The Cashflows guide to

Reducing costs for ATM businesses

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Making money out of cash

It's no secret that ATMs businesses have been finding it an increasing challenge to stay profitable, which is unsurprising in light of the overall decline of cash use, expedited by the Covid-19 pandemic, and the increase in operational and scheme fees.

A recent study by Co-op, found that only 28% of purchases are now made in cash, a decrease of 57% since 2016. This, coupled with the accelerated trends for more digital banking are meaning traditional banks are facing less demand, resulting in the closure of over 4,700 bank branches and 12,178 free-to-use cash machines since 2015. The result has been the increasing cost of managing, moving, and securing physical cash for remaining suppliers as well as members of the general public and businesses that still depend on cash.

> We can predict a continuing and steep rise in the demand for cash and accessibility to it.

As dependency rises, due to the cost-of-living crisis, which has already produced a significant rise in the number of withdrawals of cash as well as the amount being withdrawn, so called 'cash deserts' will mean many within the UK will struggle to access the cash they need. Studies show that people facing hard times use cash to budget and, though we are at the very beginning of the cost-of-living crisis, we can already see its impact on the ATMs industry. As the weather turns colder and electricity and gas price increases start to seriously affect finances, we can predict a continuing and steep rise in the demand for cash and accessibility to it.

Increasingly the government is recognising the need for equal access to cash across the UK and the impact that 'cash deserts' are having on vulnerable communities, particularly those in remote areas who now have to travel miles to get to the nearest ATM. New stipulations have now been added to the forthcoming Financial Services and Markets Bill. The Bill gives the Financial Conduct Authority (FCA) new powers to order the largest banks and building societies to continue offering services such as ATMs and mobile hubs so that residents can withdraw money on a regular basis. While banks would still be able to close branches even if they are the last available within a particular community, they must replace them with alternative services, ensuring that all Brits are within two miles of a free cash dispensing point. Whilst this will potentially solve the issue of access to cash, a question still remains – can ATMs still be a profitable enterprise and, if so, how?

It's clear that the future for organisations deploying ATMs lies in reducing operational costs and promoting efficiencies in order to stay profitable and continue meeting customer needs. Currently this is mainly being done in two ways – ATM Pooling and BIN Sponsorship.

> Can ATMs still be a profitable enterprise and, if so, how?

ATM pooling

ATM pooling is not a new concept, having been around for more than 40 years. ATM pooling involves the relinquishing of ownership of ATMs to a single deployer which operates a shared fleet, reducing costs to individual banks and businesses, particularly in locations where low demand makes multiple ATMs uneconomical.

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ATM pooling can leverage cash management software to maximise operational efficiency and improve customer experience. Through strategically placing ATMs in locations with high customer demand, ATM pooling controls cash management costs. With multiple banks sharing ATMs, CIT and insurance costs are lower, with less ATMs to protect and replenish. This helps put ATM services on track to break even and be profitable.

Geldmaat, Netherlands

Example:

Geldmaat is an ATM pool founded in 2019 by ABN AMRO, ING, and Rabobank, following earlier collaboration and joint ventures to facilitate cash-processing and management and ATMs management and maintenance. The three largest banks in the Netherlands are currently in the process of transferring their ATMs to the Geldmaat network.

This was a result of the overall increase in operational costs these Dutch banks faced. Whilst the total costs of operating the cash chain have fallen from around €1.5bn in 2012 to around €1.2bn in 2019, the lower volume of cash payments being processed has resulted in the costs of individual cash transactions at the point of sale rising from €0.40 per transaction in 2012 to €0.50 per transaction in 2019.

Outcome:

Geldmaat has also substantially benefited businesses in the cash-processing market, as Geldmaat makes more concentrated use of the services these parties provide. Furthermore, pooling has enabled the optimising and improving of services in a way that would not have been possible had each bank continued to act alone, combining knowledge and creating efficiencies for all parties involved. It is no longer the role of the participating banks to manage the operation of their ATMs directly, meaning a considerable reduction in operational costs, such as transportation, servicing, security, etc., taking the burden off the banks.

Europe is home to many of the established and emerging ATM pools, but there are also some notable examples in other regions. TecBan, which runs Brazil's shared ATM network, has taken over most of the country's previously overlapping off-site ATM estates, significantly improving efficiency and security in the process. The banks still manage their branch-based and some remote terminals, but TecBan is by far the largest operator of non-branch ATMs. Additionally, there have been moves towards ATM pooling in Australia, Indonesia and Japan in recent years.

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BIN sponsorship

On the other hand, BIN Sponsorship enables banks and Independent ATM Deployers to alleviate their administrative and regulatory burden by using a third-party to gain access to card schemes.

Becoming a member to the card schemes required to operate ATMs can be a long and expensive process, requiring dedicated management and increasing operational costs. BIN Sponsors provide faster access to card schemes, as they are already members themselves and share costs among their customers, meaning ATMs businesses can get set up faster and long-term are far more cost-efficient.

Cashflows, Europe

Example:

Cashflows' BIN Sponsorship model went live in 2011, following the prediction that the economy would become increasingly cashless and ATM businesses would have to become savvier in finding ways of reducing costs to remain profitable. Currently they sponsor over 20.5k ATMs across Europe and settle over £1bn in value per annum.

Outcome:

Customers, which include for example Loomis France, have seen increased benefits such as reliable and efficient management, fast-moving and flexible requirements during set-up, and a responsive partnership approach that allows further growth and services.

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The best of both: is this the future of the ATM market?

By 2030, contactless payments are predicted to jump 15% from today's level to a rate of 75%, with cash use dipping to 20%. However, regions and communities that are reliant on cash payments and those depend on access to cash need to be safeguarded. Regional and class divides over cash usage risks alienating those who live in remote areas or who are particularly vulnerable and there is a social responsibility to make sure these groups are not further marginalised or isolated.

This, however, does not mean that ATMs must transition to being simply infrastructure for public good, there is potential to still create ATMs businesses that are and remain profitable going forward – all this requires is some creativity and greater strategic thinking.

ATM deployers must look to methods such as pooling and BIN Sponsorship to significantly cut down on operational costs, and save not only money but man-hours as well. And there is plenty of reason to combine the two methods – maximising efficiencies and savings in the process. It is clear that by attempting to do everything independently businesses are setting themselves up for failure as costs continue to rise and ATM set-up and management remains complex. Instead the future is reliant on collaboration and the sharing of resources promoting efficiency and securing cash access for all.

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