58% with cash almost level at 57%[2]. However, credit card preference has softened since 2018, while cash as a preferred method of payment increased over that same period.



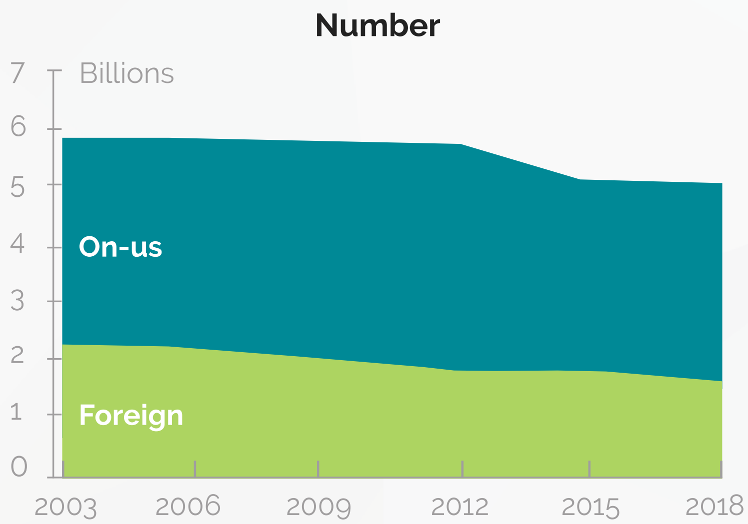

***Q3. And, which payment type do you prefer to use at each of these retailers?***

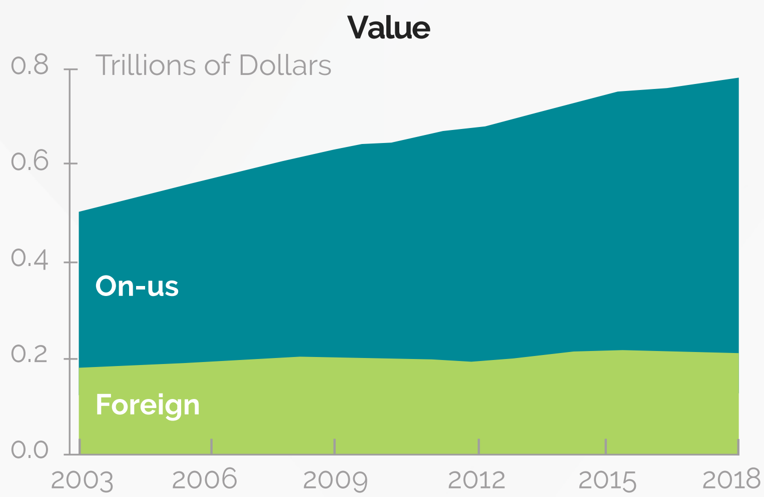
At a macro level, the popularity of cash and ATMs is supported by the 2019 Federal Reserve Payments Study, which found that there were 5.1 billion ATM cash withdrawals in 2018, nearly flat with the number of withdrawals in 2015. The total value of those withdrawals grew slightly to $0.8 trillion in 2018, an increase of $0.03 trillion from 2015. The average dollar amount of ATM cash withdrawals was $156 in 2018.

**there were 5.1 billion ATM cash withdrawals in 2018**

In 2018, on-us ATM cash withdrawals — those made from ATMs owned by the account holder's financial institution — numbered 3.4 billion with a value of $0.58 trillion. Foreign ATM cash withdrawals — those made from ATMs not owned by the account holder's financial institution and for which the account holder is charged a fee — reached 1.7 billion with a value of $0.21 trillion in 2018.

Figure 3: **On-us and Foreign ATM Cash withdrawals, by number and value, 2003-18**



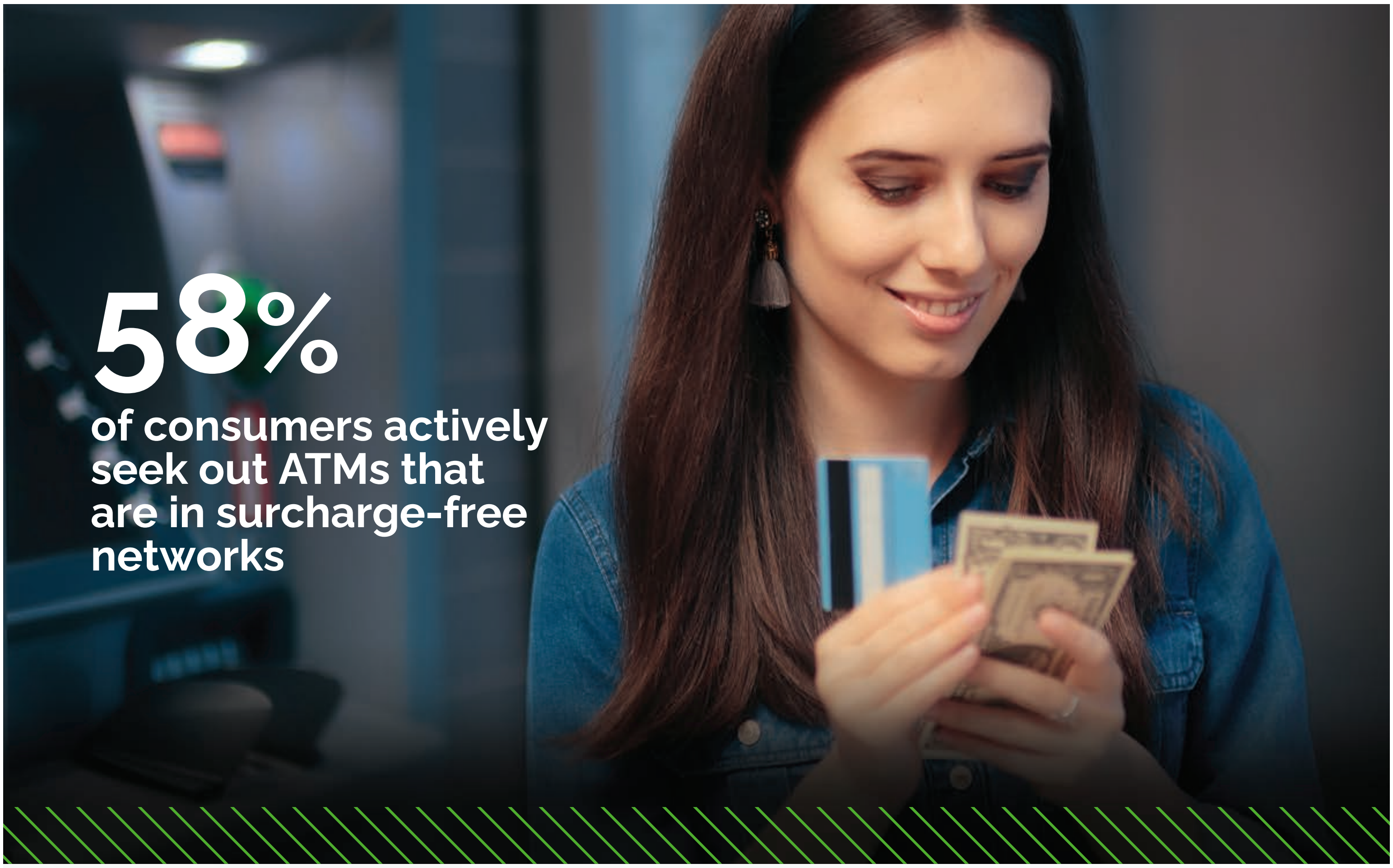




**Note:** On-us ATM cash withdrawals are from accounts held by the ATM sponsor, while foreign ATM cash withdrawals are (a term of art for) from accounts held by an institution other than the ATM sponsor. Foreign ATM cash withdrawals often include transaction fees, while on-us ATM cash withdrawals often do not.

# Digital Revolution Spurs Multi-Channel Strategy

Financial institutions are under tremendous pressure to better serve increasingly tech-savvy and self-service minded customers who want to bank 24/7. Neobanks and fintechs that have entered the banking space are increasing market share with innovative products and user-friendly apps. Financial institution incumbents are responding with multi-channel distribution strategies that utilize readily accessible ATMs, digitization, call centers, and branches re-designed for in-person interactions that are advisory rather than transactional.

A multi-channel strategy focused on self-service delivery requires account data synchronization across all channels, enabling a customer to start an inquiry or transaction in one channel (such as mobile) and continue in another — such as on a laptop or at an ATM. The same account data accessible in the branch is visible online and within mobile banking systems and on-call center displays. This functionality is table stakes when competing with new and agile market contenders.



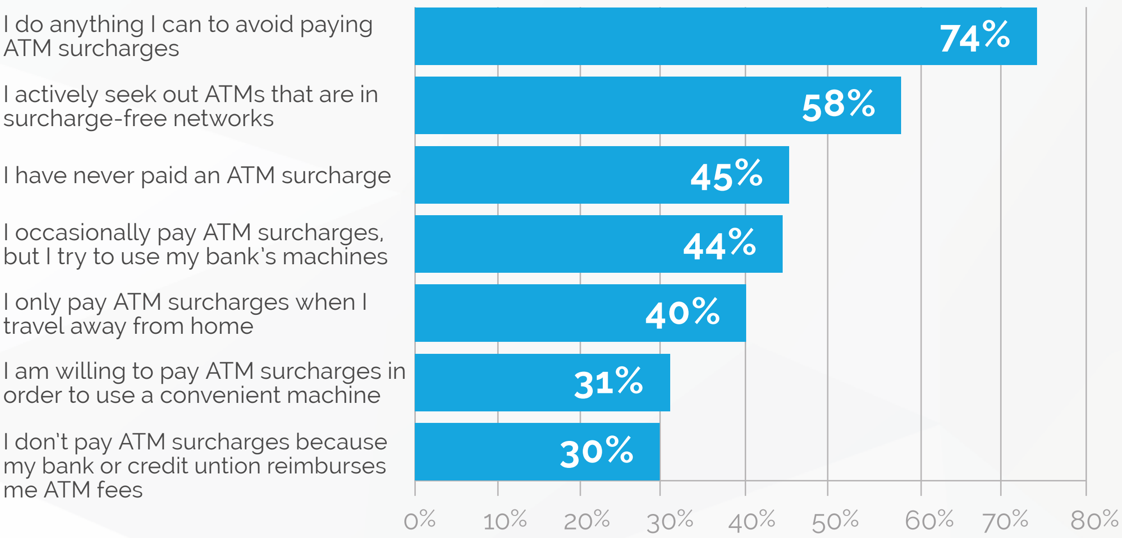

# The ATM Channel is more important than ever

ATMs are critical components of a multi-channel strategy and often become the financial institution's face for its account holders. However, succeeding in today's ultra-competitive banking industry means incurring high costs to upgrade, maintain, and acquire ATMs in existing and new markets. Capital diverted to buying, maintaining, and operating ATMs cannot be spent on deploying and enhancing necessary digital channels. Consequently, more banks and credit unions seek alternatives to their ATM fleets – in ways that provide convenient, fee-free cash access in core and growth markets without deploying large amounts of new capital.

As the number of financial institution branches shrinks — a net of more than 2,900 closed during 2021[3] — ATMs have played an increasingly essential role in maintaining a physical presence for financial institutions. The ATM is the physical connection point of a digital banking model. However, financial institutions do not need ownership of an ATM to maintain a high level of service. Instead, more banks and credit unions turn to surcharge-free ATM networks to meet the needs of customers seeking convenient cash access and, increasingly, cash deposits.

Consumers despise surcharge fees and do everything they can to avoid paying them. In Mercator's 2020 North American PaymentsInsights, 58% of consumers said they actively seek out ATMs in surcharge-free networks, and 74% said they do anything they can to avoid paying ATM surcharges. ATM surcharge fees have risen substantially over the years – up 39% since 2009[4]. It comes as no surprise that consumers do what they can to avoid them.

### ATM Surcharges

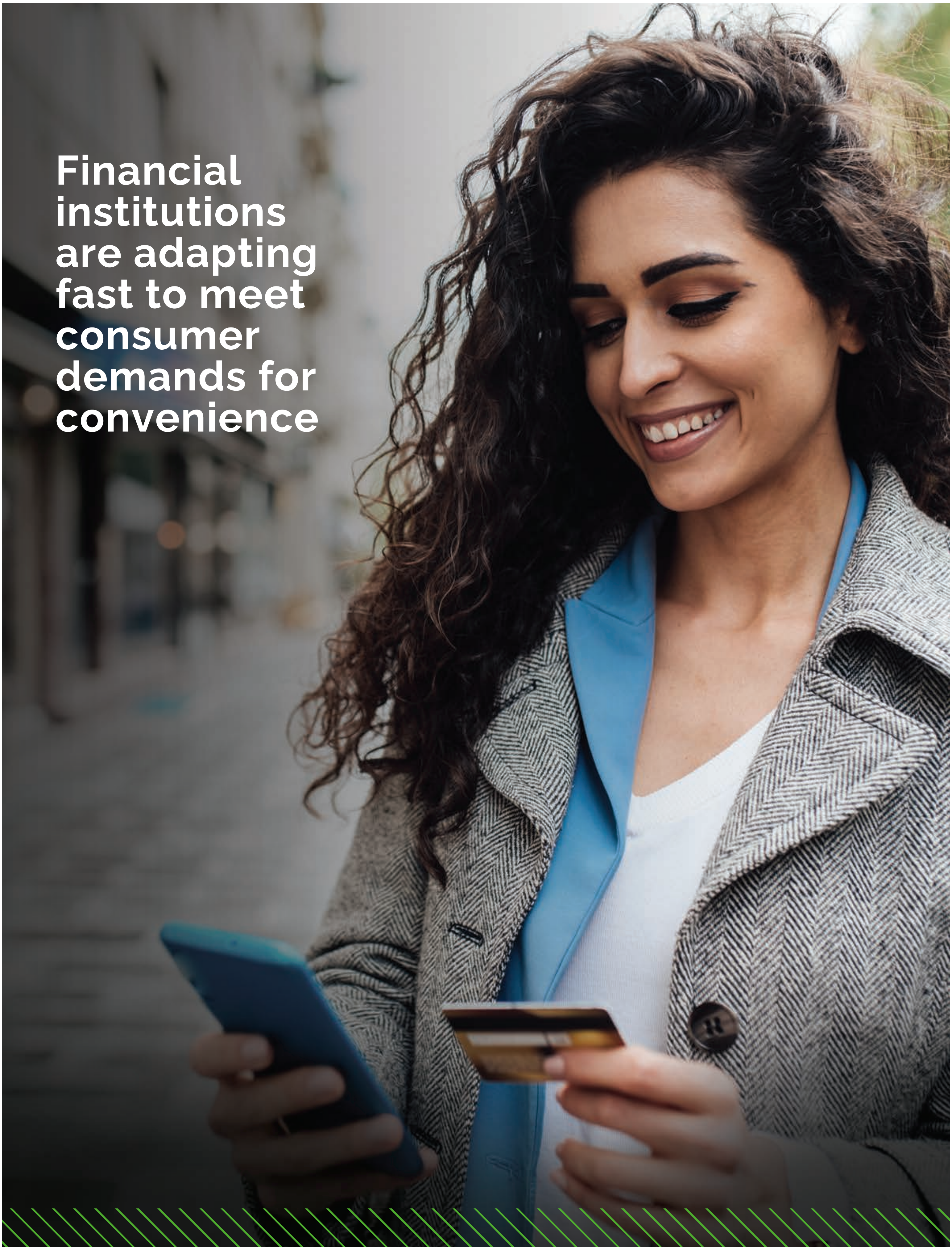



*Source: Mercator North American PaymentsInsights, 2020*

Financial institutions understand consumer demand for surcharge-free access to cash. They also recognize that when choosing their primary financial institution, consumers consider the convenience of surcharge-free cash access as a factor. This means that banks and credit unions need to have ATMs available for account holders outside their proprietary ATM fleet's footprint. An alliance with a surcharge-free ATM network provider is a channel many opt for to meet this requirement.

## Financial institutions understand consumer demand for surcharge-free access to cash

# Financial institutions are adapting fast to meet consumer demands for convenience



# Alternative Surcharge-Free ATM Strategies

There is no one size fits all strategy for financial institutions that operate under entirely different business models. Selecting the optimal surcharge-free ATM strategy for your institution requires an understanding of the options available, asking the right questions, and determining the best fit for your business.

## Deploy and Maintain a Proprietary ATM Network

Since the early days of the ATM, this has been the primary ATM strategy of banks and credit unions. It's an option that gives the financial institution complete control of the ATM channel, including the machine's location, type, and function and the overall customer experience. Its chief disadvantage is cost. Capital must be used to purchase the equipment in addition to approximately $2,000 to $3,000 per ATM per month on average, in operating and maintenance costs. Another disadvantage is the significant resource requirements — financial and personnel — to keep up with regular technology upgrades and changes in compliance requirements.

Further, there are often difficulties locating desirable sites for expanded ATM deployment, particularly since many choice locations are already taken. In addition, multi-function ATMs designed to meet the increasingly sophisticated needs of consumers require even higher capital expenditure and operating costs. For most financial institutions, ATMs don't contribute to the bottom line but are an item that they must manage alongside the core banking business.

## Deploy an ATM Surcharge Rebate Program

This approach reimburses account holders for the surcharge fees charged by other financial institutions or independent ATM deployers for using their ATMs. The strategy satisfies consumer demand for wide-spread surcharge-free ATM access, but it has several potential disadvantages for the financial institution. While seemingly simple and easy to implement, the program can prove to be much more complex and costly than anticipated.

Unless rebates are capped or otherwise limited, expenses can skyrocket as ATM surcharge fees increase over time, and more account holders participate in the program. Also, rebating other institutions' surcharge fees helps subsidize those institutions' operations, often with smaller institutions paying significant amounts of money to their largest rivals while opening their cardholders to marketing from those rival financial institutions. Finally, while a surcharge rebating strategy can address cash withdrawals, rebating does nothing to address deposits.

## Join a Surcharge-Free ATM Network Shared by Multiple Institutions

Some institutions have banded together, through shared use networks, to allow their account holders to use ATMs at participating member branch locations surcharge-free. This strategy offers access to an extensive network of surcharge-free ATMs that competes well against the largest national banks. It also provides access to significantly more ATMs than is available in the financial institution's own branches.

However, shared networks are not a panacea. There is a significant risk of attrition as account holders engage with competitors when using those shared ATMs. In addition, the increased use of an institution's own ATMs by other institutions' account holders can accelerate wear and tear on the machines – increasing the cost to maintain the equipment – while creating queuing issues for their own cardholders. Participating institutions also forgo the surcharge revenue they could have made on transactions from other participating member account holders. Finally, members are highly dependent on the whims of other members – if and when shared network members choose to leave the network, the value of the overall network can decline quickly, particularly if a larger institution contributing a significant number of locations were to depart.

Participating in a shared network puts financial institution members in a position to promote a competitor's locations and brand.


This is a complex relationship for network partners to be in, given the ever-increasing (and shrinking) competitive landscape. In recent years, some of the most significant participants in shared networks have moved away from this strategy and adopted other means of meeting the demand for surcharge-free ATM access.

## Brand ATMs in Neutral Retail Locations

Offsite retail ATM branding pairs a financial institution with recognized retailers, allowing the institution to place its own brand on the ATMs at chosen retail locations. The strategy combines the advantages of convenient and fee-free cash with the brand benefits of an expanded footprint, gaining brand awareness in a few up to several thousand sites frequented by hundreds or thousands of consumers every day. In addition, full-function branded ATMs may be deployed, expanding branch-like functionality well beyond the branch footprint.

In addition to promoting the financial institution's brand to current and potential customers, ATM branding helps reduce capital and operational costs and builds customer loyalty with the convenience of cash access it provides. It also drives customer acquisition and delivery channel efficiencies by saving on capital, equipment, software, and operational management costs.

Branded ATMs provide instant financial institution brand awareness in a market and increase account holder satisfaction with more fee-free ATM access. Branding programs tend to work best in defined geographical areas, as a way to bolster existing markets or quickly expand into new markets.

## Partner With an Independent Surcharge-Free Network

Joining an independent surcharge-free network - as opposed to one operated by financial institutions - offers several advantages:

- This type of network may offer increased convenience because the ATMs are often located in retail locations consumers already frequent: grocery stores, pharmacies, big-box retailers, convenience and fuel stores, shopping malls, and more.
- Independent surcharge-free networks may offer widespread coast-to-coast coverage and even international coverage, enabling surcharge-free cash access when account holders travel or wherever they may live.
- These networks rely on independent locations, so a financial institution will not be sending its account holders to the branches of competing institutions and will not lose surcharge revenue on its own ATMs.
- An independent network strategy places the burden of ATM management on the third-party deployer, freeing participating financial institutions from the capital and operational expenditures of a traditional financial institution-owned approach.

**Joining an independent surcharge-free network allows the financial institution to focus on managing its core business and serving customers and members**

In years past, independent surcharge-free ATM networks were primarily, or even exclusively, focused on cash-out transactions, necessitating that more complex transactions, such as cash deposits, be undertaken at the branch. However, new technology and ATM form factors have enabled independent ATMs to now offer a full suite of self-service functionality, similar to sophisticated branch ATMs, including cash and check deposits, multi-denomination dispense, cardless transactions, and more.

Joining an independent surcharge-free network allows the financial institution to focus on managing its core business and serving customers and members. An extensive ATM fleet levels the playing field for smaller banks and credit unions to compete with the largest financial institutions. For instance, Allpoint has approximately 40,000 ATMs in the U.S., just shy of the number of ATMs collectively owned by the three largest U.S. banks combined[5]. Allpoint Network is also the only surcharge-free network that has deposit-enabled ATMs across the U.S.

# Which Strategy Works for Your Institution

Each institution's goals, reducing branch costs, reimagining the branch experience in a post-COVID world, new market-entry, market repositioning, etc. guide the decision on which ATM distribution strategy is best for long-term growth and accountholder retention.

A financial institution must first analyze account holder attributes, including how many account holders are served locally, nationwide or even internationally. With that knowledge, it can calculate potential cost reductions and the income realized by each strategy. In addition, ATM technology and compliance changes are a certainty and seemingly more frequent in occurrence. Does the financial institution have the resources to manage these in the future? The answer will help identify the ATM strategy or combination thereof, to deploy.

In many cases, a hybrid approach may generate the greatest benefit: tap into ATM outsourcing to reduce costs at branches while unburdening branch staff with ATM operations; leverage ATM branding to build or maintain brand awareness in a branch-light model; and join a form of surcharge-free network to provide robust, everywhere, anywhere ATM access.


# Conclusion

Today's ATMs deliver an enhanced, secure customer experience, and the opportunity for revenue growth, greater account holder retention, and reduced costs. Caught between a digital revolution in banking and rapid changes in consumer preference for in-person service, financial institutions are being forced to transform at record speed without historical precedence to guide them.

ATM distribution strategy plays a crucial role in this revolution. Consumer demand for cash remains resilient, and the ability to serve consumer needs for cash out and cash in services will continue to be a core banking function. To meet account holders' cash demands, banks and credit unions must ensure they have channels to provide cash as conveniently, cost-effectively, and effortlessly as possible. As the physical corollary to digital self-service, the ATM will continue to play an important role in banking strategy for years to come. Those financial institutions that effectively leverage this channel to expand service while reducing costs will reap significant rewards in a continually shifting banking landscape.

---

[1] *Mercator U.S. North American PaymentsInsights, 2020.*

[2] *2020 Mercator Buyer PaymentsInsights Survey*

[3] *S&P Global Market Intelligence: https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/us-bank-branch-closures-increase-38-to-new-record-high-in-21-68483121*

[4] *https://www.statista.com/statistics/325552/average-atm-surcharge-usa/*

[5] *May 2019 https://www.bankrate.com/banking/biggest-banks-in-america/: ATM numbers from websites of JP Morgan Chase, Bank of America, and Citigroup Inc.*

NCR Corporation
864 Spring St. NW, Atlanta, GA 30308
Tel: +1-800-CALL-NCR | +1-937-445-1936
ncr.com