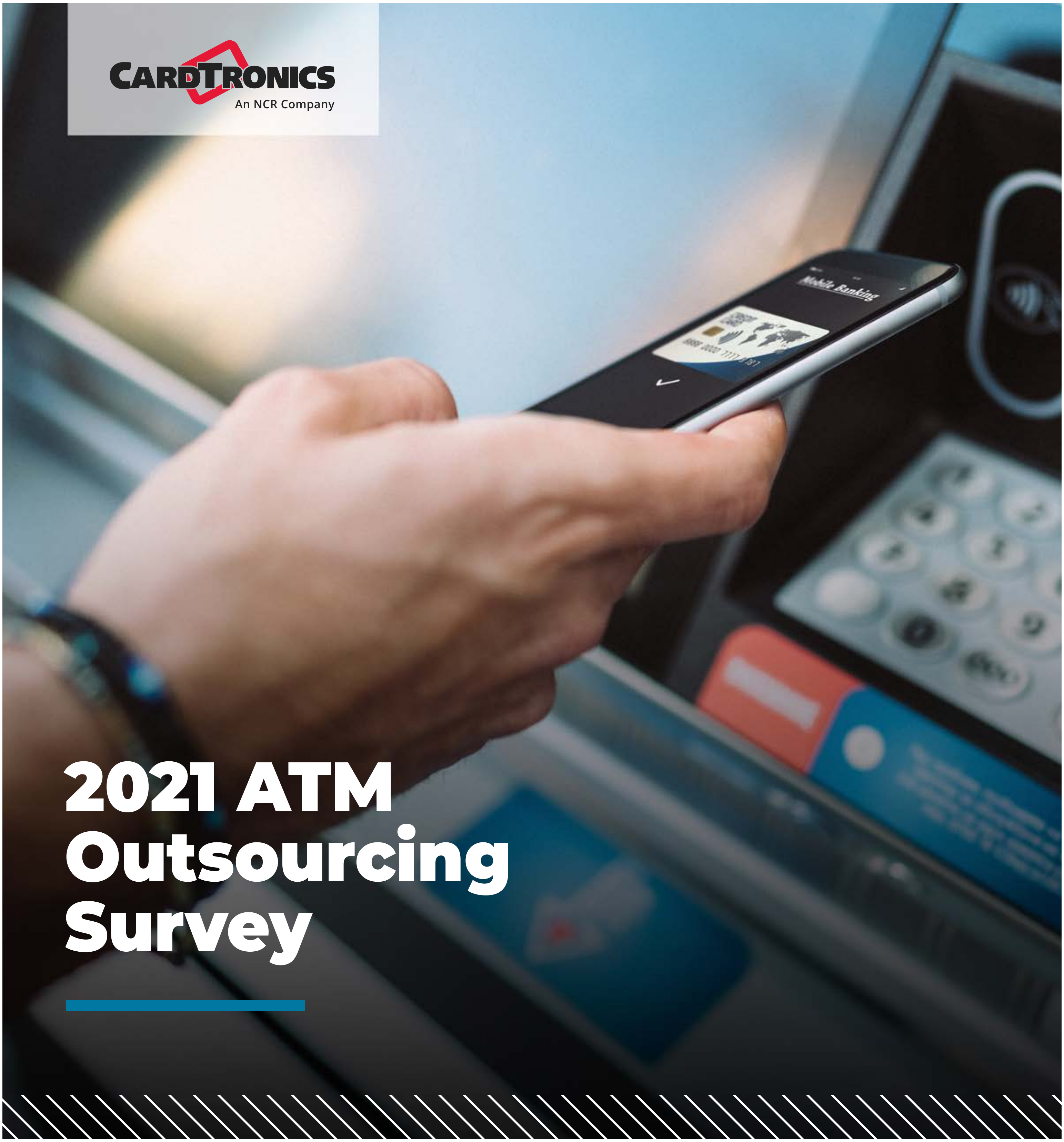


CARDTRONICS
An NCR Company

2021 ATM Outsourcing Survey

ATM Channel Evolving Rapidly into a Key Digital Strategy

October 2021

In 2021, Cardtronics commissioned PG Research & Advisory Services to conduct a primary survey of ATM channel managers at financial institutions across the United States.[i] The purpose of the survey was to illuminate and define the current trends and future dynamics of ATM services and how these changes are impacting outsourcing strategies.

In these primary interviews, we explored topics that included the effect of the pandemic on ATM use; best practices in determining outsource strategies; and the valuation of the ATM channel in retail banking strategies. Where applicable, we reference a previous 2018 Cardtronics survey to highlight key changes in ATM services delivery and investments.

Executive Summary

The ATM channel has transitioned over time from a key service differentiator to a table stakes commodity. With new hardware and software capabilities tying the ATM to new account types and self-service paradigms, the ATM is once again becoming an important strategic asset that complements consumers' desire for self-service banking and always-on functionality.

KEY TAKEAWAY: New software capabilities drive up the criticality and usability of the channel, but also the need for better institutional control and tighter core banking integration. Management's appetite to invest in the ATM channel has increased but remains uneven.

KEY ATM CHANNEL OPPORTUNITIES	KEY ATM CHANNEL CONSTRAINTS
Institutions are making tighter connections between the ATM channel and other digital services channels in a post-pandemic environment. ITM (Interactive Teller Machine) deployment is gaining traction as a result.	The demand for further investments in the ATM channel is competing with those required of other digital services.
Improved ATM software has unlocked enhanced and new channel capabilities that offer more competitive features.	Most institutions are under-investing in the skilled resources needed to effectively manage a more complicated ATM services delivery channel.
Smaller or reconfigured branches are putting more pressure on the ATM channel to deliver critical teller-oriented transaction services.	For most institutions, their existing operational infrastructure is struggling to keep up with the deployment of new ATM software capabilities.
Streamlining ATM channel management opens up efficiencies and improves speed to market of new feature functionalities.	Managing multiple vendors increases operating friction which locks up the value of the ATM channel in complicated servicing structures.

62%

of executives interviewed stated that ATMs are strategic assets today or are rapidly evolving into strategic assets.

ATM is the 'New' Digital Service

ATMs have long been relegated to a utility position within most financial institutions' retail branch delivery strategies. However, prolonged branch closures due to the pandemic have resulted in a majority of institutions we spoke to signaling a shift in the way they view the ATM channel. In fact, 62 percent of executives interviewed stated that ATMs are strategic assets today or are rapidly evolving into strategic assets. This is a significant change from prior surveys we conducted, where most institutions viewed the ATM channel as a utility. It also supports one of our key findings - there is growing convergence between digital and physical services.

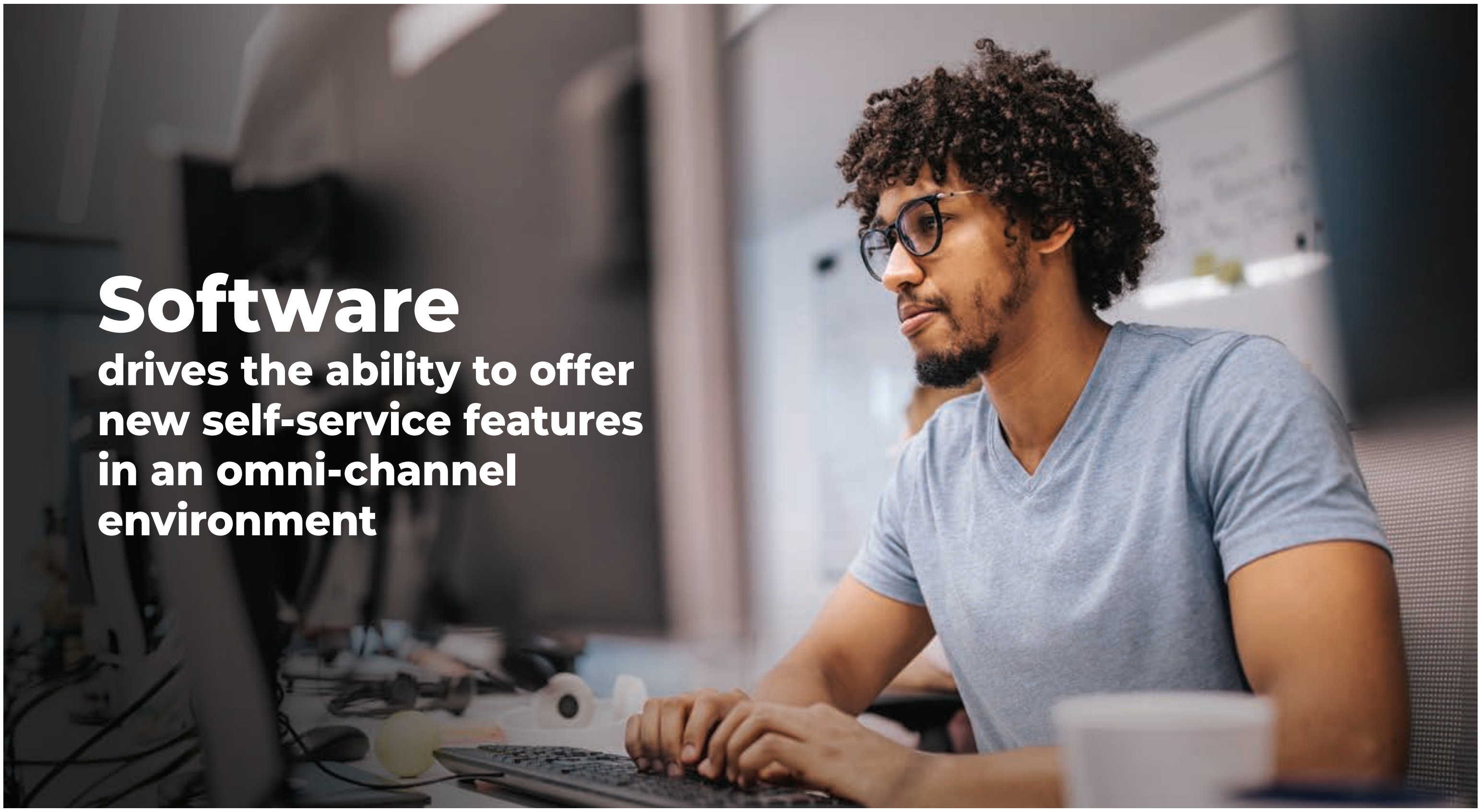
This evolution in thinking about how best to expand self-service capabilities has also resulted in a second look at ITMs (Interactive Teller Machines). We found that retail banking executives are beginning to separate ITM and ATM into two aligned, but different product channels, each with their own use cases. Unlike our earlier survey, where only one participant was leveraging ITMs, we found that 23 percent of institutions we spoke to are now using them as full or partial replacements for teller positions in-branch (Figure 1).

2021	2018
61% closed branches primarily due to under performance	No reported branch closures
53% are opening new branches primarily in Southern and Southwest states.	Increases in branch sizes were almost wholly due to M&A activity
23% are using ITMs as a full or partial replacement for teller positions in-branch	One participant was leveraging ITM devices

Figure 1: Key Changes in Branch Strategies

Further, we found that when an ITM is in the retail banking mix, the ATM takes a supporting position; used for remote cash services access and brand expansion. Deploying ITMs requires core integration, which opens new opportunities for institutions to advance self-service deeper into the account lifecycle. To fully realize the potential of an ITM solution, an institution has to invest in and maintain key software components, including integration with their core banking system, as well as resources conversant in digital delivery technologies.

KEY TAKEAWAY: This important market shift signals a new development in retail banking services delivery, where physical and digital self-service merge with the branch to create complementary, omni-channel strategies.



Thanks Windows 10 — Now What?

Now that most institutions have completed the software upgrade to Windows 10, ATM channel managers are eager to deliver enhanced services through their fleet. This is where digital access meets the physical device and is why more institutions are coordinating ATM and digital access channels. Software drives the ability to offer new self-service features in an omni-channel environment, which reduces friction, improves operational efficiencies, and supports tighter alignment of retail strategies. These drivers have emerged more fully in our post-pandemic environment as institutions were able to see, in real-time, the gaps in their ATM features.

> "Is this really our core business?
> What are our options to better manage this channel?
> Especially since fraud is still an issue."[ii]

Particularly for smaller institutions, these new features serve to improve competitive positioning against other institutions as well as emerging digital-only neobanks. As we found in our past survey, cardless cash access was again the most desired feature upgrade, with 38% of respondents stating they would install this feature tomorrow if they could, up from 29% in the prior survey. Additional features that are most sought-after reflect the new importance placed on ATMs to deliver other teller services including:

- Check cashing
- E-receipts
- Instant issue cards
- Personal preferences

However, two things stand in the way of the ATM channel manager's progress: first is convincing management to strategically invest in the channel, which requires an understanding of the hidden benefits of a Return on Investment analysis (Figure 2). In a traditional Return on Investment calculation, operations management transforms inputs (labor, capital, equipment, land, buildings, materials and information) into outputs (goods and services) that provide the rationale for capital investment. However, it's in the combination of direct and indirect, often overlooked, benefits that the value of the ATM channel lives. Understanding and capturing the true value of an ATM strategy is more nuanced than a simple ROI calculation and is best uncovered using a Return on Value (ROV) analysis, which is designed to determine the beneficial impact of a solution to the organization rather than solely its contribution to revenue.[iii]

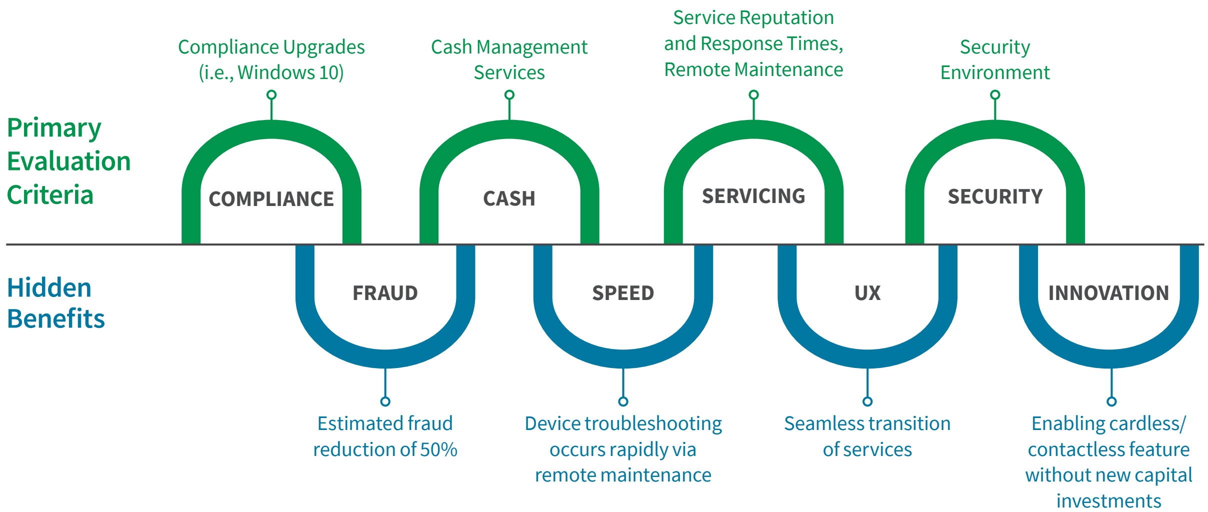
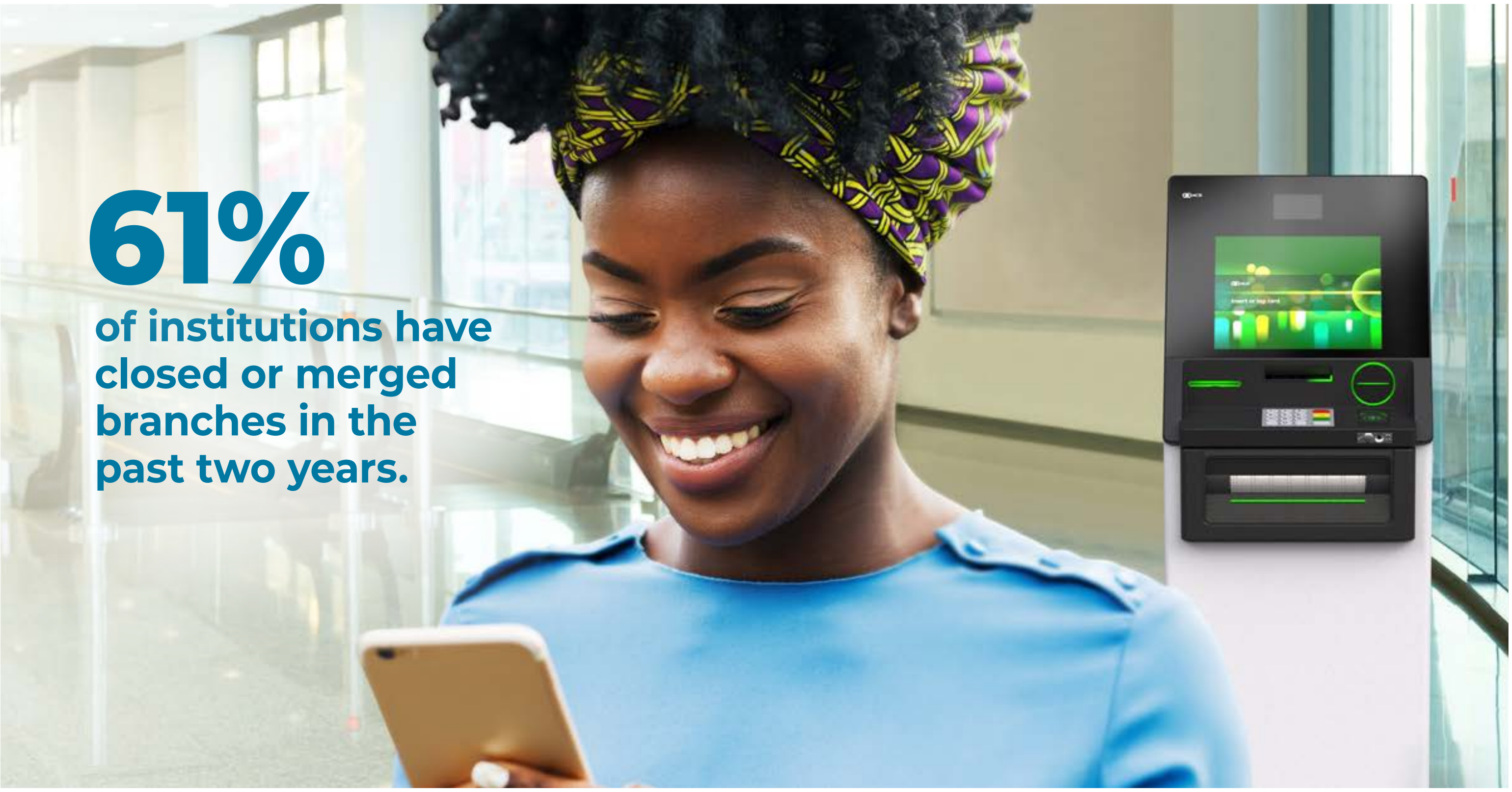


Figure 2: Hidden Benefits Not Revealed in Traditional ROI Analysis

Second, to further realize this value creation, financial institutions have to invest in human capital skilled in advanced ATM-related technologies as well as those that understand the inflection points between digital and physical services delivery strategies. These can be difficult challenges at institutions where investment in ATMs has not been prioritized in the past and where the channel is defined as successful based on uptime alone.

KEY TAKEAWAY: Historically, outsourced ATM services have taken on the tactical management of devices and, therefore, cost reduction is expected. Now, more institutions realize their ATM fleet can be a performing asset, especially when merged with other digital banking services to create a streamlined, efficient retail banking delivery strategy.



Staff allocation gets more complicated

There is no doubt that the retail branch footprint is shrinking. We found 61 percent of institutions have closed or merged branches in the past two years. Bank branches are rapidly becoming smaller financial services hubs focused on value-added consultative banking with ATMs and ITMs taking over the bread-and-butter transaction-related functions from the teller line.

This places even more pressure on shrinking staffing levels. Even though the largest institutions are investing in ATM IT and channel management experts, this is out of reach for most small and mid-size banks and credit unions. In turn, more institutions are taking a second look at working with outsourced channel experts as a cost-efficient means to acquire the skills necessary to create a competitive physical self-service strategy.

In our current and prior surveys, we found all institutions outsourced at least some ATM services, particularly cash replenishment and hardware maintenance. The smaller the institution, the more likely they outsource more of their required ATM services, but this creates a problematic operating environment. Channel managers we spoke to acknowledged the inefficiencies of managing their ATM channel in a multi-vendor environment, but struggled to change their executive's perception that ATMs do not require strategic investments.

KEY TAKEAWAY: The banking market is moving very fast now. Maintaining a competitive position against institutions that have the capital to continually invest in advanced banking feature functionality and services has become increasingly untenable when reliant on a 2–3-year upgrade cycle.

> "Maintenance is our biggest problem since we distribute maintenance across multiple vendors to manage workforce impact."[iv]

More Vendors = Low Channel Optimization

The problem with cherry-picking outsourced services is how it drives up inefficiencies and degrades speed-to-market and internal self-service channel alignments. The institutions we spoke to agreed that purchasing outsourced services on a piecemeal basis reduces an institution's ability to envision the ATM channel as capable of delivering quantifiable value to its customers beyond cash access. This is because managing multiple vendors requires more staff time allocated to common maintenance and upgrade issues, instead of focusing on the institution's strategic initiatives and how the ATM channel can support them.

Short-term expense reduction is gained at the price of an institution's ability to incorporate an increasingly important service channel into its overall retail banking strategy and gain real value from a primary delivery channel for retail banking services. Additionally, in a multi-vendor arrangement, no one vendor is incented to enhance the ATM channel or bring new innovations to play since each vendor is responsible for only a small piece of the overall ATM management puzzle.

This attitudinal inertia results in the business case for outsourcing being mired in traditional computations of staff allocation reductions and maintaining institutional control. Hardware maintenance and cash services are most likely to be outsourced, but this approach hollows out the real value of a robust ATM channel to take on more services in a differentiated way that improves competitive positioning while improving risk management. As one participant put it, talking about the cost of managing their ATM channel:

> "Currently a stable cost structure, but it is under threat when the time comes to upgrade the core system. May end up buying services from vendors that specialize in it."[v]

KEY TAKEAWAY: The calculation of whether or when to outsource ATM services has taken on more urgency as market dynamics combine to demand both operational efficiencies and service excellence. This has resulted in a heightened awareness among banking executives of the important role a comprehensive ATM channel outsourcing solution plays in improving retail branch profitability.

Change is here

The drive among financial institutions to improve digital and self-service capabilities was kicked into high gear by the pandemic, bolstered even more by the explosive growth of alternative financial options in the fintech space. Financial institutions of all sizes found new value in their ATM fleet as consumers relied on them to access retail banking services during prolonged branch closures. Thinking about investing in their ATM channel has been transformed into action as banks and credit unions are rapidly incorporating more ATM/ITM devices into their branch footprints.

This serves to improve branch throughput, mitigates the risk of dependency on a single device point of failure, and frees up branch personnel to focus on building higher-value relationships with their customers.

> “ATM is a legacy delivery channel which for years didn’t change much. Now the cycle of change has accelerated and the need for updated technology has changed quite a bit.”[vi]

But these advances also require skilled resources with a deeper understanding of the technologies that drive new ATM feature functionality and how these services are integrated into a digital delivery platform. We found ATM channel managers to be well-aware of this friction, but still struggling with building business cases for investment that make sense to executive teams.

Those institutions that have embraced the ATM as a strategic service have found, through this evolution, the answers to some of the questions raised by executives in our survey, including:

- What is the value to the end-user accountholder from outsourcing? Can we provide a better experience and reduce operational expense through leveraging expert channel services?
- Can we continually invest in the IP, hardware, network, and software to provide competitive ATM services across a long time horizon?
- Do we see digital services as including all self-service channels, including the ATM, and how do we create an omni-channel experience for our customers/members?
- Are we maintaining institutional control over our ATM devices at the expense of re-deploying managerial staff to focus on enabling higher value relationships with our customers?

The common misperception that outsourced ATM services are more expensive than an in-house solution is based on hardened attitudes towards vendors and a misreading of the value that can be unlocked when a provider is continually investing in this channel. In this year's survey, we found that these views were softening as forced branch closures demanded re-examination of these long held beliefs.

Change is no longer waiting for opportunity, change is here. Financial institutions that wish to keep up with a more complicated competitive market are now strategically investing in their ATM channel. We found more institutions looking for outsourcing vendors that can provide a holistic set of services which reduces operational overhead, frees management to focus more on growth, and eliminates the need to maintain increasingly high skilled, and expensive, resources to manage their fleets.

Cardtronics ATM as a Service

A robust self-service strategy is critical to banks, credit unions and fintechs in reaching and servicing clients and members. The ATM channel is an important strategic channel that can drive branch transformation and new market expansion, but managing a channel as complex as the ATM is difficult for most financial institutions. Cardtronics offers an alternative to going it alone or managing many different vendors – the ATM as a Service solution provides single-source management of an entire ATM fleet, removing the capital constraints, operational complexity and on-going hassles of managing a self-service channel.

Cardtronics' ATM as a Service is focused on operational excellence and providing an engaging, streamlined experience for your customers while protecting them with market-leading, multi-layered security. With ATM as a Service from Cardtronics, financial institutions can keep pace with the latest technology innovations for best in class uptime, operational transparency, superior customer marketing capabilities and a proven pathway to lower total cost of ownership.

[i] *ATM Channel managers and retail banking executives were interviewed for this study in April 2021 including 13 financial institutions across the United States representing banks and credit unions from $126 million in assets to $160 billion in assets.*

[ii] *Bank G, more than $40B in assets managing over 150 branches*

[iii] *ATM OUTSOURCING Using a Return-on-Value Analysis to Build a Better ROI, Cardtronics, November 2020*

[iv] *Credit Union A, almost $10B in assets managing more than 60 branches*

[v] *Bank J, approx. $130B in assets managing almost 1,500 branches*

[vi] *Bank I, almost $100B in assets managing more than 500 branches.*

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