



How to Profit from ATMs:

A Guide for Retailers and Restaurateurs

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EXECUTIVE SUMMARY

This report provides an in-depth guide for retailers, restaurateurs and other businesses that are considering installing ATMs on their premises. It gives an overview of the retail ATM market, and explains the role played by the various participants, such as Independent ATM deployers (IADs) and the services they provide.

In addition, the report explains the revenue opportunities for retail ATM deployers and provides guidance on issues such as finding the best location in the store for an ATM, regulatory compliance, security measures for protecting ATMs and the type of insurance needed by ATM deployers.

Cash

Despite the growth of electronic payments, U.S. consumers still have a huge demand for cash.

In 2012, the number of U.S. general purpose debit card cashback transactions totaled 1.2 billion with an average value of \$40 per transaction, compared with 5.8 billion ATM cash withdrawals with an average value of \$116, according to the 2013 Federal Reserve Payments Study. The total value of cashback from general purpose debit card transactions was \$49.2 billion, while the total value of ATM cash withdrawals was \$670.4 billion in 2012.

“Cash is still king, and it isn’t going to go away,” Mark Smith, vice president of financial solutions at Peoria, Ill.-based IAD Kahuna ATM Solutions, said.

This is good news for independent ATM deployers, as it means consumers will continue to be willing to pay for the convenience of being able to access their cash from ATMs in retail locations.

Although major U.S. retail chains such as Walgreens and Walmart have installed ATMs, there are plenty of opportunities for smaller retailers, hotels and restaurants to deploy ATMs.

“There is still room for growth in retail ATMs,” Adam Hobelmann, senior vice president at Chesterfield, Miss.-based IAD Welch ATM, said. “Since 2008, there has been a contraction in bank-owned ATMs, and we’re now seeing an expansion in the number of retail ATMs.”



Robin Arnfield
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Robin Arnfield has been a technology journalist since 1983. His work has been published in ATM Marketplace, Mobile Payments Today, ATM & Debit News, ISO & Agent, CardLine, Bank Technology News, Cards International and Electronic Payments International. He has covered the United Kingdom, European, North American and Latin American payments markets.



Business models

Retailers and restaurateurs have a range of choices when it comes to selecting an ATM business model. One option is buying or renting ATMs from an IAD and levy surcharge fees on ATM transactions. Another option is generating rental income, and possibly a share in surcharge revenues, by providing floor space for an IAD to install an IAD-owned ATM in-store.

A study conducted by the U.S. Government Accountability Office on U.S. ATM surcharge fees in 2012 found that, among an uncategorized sample of 100 ATMs run by four independent operators, the average surcharge fee was \$2.24, with a variable range of \$1.50 to \$3.00. Additionally, personal finance publisher Bankrate reported in September 2013 that the average U.S. ATM surcharge fee rose more than 4 percent from the previous 12 months to \$2.60.

Another business model that includes an ATM revenue source for retailers and restaurateurs is co-branding ATMs with a local bank or credit union, which, in return, pays a fee for the right to advertise on the ATM.

There is a significant opportunity for ATMs to be co-branded with a financial institution (FI), according to Hobelmann. Co-branding also means that FIs can extend the number of ATMs available free of charge to their customers without having to deploy additional ATMs.

Retail ATM deployers can even explore a surcharge-free business model such as MoneyPass or Allpoint. While forfeiting surcharge fees from cardholders whose FI belongs to the surcharge-free network, the retailer benefits from an increase in customers visiting their store in search of a free ATM. MoneyPass has found that these customers are then very likely to make purchases in the store.

“Cash is still king, and it isn’t going to go away.”

— Mark Smith, vice president of financial solutions at Kahuna ATM Solutions



CHAPTER 1

The Retail ATM Market

U.S. consumers choose to use cash more frequently than any other payment instrument, including debit or credit cards, according to “Cash Continues to Play a Key Role in Consumer Spending: Evidence from the Diary of Consumer Payment Choice,” an October 2012 consumer survey by the Federal Reserve Bank of Boston’s Consumer Payments Research Center, the Reserve’s Cash Product Office in San Francisco and the Payments Studies Group at the Richmond Fed.

“Cash plays a dominant role for small value transactions, is the leading payment instrument for many types of purchases and stands as the key alternative when other options are not available,” the study said.

In 2012, the number of U.S. general purpose debit card cashback transactions totaled 1.2 billion with an average value of \$40 per transaction, compared with 5.8 billion ATM cash withdrawals with an average value of \$116, according to the 2013 Federal Reserve Payments Study. The total value of cashback from general purpose debit card transactions was \$49.2 billion, while the total value of ATM cash withdrawals was \$670.4 billion in 2012.

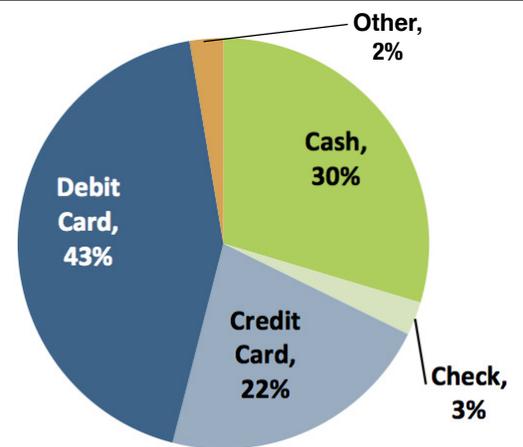
According to “UK Cash & Cash Machines 2014,” a report by the Payments Council (the U.K. payments industry association), cash remains as popular as ever among U.K. consumers. The report says that 52 percent of all U.K. payments were cash in 2013 and that on average £6,083 (\$10,221) was withdrawn per second at British ATMs in 2013.

Types of independent ATM operators

There are a number of different types of companies providing ATMs and related services in the retail ATM market that are not owned or affiliated with an FI.

These independent ATM operators may own their ATMs as well as provide ATMs under contract to merchants, for whom they provide transaction processing and other support services.

Primary payment preference



Source: “Cash Continues to Play a Key Role in Consumer Spending: Evidence from the Diary of Consumer Payment Choice,” Federal Reserve Bank of San Francisco.

U.K. cash payments by volume and value

YEAR	Cash volumes	Total cash values
2009	21.4B	£262B
2010	20.4B	£262B
2011	20.6B	£265B
2012	20.8B	£267B
2013	19.9B	£260B

Source: Payments Council.

ISOs

Independent sales organizations (ISOs) provide ATMs and point-of-sale (POS) terminals at retail stores, gas stations, hotel lobbies and other non-bank locations. They may own ATMs and lease them to others, sell ATMs outright and/or operate their own fleet of ATMs. Their primary business is management of their own and/or others' ATMs.

An ISO typically acts as an agent for merchants, including ATM owners, processing ATM transactions on their behalf. Services provided by an ISO include linking ATMs to an ATM/POS transaction network (also known as an EFT or electronic funds transfer network) that routes transactions to the cardholder's FI, known as the card issuer.

In the U.S., ISOs must be sponsored by an FI for membership in the regional and national ATM/debit networks. The sponsoring bank is responsible for ensuring that the ISO complies with ATM network rules.

IADs

Independent ATM deployers (IADs) own and operate their ATMs. Like ISOs, they are required to have bank sponsorship and to belong to one or more regional and national U.S. ATM/POS networks whose card brands they wish to accept at their ATMs.

IADs are also required to meet all regional and national ATM/POS compliance rules, including data security standards, and comply with ATM industry mandates such as Payment Card Industry Data Security Standard and EMV migration.

IADs must comply with their sponsoring bank's regulatory requirements, including quarterly reporting and due diligence on operator agreements with merchant clients, according to Roger Myers, president of U.S. ATM software vendor Switch Commerce. "Costs incurred by IADs will include bank sponsorship fees, network membership fees, insurance, Federal and State registration fees and compliance fees," Myers said in a video on [Switch Commerce's website](#).

"If a merchant buys an ATM from an IAD, that retailer isn't required to get bank sponsorship and EFT network membership," Kahuna's Smith said. The IAD who provided the merchant with the ATM will be certified by a bank sponsor, he said.

"Kahuna is certified with MetaPay, owned by Storm Lake, Iowa-based MetaBank, and all our subdistributors are able to utilize our sponsorship and network fees," Smith said. "Kahuna pays those fees to be able to process ATM transactions."





The certified IAD under bank sponsorship will be responsible for ensuring that merchant clients who own their ATMs comply with ATM/debit network rules. “The sponsoring bank will pound on the IAD to make certain that all standards are maintained,” Smith said. “The penalty for noncompliance can get expensive quickly.”

Bank-branded retail ATMs

Some independently owned ATMs are “branded” ATMs that are owned and operated by an independent company, but an FI pays for the right to display its logo on the ATM and to allow its customers to access the ATM free of charge.

Putting a bank’s brand on an ATM will draw customers to use the ATM, said Smith. This is because consumers tend to feel more comfortable about using a bank-branded ATM than a nonbank-branded ATM.

“Bank co-branding has three benefits for retailers,” Welch ATM’s Hobelmann said. “They will see additional revenues from the branding fee. Also, they will drive in that bank’s customers to use the ATM in their store, and more people will use a bank-branded ATM than a nonbank-branded ATM.”

Surcharge-free networks

The two main surcharge-free ATM networks in the U.S. are MoneyPass, which is owned by U.S. Bank’s Elan Financial Services subsidiary, and Allpoint, which belongs to Cardtronics, the largest nonbank owner and operator of ATMs.

Surcharge-free networks typically provide ATM locator tools to help their members’ cardholders locate surcharge-free ATMs.

“MoneyPass has found that, when a merchant goes from surcharging at their ATMs to surcharge-free, they experience a threefold to eightfold increase in ATM transactions, as customers enter their store seeking surcharge-free transactions,” Doug Miraglia, president of MoneyPass, said. “These customers will then have money in their hands to make a purchase at the retailer’s till.”

MoneyPass provides surcharge-free access at more than 24,000 ATMs across the U.S. to the cardholders of its participating FIs. More than 1,600 FIs and IADs belong to the MoneyPass ATM network, which is used by 75 million active cardholders.

The MoneyPass network experienced a 56 percent increase in transaction volume between 2012 and 2013 on top of a 20 percent transaction growth

“Putting a bank’s brand on an ATM will draw customers to use the ATM.”

—Mark Smith, vice president of financial solutions at Kahuna ATM Solutions

in both 2011 and 2012. Walmart added its MoneyCenter Express ATMs to the MoneyPass network in 2012.

“Cardholders of MoneyPass member FIs become loyal to those merchants who offer them MoneyPass surcharge-free ATM transactions,” Miraglia said. “When a merchant joins MoneyPass, we publicize their location to our FI members’ customers, for example, through our surcharge-free ATM location guide.”

The Allpoint surcharge-free network comprises 55,000 ATMs in merchant locations across the U.S., Canada, Mexico, the U.K. and Australia. There are more than 43,000 ATMs connected to the Allpoint network in the U.S., including ATMs located at Costco, Target, Walgreens and 7-Eleven, and more than 200 ATMs in Puerto Rico. More than 1,000 FIs belong to Allpoint.

“If an ATM is included in a surcharge-free network, there is still an opportunity for the ATM owner to get surcharge revenue,” Smith said. “More than 60 percent of people using surcharge-free ATMs have to pay the surcharge, as their FI doesn’t belong to that surcharge-free network.”

Surcharge-free ATM networks pay a higher interchange fee to a participating ATM owner than the ATM owner receives from transactions attracting a surcharge. “The higher interchange that the IAD gets from a surcharge-free network compared to the industry average interchange rate offsets some of the lost surcharge revenue,” Smith said.

Kahuna, which is a member of the MoneyPass network, only recommends surcharge-free ATM network membership to IADs for locations with high foot traffic that are situated in a highly competitive local ATM market, Smith said. “The locations must have high numbers of cardholders carrying out transactions. For example, ATMs on a college campus, in tourist areas, transportation hubs or the downtown or business center of a major city,” he said.

According to Hobelmann, retailers who put their ATMs into a surcharge-free network will lose a bit of surcharge revenue but will gain through higher interchange rates for surcharge-free transactions, as well as extra ATM transactions and a lot more customers coming into their store and spending money there.

ATM data

According to the [National ATM Council](#), around 300,000 of the approximately 430,000 ATMs in the U.S. are operated by IADs. The ATM trade association says that three-quarters of the off-premise ATMs deployed at nonbank locations in the U.S. are operated by IADs, with the remainder operated by FIs.





Description of primary independent ATM operator business models

Name of business model	Independent operator responsibilities	Merchant responsibilities
Turnkey	Owns the ATM and is responsible for most aspects of its operations, including ATM monitoring, managing and loading cash, replacing supplies, and providing maintenance, customer-service support, and transaction processing.	Provides a place to locate the ATM and an electric outlet to power it.
Merchant-Assisted	Owns the ATM, provides all transaction processing, performs ATM monitoring and related customer-service support, and, in some cases, performs maintenance for more complicated problems.	Provides and loads cash as well as performs basic maintenance.
Merchant-Owned and loaded	Provides transaction-processing services, ATM monitoring, and other services, such as customer-service support and arranging for advanced maintenance.	Owns the ATM, responsible for the majority of the operations, including basic maintenance and managing and loading cash.
Merchant Cash-Assisted	Provides and loads cash, and provides transaction-processing services, ATM monitoring, and other services, such as customer service support and arranging for advanced maintenance.	Owns the ATM, responsible for operations, including basic maintenance, but not managing and loading cash.

Source: U.S. Government Accountability Office analysis of industry reports.
Published in GAO report "Automated Teller Machines: Some Consumer Fees Have Increased."

According to the [ATM Industry Association](#), around 20 percent of the independent ATMs in the U.S. are owned by independent ATM companies. The other 80 percent of independent ATMs are owned by merchants and retailers, said ATMIA.

Interchange

A card issuer pays the ATM owner – also referred to as the transaction acquirer – a fee known as interchange for the costs incurred in passing a card transaction through a card network. ATM interchange fee rates are established by Visa, MasterCard and the other ATM/debit networks such as NYCE, Pulse and Star.

"Most interchange fees paid to ATM operators for cash withdrawals range from 20 cents to 30 cents, which is around half of what they were five years ago," David Tente, executive director of ATMIA USA, said.

According to the ATM Marketplace white paper, "3 Factors in Educating Merchants about ATM Interchange Fee Reductions," which is sponsored by Irvine, Calif.-based IAD National Cash Systems, weighted average interchange rates for all ATM transactions, including withdrawals and noncash transactions such as balance inquiries, have declined from approximately 50 cents per transaction 15 years ago to 23 cents currently. That is before paying processor and sponsor bank fees, National Cash Systems said.

“Most interchange fees paid to ATM operators for cash withdrawals range from 20 cents to 30 cents, which is around half of what they were five years ago.”

—David Tente, executive director of ATMIA USA



Fees paid by consumers, FIs and ATM owners to process ATM transactions

	Who pays	Who receives	Description
Surcharge fee	Consumer	ATM owner	Paid to the ATM owner by the consumer when using an ATM not owned by his or her FI.
Foreign Fee	Consumer	Consumer's financial institution	Paid to the consumer's FI by the consumer when using an ATM not owned by the card-issuing FI.
Interchange fee	Consumer's financial institution	ATM owner	Paid to the ATM owner for the costs of operating and maintaining the ATM.
Switch fee	Consumer's financial institution	EFT networks	Paid to the EFT networks for routing transaction information over the network.
Acquiring fee	ATM owner	EFT networks	Paid to the EFT networks for the use of the network by the ATM owner.

Source: U.S. Government Accountability Office analysis of Federal Reserve and industry documents. Published in GAO report "Automated Teller Machines: Some Consumer Fees Have Increased."

ATM/debit networks charge ATM owners an acquiring fee for each transaction for providing access to their networks. According to the white paper, Visa's ATM acquiring fee is 15 cents per transaction, while MasterCard's fee is 17 cents.

Compliance

Regulatory compliance requirements for U.S. ATM owners include:

Americans with Disabilities Act. New mandatory requirements for ADA compliance by ATM owners came into effect on March 15, 2012. These state that ATM surrounds must not protrude more than 4 inches from the wall they are built into, unless they are less than 27 inches or higher than 80 inches from the ground. The operating controls for the ATM must be no more than 48 inches at the highest touch point from the ground. Also, ATM operators are required to add audio and touch technologies that assist vision-impaired consumers.

Surcharge-fee disclosure. The Electronic Fund Transfer Act of 1978 was amended in December 2012 to state that U.S. ATM operators no longer have to display a sticker advising ATM users about potential surcharge fees. The fee sticker requirement has been replaced with a requirement to display an on-screen notice about surcharge fees before the customer is committed to paying the fee. "Today, you only need the screen message by



law,” Smith said. “You can still have the sticker, but that is now an option for the ATM deployer, not a mandate.”

Anti-money laundering. In the U.S., anti-money laundering rules currently apply only to FIs and designated money services businesses, according to the [“ATM Compliance Handbook 2013,”](#) published by ATM Marketplace. However, envelope-free automated deposit ATMs and services allowing smartphone users to transfer funds via an ATM to a third party represent an increasing burden on ATM owners and operators to ensure their ATMs are not being used for money laundering purposes, according to the handbook.

Chapter 7 explains two key payments industry compliance requirements for ATM operators: EMV and PCI DSS.



CHAPTER 2

Revenues and Costs

Retail ATMs provide two main sources of revenue to their owners: transaction surcharges and interchange. The contract between the merchant and the IAD or ISO will specify which party will set the surcharge fee and how, if at all, those and other fee revenues will be shared.

“A retailer that has an adequate to high level of foot traffic will profit from installing an ATM,” Smith said. “Especially if the ATM is surcharge-free, it will draw customers in, and they will spend money in the store.”

According to Kahuna, industry studies have shown that retailers who offer consumers the convenience of being able to use an ATM in their store, could increase their in-store sales by up to 30 percent.

Survey

According to a November 2013 survey by Cardtronics U.K., a subsidiary of Houston, Texas-based IAD Cardtronics, 74 percent of British shoppers consider it important for a retailer to offer an in-store ATM.

More than three-quarters (77 percent) of survey respondents said they used the cash withdrawn from a retailer’s ATM specifically for in-store purchases. According to Cardtronics, 82 percent of U.K. ATM users said they plan their visit to the store around the presence of the ATM (58 percent said it was the main reason for the trip). Also, access to cash proved to be an additional draw for repeat visits, with 52 percent of customers using the shop’s ATM at least once a week, while 26 percent said the ATM in their local convenience store was the one they always used.

“By offering customers access to cash at the same time as purchasing gas, groceries or paying a bill, shop owners are more likely to encourage return visits and additional spend in-store,” Cardtronics said.

Surcharges

A study conducted by the U.S. Government Accountability Office on U.S. ATM surcharge fees in 2012 found that, among an uncategorized sample of 100 ATMs run by four independent operators, the average surcharge fee was



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—Cardtronics

\$2.24, with a variable range of \$1.50 to \$3.00. Personal finance publisher Bankrate reported in September 2013 that the average U.S. ATM surcharge fee rose more than 4 percent from the previous 12 months to \$2.60.

If an IAD owns the ATM in a retail store, whether or not the merchant stocks the ATM with cash, then the IAD will set the surcharge fee for that ATM. “For ATMs that are owned by merchants or retailers in the U.S., the surcharge fees are set by either the merchant or a combination of the merchant and the independent ATM firm,” the GAO report said.

When setting surcharge fees, independent ATM operators typically consider fees at nearby competing ATMs, the location where they plan to install their ATM and their operating costs, such as processing charges and fixed costs, according to the GAO. The study notes that surcharge fees in low-income neighborhoods will be lower than in more affluent areas, while surcharge fees in bars and clubs will be higher than fees for ATMs in convenience stores.

Guidance

“In terms of surcharge pricing, the merchant needs to take a holistic approach to deciding whether to price low for customer convenience versus pricing for profit,” Les Riedl, senior managing partner at U.S.-based consultancy Bank Solutions Group, said. “For example, in a convenience store or other type of merchant where the customer will spend more on merchandise if they can get cash via an ATM, the merchant can price the ATM surcharge lower, as they will more than make it up on increased sales.”

But, if the merchant needs to maximize their revenues from ATM transaction fees, they should go with a higher surcharge fee, Riedl said.

“In all cases, they should do some research and investigate what nearby alternatives the customer may have — either bank ATMs or other merchants with independent ATMs — and what the surcharge pricing range is locally,” he said. “Customers will pay more for convenience where they need access to cash quickly and there are no convenient alternatives — for example, at airports and sports venues.”

Where you have a captive audience, at a ball game, for example, the ATM surcharge fee could be up to \$4.00 or more, Smith said.

The merchant should always prepare a business plan and compare pricing from multiple IADs, Riedl said. Typically, an IAD will look to be paid \$1.50 to \$1.75 per ATM transaction. This means the merchant will need to collect a surcharge of \$2.25 or more so they can make \$0.50 to \$0.75 profit per transaction. This may not seem like a lot, but a merchant can earn solid





revenue from a site with as few as 200 transactions per month. With 1,000 transactions a month, the merchant can make \$500 to \$750 per month. The IAD usually covers card network and other costs from their fee, he said.

“Most retailers we deal with keep their surcharge on the low side or close to the national average of \$3.00,” Hobelmann said. “Most are charging \$2.50 to \$2.95, and the reason they do this is because they want to get customers into the store to spend money.”

For large retailers such as Welch’s clients Walgreens and RiteAid, the entire reason for installing ATMs is to get customers into their stores and to spend money in these stores. In smaller retailers, such as mom-and-pop convenience stores and gas stations, surcharge revenue is very important. A higher surcharge such as \$3.00 to \$3.50 can be seen at small convenience stores because they are relying on the ATM to generate a revenue, according to Hobelmann.

Costs

According to the GAO report, costs incurred by ATM operators include:

Rent. Independent ATM operators pay rent for installing their ATMs in retail locations such as grocery stores and gas stations. In some cases, instead of rent, the ATM operator shares a portion of fee revenues with the merchant as part of a revenue-sharing arrangement.

ATM hardware and software. ATM operators buy, install and upgrade ATM software and hardware, including the ATM terminal and physical security equipment, such as bolts, that secure the ATMs to walls or the floor.

Cash services. Operators must ensure that ATMs are adequately stocked with cash and have to spend time and resources monitoring transaction levels in order to accurately forecast future cash needs. Cash is delivered to ATMs via armored carrier. Independent operators need to pay to access a supply of cash from a bank vault.

Maintenance and repairs. This includes cleaning the ATM’s machinery, making routine repairs and restocking supplies such as receipt paper, as well as more significant repairs, which can incur higher costs for tools, parts and labor.

Physical security and insurance. Physical security costs are those incurred to keep the ATM and the surrounding lobby or area safe and include items such as lighting and cameras. Insurance costs include policies that cover the cash in the ATMs.

“Customers will pay more for convenience where they need access to cash quickly and there are no convenient alternatives — for example, at airports and sports venues.”

— Les Riedl, senior managing partner
at Bank Solutions Group

Infrastructure and processing. Operators need to install and maintain the telecommunications infrastructure necessary for ATM operations and transaction processing. Processing costs include fees associated with transaction processing.

Network fees. ATM operators pay membership or license fees to the ATM/debit networks in order to route transactions on the networks. Network fees also include any fees the ATM operator pays for membership in one or more surcharge-free networks.

Taxes and licenses. In addition to property and sales taxes, ATM operators are sometimes required to pay for state and local licenses, on either a one-time or recurring basis.

Regulatory and compliance costs. These include the costs of regulatory inspections and reviews.

Fraud prevention and fraud losses. Fraud prevention costs are those related to activities aimed at detecting and preventing ATM fraud. Fraud losses are those incurred by the ATM operator when fraud occurs, including cash theft and ATM robberies.

Bank sponsorship. Independent ATM operators must have a FI that sponsors their membership in the EFT networks.

“The entity that owns and operates the ATM – either the restaurant, retailer or the ATM provider – typically earns the bulk of the revenue,” Jeremy Inman, senior vice president at Cardtronics’ Independent Business Group, said. “That same entity can also expect to pay the bulk of the fees that are passed through from the networks that drive the transactions.”

In addition to the main network pass-through fees, the merchant might have additional fees depending on the services they choose. For example, if they opt for an extended warranty on their ATM, that could be a per-transaction or a flat monthly fee to cover parts and labor for the life of the agreement. A wireless router and accompanying telecom connection typically have a small monthly fee as well, Inman said.

Where the ATM is owned by a merchant, not the independent ATM operator, the merchant owner will bear some of the ATM operational costs.

According to Riedl, the ATM operator will typically be paying an ATM purchase or lease cost of \$100 to \$150 per month. They will need to buy supplies for their ATM, usually less than \$25 per month. On an ATM maintenance contract, pricing could be hourly (\$50 to \$150 per hour or so), or monthly. But, merchants should be careful as ATM maintenance contracts





are similar to buying a new TV from the electronics store and being upsold a maintenance contract. A merchant owning an ATM will need to pay for its communications costs, generally the cost of a phone line or Internet service for the machine.

“Merchants don’t need to have a maintenance contract,” Kahuna’s Smith said. “They can carry out first-line maintenance jobs such as clearing paper jams themselves. But they wouldn’t be able to fix a broken cash dispenser unit. Normally, instead of an ATM maintenance contract, retailers pay the maintenance provider for time and material. The disadvantage is that, while a bank will have a 4-hour response to a maintenance request, a retailer might wait 48 to 72 hours.”

CHAPTER 3

Profiles of IADs

This chapter provides profiles of services provided by key U.S. IADs.

Cardtronics

“Cardtronics can create solutions for customers of all sizes and business models, depending on their goals for an ATM program,” Cardtronics’ Inman said. “We offer a full turnkey solution where we manage everything from procuring the equipment to providing cash and armored service, secure EFT processing, comprehensive monitoring and maintenance and technical support for the ATMs. We also have service models where the merchants own and operate their machines directly.”

Cardtronics offers several hybrid solutions for situations where the retailer wants to invest in ATMs, but doesn’t have the underlying capital to keep the machines filled, Inman said. “Then they might own the machine and we would provide cash assist services. As part of the deal, the retailer may participate in more of the revenue share from the ATM,” he said.

A single-store operator may be better off owning and operating an ATM directly, whereas a turnkey or hybrid solution is best for a larger customer who wants to provide consistency with the same ATM platform across their stores, he said.

Restaurants

“Restaurant owners come to us with a variety of goals and reasons for putting ATMs in their stores,” Inman said. “Some restaurants are smaller and accept only cash payments, so an ATM will enable consumers to make purchases. Some include entertainment space in addition to serving food and drinks. All of these restaurants would benefit from making cash readily available to their patrons through an ATM.”

Inman said that restaurants can benefit from joining Cardtronics’ Allpoint surcharge-free ATM network. Allpoint cardholders can use a restaurant ATM surcharge-free and use the cash to pay for their meal, helping to decrease the debit and credit card merchant fees the restaurant has to pay for accepting cards.



Restaurants' revenues from ATMs will be primarily driven by several different factors: how high they set the surcharge, where the ATM is located in the business and whether they have a loyalty program that can possibly be tied to the ATM functionality. If their business arrangement with Cardtronics is turnkey or a hybrid, a solution will be provided that fits the long-term needs of the customer and has a revenue share and value-building proposition to help drive traffic, Inman said.

"Cardtronics is continually re-evaluating our programs with our customers to help them drive additional value from their ATM programs and draw more customers to their locations," he said.

Additional services

Cardtronics extends merchants the opportunity to offer additional products and services at ATMs apart from cash withdrawals.

"For many merchants, ATMs are a great channel to reach customers directly with promotional messages," Inman said. "In particular, restaurants have found that providing their patrons with coupons at ATMs can help increase traffic and in-store spend. For example, a patron may receive a coupon for 10 percent off a slice of pie, and end up buying a meal for the family. "

Inman said there are several ways to look at ATM branding. From the retailer's point of view, ATMs can be used as an extension of their own brand.

"One of our large restaurant chain clients uses this method to great effect. They want to make sure their name is featured prominently on everything within the store locations, including a wrap around the ATM featuring their graphics and logo. Not only does this sort of treatment reinforce the restaurant's brand, it increases the patron's comfort with using the machine by making it feel more like a part of the restaurant experience," he said.

Cardtronics' retailer and restaurant clients may also choose to allow an FI to place their brand on their ATM. Bank-branded ATMs attract increased traffic from the branding bank's customers, in addition to increasing restaurant patrons' comfort level with the ATM, generating a lift in volume from all customers, Inman said. Through ATM branding relationships with the top U.S. banks and credit unions, Cardtronics can work with any retailer to identify FIs that are a good fit with their company values, market and identity, he said.

All retailers and restaurants need be able to offer a multitude of ways for their customers to make purchases, Inman said. "So the convenience factor is very important," he said. "If you're selling products and services and you





don't have a vehicle for people to access funds, many of those people won't come back. There are certainly restaurants that just want to have an ATM to make sure there's another vehicle for customers to access their money, and they aren't concerned about using it for additional revenue."

A cash-only bar or restaurant, for example, absolutely should have an ATM whether they see it as a revenue driver or not. But there are also restaurant owners who are dependent on their ATMs as a significant revenue line item. Others want to encourage the use of cash to offset expenses for debit and credit transactions, he said.

Elan Financial Services

Pittsburgh, Penn.-based Elan Financial Services provides transaction processing and authorization as well as other services such as ATM management and vault cash delivered by armored cars for IADs, Steve Gernes, the company's IAD sales director, said.

"If an IAD is a member of MoneyPass, we will route transactions involving MoneyPass FI members' cards through MoneyPass," Gernes said. "If they don't belong to MoneyPass, we will route their ATM transactions to the national and regional ATM networks."

Elan has the potential to support its IAD clients who want to other services at their ATMs such as selling prepaid cards or stamps, Gernes said.

"We use third-party technology to support our clients who offer additional noncash services at their ATMs."

Kahuna ATM Solutions

Kahuna has several different business models for retail ATMs. For example, Kahuna offers an ATM outsourcing program where it owns and operates the ATM in a retail location.

"As part of this service, we also provide transaction processing, spare parts and consumables such as power, communications and receipt paper," Kahuna's Smith said. "We can also manage the vault cash, monitor the ATMs for failures, manage the relationship with a service partner for first- and second-line ATM maintenance and provide any form of payment reconciliation from revenues earned."

If Kahuna enrolls a retailer in its ATM outsourcing program, it doesn't pass on any share of the interchange revenue to the retailer. But it does pay them a share of the overall surcharge revenue from the ATM. For example, there may be a tiered payout where Kahuna gets the first 300 surcharged

"If you're selling products and services and you don't have a vehicle for people to access funds, many of those people won't come back."

— Jeremy Inman, senior vice president at Cardtronics' Independent Business Group

transactions. Surcharge fees on transactions from 301 on are split with the retailer. The split can be 50/50, 70/30, etc. All deals are unique and based on revenue potential for all parties, according to Smith.

Kahuna also offers bank-branding deals to retailers. “Branding is huge,” Smith said. “You can draw people to your ATMs, if you have color-coordinated ATM wraps. You can also put bank branding and advertising on the ATM screen and on the digital topper.”

Digital toppers are electronic units displaying advertising videos on top of an ATM.

In a co-branding deal, the advantage for the bank and the retailer is that the IAD pays for everything, including cash supply and maintenance, Smith said. In return for the bank paying a branding fee, neither the bank nor the retailer has to do anything with the ATM. Normally, a retailer pays nothing for enrolling in a branding program operated by Kahuna, he said.

Typically, the IAD will share a portion of their branding revenues with the retailer. If Kahuna puts a bank’s branding on a retailer’s ATMs, it prefers to provide the vault cash service for those ATMs. Vault cash could also be managed by the bank, Smith said.



Transaction processing

Retailers who own an ATM will need to get their transaction processing services from an IAD such as Kahuna, Smith said. Kahuna only owns 100 ATMs, but it provides a conduit to the ATM/debit networks for other IADs and retail ATM owners.

“We provide the processing and ATM monitoring, pay the network fees and handle all the compliance mandates and due diligence for all our clients, as well as all the financial reconciliations,” he said.

Payment Alliance International

“Payment Alliance International offers a full-service ATM package for retailers and other nonbank IADs,” said Donna Embry, senior vice president, strategic development, at the Louisville, Ky.-based IAD. “We offer hardware, parts, installation and servicing as well as comprehensive processing capabilities. Our Cash Alliance program allows for a turnkey vault cash and cash management service. Merchants or IADs have the option of a menu of service options ranging from complete turnkey packages to programs that best fit their internal business model and operations.”

PAI's services include DCC (direct currency conversion, involving an international cardholder being charged in their currency for a U.S. ATM withdrawal, EMV, loyalty, charitable donations at ATMs, advertising, cobranding and cardless ATM transactions involving mobile devices and QR codes.

"The best revenue opportunities are interchange and surcharge, but, with increased ATM functionality, there are other opportunities such as fees for currency conversion with a DCC program," Embry said.

PAI offers all varieties of Genmega, Hyosung and Triton Systems ATMs, Embry said. "The make/model varies on the price of the ATMs and the functionality that is required. There is no standard 'best' model, but we aim to provide the solution that best fits the budget and functionality of the end user."

Embry said PAI's Cash Alliance program provides cost savings and operational efficiencies for managing vault cash and servicing. It allows the IAD to focus on growth opportunities and not be burdened with operational tasks, she said.

PAI customizes its options to fit the needs of the retailer as well as the IAD, including the fees paid to PAI and the offsetting revenues paid to the retailer or IAD. Retailers and IADs can choose from ATM leasing/rental and purchase models in order to select the right approach that fits their budget and needs, Embry said.

Lending its experience, PAI can help the retailer and IAD to determine the best location within the store for an ATM. Factors that must be considered include ADA requirements, visibility to consumers and advertising that drives usage.

Welch ATM

A sister company to Kahuna ATM Solutions, Welch ATM has about 500 ATM locations participating in the MoneyPass network. In July 2014, Cardtronics announced a definitive agreement to acquire Welch ATM, which has 26,000 ATMs under management, for \$160 million.

"The ATMs we have in MoneyPass do quite well," Hobelmann said. "They get 85 cents in interchange per transaction, which is higher than the interchange paid for non surcharge-free transactions."

Welch ATM has two different models. For a large box retailer such as Kmart, Welch owns and operates the ATM and pays the retailer a set rental fee every month for the space occupied by the ATM. In this model, Welch keeps the surcharge revenue and the interchange. The second model is for



gas stations and small convenience stores, and Welch splits the surcharge and other revenues with the retailer, Hobelmann said. Often the retailer will buy the equipment and Welch will service it, and the retailer will also load it with cash.

As an alternative to buying an ATM, a small retailer can lease it from Welch ATM. Hobelmann said that due to the high level of regulatory compliance currently enforced in the ATM industry, and with the need to upgrade ATMs to Windows 7 and EMV, it makes sense to lease an ATM from an IAD.

“In a leasing deal, Welch takes care of everything on an outsourced basis, but will still provide a share of the surcharge revenue to the retailer,” he said. “If the retailer owns the ATM, they will be responsible for the cost of compliance. If they don’t spend the money to be compliant, they will open themselves up to fraud and lawsuits.”

Although large retailers such as Walmart and Walgreens have installed ATMs, there is still room for growth in the retail ATM market.

“Since 2008, there has been a contraction in the number of bank-owned ATMs,” he said. “But Welch is seeing an expansion in ATMs being installed in retailers. We are putting ATMs into retailers and other places that we never thought we would install ATMs in. For example, there is a huge draw for ATMs at event venues, recreational facilities and transit locations. Welch ATM is expanding in the transit market.”

There is a significant opportunity for Welch ATM to deploy bank-branded ATMs in retailers, Hobelmann said. “But, if a bank wants to pair up with a retailer, they need to go with lower-sized retailers as the big retailers are full of ATMs,” he said. “Usually, in a co-branding deal, Welch owns the ATM.”

Welch provides advertising services for its retail ATM-owner clients too. “We place in-store advertising and offers for some of our bigger customers such as Walgreens on their ATM screens,” Hobelmann said.



CHAPTER 4

Choosing an ATM Model

This chapter provides guidance on choosing the right type of ATM for a retail location or restaurant. Deciding what ATM to buy will depend on factors such as how many ATM transactions the retailer expects to take place and what types of additional products and services they want to offer at the ATM, including advertising, couponing and bill payments, for example.

Certain models of ATMs are better suited for high transaction volumes, as they hold higher amounts of cash than more basic ATMs.

Top brands

“My advice to retailers wanting to buy an ATM is to stick with a new machine and always go with one of the top brands,” Bank Solutions Group’s Riedl said. “Triton Systems, GenMega/Hantle and Nautilus Hyosung are the three top-selling brands, representing three out of four ATMs deployed by independent operators in the U.S.”

According to Riedl, it’s best to go with one of the established retail ATM brands because the brands have the widest base of support in terms of servicing and supplies and provide the most options. Merchants can be assured that the brands are fully compliant with all network rules and applicable standards and regulations. Finally, ATMs from the well-known brands are much easier to sell, should the merchant decide to do so.

Matching ATMs to transaction volumes

Welch ATM’s Hobelmann said that the retailer’s or restaurateur’s choice of ATM is dependent on how many transactions they expect. Certain ATM models are suited for high volumes of transactions because they hold more cash and are heavier-duty. For low transaction volumes, you want an ATM model that is inexpensive so you can deploy more of these ATMs. If you have a store with a very nice location, you may want an ATM that has more marketing opportunities, such as a larger ATM that can carry a digital topper or a surround, he said.



“An ATM is a low-cost investment for a retailer. A basic retail ATM without a deposit-acceptance capability costs \$2,500 to \$3,500 and will last 10 years.”

—Mark Smith, vice president of financial solutions at Kahuna ATM Solutions.

Hobelmann said that every manufacturer has different grades of ATMs offering multiple types of components such as cash dispensers, cassettes, chests, card readers and printers.

“Some of these components are designed for low- or high-capacity situations,” he said. “For example, the Hyosung 1800 and Hyosung Halo models are usually deployed in low-volume areas, while the Hyosung 5600 model has a more robust cash dispenser capable of using more cassettes, and those cassettes can hold twice as much cash as a lower-model machine’s cassettes. The 5600 also has a heavier-duty design and more available options.”

The Diebold Opteva and NCR SelfServ series ATMs are both engineered for higher capacity and a longer lifespan, while Genmega/Hantle, Triton Systems and GRGBanking ATMs have traditionally been utilized for lower volumes with limited upgradability, he said.

“Both types of ATMs carry different price points and serve different needs in the market,” he said. “Choosing the correct strategy completely depends on the environment where the ATMs are to be placed.”

Prices

Every ATM manufacturer offers multiple models to fit the merchant’s need, Riedl said. ATM prices range from about \$2,000 for basic free-standing indoor models designed for low-volume sites, to around \$6,000 for more feature-rich, outdoor and through-the-wall models. Each model can be upgraded with a list of options, such as EMV card readers for an additional cost. They can also be leased for \$100 to \$200 per month, depending on the model and the vendor, he said.

The merchant should start by selecting the site(s) where they want to put an ATM and then select the model that best suits their needs, Riedl said.

“For example, a low-traffic site in a convenience store or gas station that may only generate a few hundred transactions a month would be well suited for an ATM in the \$2,000 to \$3,000 range,” he said.

One of the most important features to look for is whether the ATM supports Internet communications, dial-up, wireless and/or leased lines, Riedl said. The majority of merchant locations do fewer than 1,000 transactions a month, in which case Internet communications will usually be the best/lowest-cost solution, with dial-up as a good second choice, he said.

Leasing/rental or purchase

“IADs love it when merchants want to lease an ATM,” Riedl said. “The profit on a lease is considerably more than on a one-time sale.”

Restaurant owners and other retailers should ask themselves before buying an ATM:

- How much cash do I want to keep on hand?
- Do I want to offer couponing or digital video toppers?
- Will I want to offer additional products and services apart from cash withdrawals on the ATM?

The best make and model of ATM will depend on the needs of the restaurateur or retailer.

Source: Jeremy Inman, senior vice president at Cardtronics’ Independent Business Group.



Before making a decision to buy or lease an ATM, merchants should get pricing from multiple IADs and compare costs for both buying and leasing ATMs as well as processing fees, Riedl advised. Also, make sure that lease terms are “apples-to-apples.” IADs will often include some servicing support and other items in a lease to make it a more attractive option, he said.

“Ten years ago, it was not as hard for retailers to operate their own ATM and do everything themselves. The trend is for retailers to lease and completely outsource their ATMs to IADs. If you lease and completely outsource, Welch ATM will still cut you into a share of our surcharge revenue,” Hobelmann said.

For a single ATM in a single store, the capital expense can be relatively affordable, said Cardtronics’ Inman. “For a larger deployment, if the retailer is interested in buying five or more ATMs, the cash or available capital to buy that equipment might not be there. If cash flow is an issue and they want to be able to spread their payments out over a three-year term, leasing may be a better option.”

Finally, if a retailer owns their ATM, they are responsible for any fraud that takes place at that machine.

New ATM

Whether the merchant decides to buy or lease, they should always go with a new ATM, Riedl stressed. This way the merchant is assured the ATM represents the latest technology and has all the necessary software upgrades and compliance/security features. Some older ATMs that run on Windows XP have a major issue now that Microsoft has discontinued support for XP.

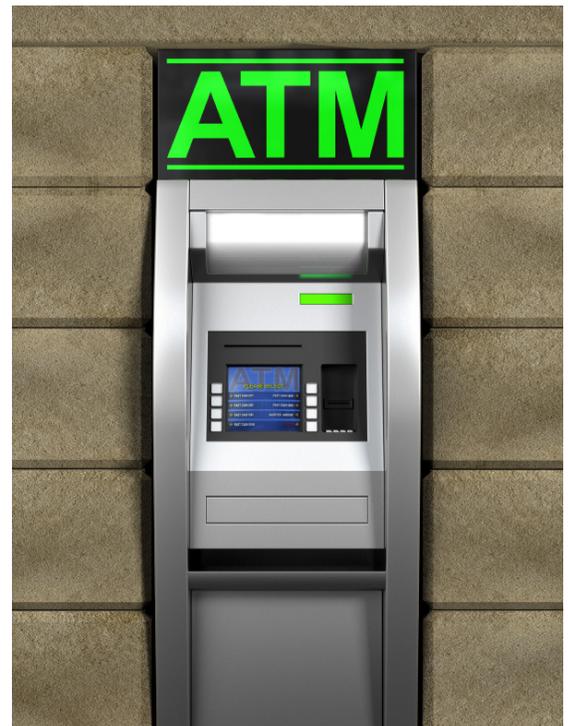
“Never fall for the cheap demo unit line that some ATM sellers will pitch. Many of the so-called demo units have actually been pulled from other sites, where they may have been deployed for years,” he said.

The Internet is a great resource for merchants who might be considering installing an ATM. A quick Google search will identify many sites where you can buy or lease ATMs and obtain processing, Riedl said.

“It is always important to check with other merchants in your area to find out what their experience has been with servicing and support, for example, as coverage and quality of service technicians and ATM support can vary greatly from one area to the next.”

Location

Merchants should always position ATMs prominently in the highest traffic areas where they are most convenient and accessible, according to Riedl.



The industry rule of thumb is that typically 2 percent to 7 percent of people walking by an ATM in a store will use the ATM to get extra cash. So, based on this rule, a location where 200 people come in every day can expect six to 14 ATM transactions a day, although this can vary greatly based on the type of business, he said.

Too often merchants put the ATM in an out-of-the-way location without realizing this is reducing their revenue. It is widely known that customers who withdraw cash from a retail location such as a convenience store, also spend more at the store. So making the ATM visible and accessible is important.

Kahuna's Smith said that retailers located in malls shouldn't put their ATMs at the entrance to their stores.

"It's a mistake to put the ATM at the entrance/exit, as people leaving the store and taking out cash will then spend it at another retailer in the mall," he said. "You want them to spend their cash in your store, not someone else's. Typically, a customer will take out \$100 at an ATM in a mall and spend 90 percent of it in the mall."

Hobelmann said that the location of an ATM in a convenience store depends on the store's size. If it is a big convenience store, the ATM should be near the cash register. But, if it is a small convenience store, such as a gas station, put the ATM at the back near the beer fridge. Putting the ATM at the front is good for people who get to the checkout and realize they need cash, or who just go into the store to get cash. Also, putting the ATM at the front gives it good exposure to customers in a convenience store with a lot of aisles, he said.

In fact, the best location is outside the store. An external through-the-wall ATM will get a high volume of transactions, Hobelmann said. However, there aren't a lot of through-the-wall ATMs in the retail market, as they are a lot more expensive than free-standing ATMs and people don't come into the store to make purchases after getting their cash, he said.

"Ideally, a restaurant will want to have an ATM in high visibility, high foot traffic areas within their store," Cardtronics' Inman said. "Don't stick the ATM back by the bathrooms where no one can see it. You will want customers to see it where they're going to make a purchase, so they will know that they have access to additional funds if they need it."

MoneyPass's Miraglia said that a retailer could put their ATM near where they sell financial products such as money orders, remittances or prepaid cards.



CHAPTER 5

Cash Management

One of the biggest challenges is having enough cash to keep a retail ATM supplied with funds, according to David Crossan, channel manager at ATM cash services company Cash Connect.

“If cash flow or cash management issues leave your ATM with periods of downtime, then consumer confidence in the terminal will diminish and you will lose transactions and customers,” he said.

Crossan recommends that IADs use a vault cash supplier for higher-volume and remote ATM sites that consume most of their cash and time, while continuing to load the lower-volume sites in-house.

A vault cash supplier such as Cash Connect gets ATM cash directly from a bank’s cash vault, using an armored carrier company to supply it to its clients’ ATMs.

IADs such as Elan Financial Services, Kahuna ATM Solutions and Welch ATM also provide vault cash services to their clients.

“One of the biggest mistakes IADs make is trying to do all their cash management themselves,” Crossan said. “The problem with that strategy is that eventually your ATM base consumes all your cash and time, restricting your growth.”

Hobelmann added that, if a retailer has bank-branded ATMs, the co-branding bank will insist on vault cash being supplied.

There is also a huge liability issue if the retailer’s staff stock the store’s ATMs with cash. If the retailer’s employees are not trained to put cash into ATMs, they are a great target for thieves, whereas the vault cash company will use armed guards who are protected against attacks.

Benefits and drawbacks

The benefit of a retailer stocking their own ATMs with their own cash is that this costs less than using an armored carrier to deliver the cash. Also, if your ATM runs out of cash, you can put money from the till into the ATM straight-away, said Gernes.



But the negative is that if an IAD relies on their merchants to load cash into their ATMs, cash loading is not always the merchant's top priority.

“So the ATM's uptime often suffers, as the ATM will be down until it gets stocked with cash,” he said. “Another issue is the risk of money-laundering — is the cash coming from the retailer's normal business operations, or is it coming from criminal activity?”

Cash Connect

A Newark, Del.-based subsidiary of WSFS Bank, Cash Connect provides ATM vault cash, armored carrier management, cash forecasting and insurance services to the ATM industry. “These services combined offer IADs a holistic cash management program that help them free up their time and capital to focus on growing their business,” Crossan said.

Cash Connect provides billions of dollars annually in ATM vault cash to over 13,000 ATMs in all 50 U.S. states, Puerto Rico and the U.S. Virgin Islands.

Features of Cash Connect's Total Cash Management service include:

- Armored carrier and service management.
- Access to multiple armored carriers and maintenance providers through one contract.
- Best-in-class pricing through Cash Connect's volume discounts.
- Financial penalties for carrier load errors or missed loads.
- Accurate, consolidated and reconciled billing.
- Dispute management for carrier-related cash differences.
- Proactive verification of every load.
- Online and mobile ticketing system with automated integration to service vendors.
- Seven-days per week, 8 a.m. to 8 p.m. first-line maintenance coverage with a 4-hour response time.

Cash Connect's cash forecasting services include:

- Cash forecasting using Morphis software to optimize the client's load amounts.
- Cash level monitoring.
- Load frequency optimization.
- Lower cash costs as a result of lower residuals.
- Placing cash orders according to the carrier schedule so clients never miss a load and never have to track load schedules and lead times.



CHAPTER 6

Insurance

From an insurance perspective, ATM operators face a wide range of risks, from acts of God to acts of unscrupulous employees, according to ATM Marketplace's ATM Compliance Handbook 2013.

"Companies an IAD does business with will want to see proof, in the form of insurance certificates, that both the ATM and the cash are adequately protected against these kinds of risks," the report notes. "A comprehensive insurance program can help manage those risks and ensure compliance with requirements."

With smash-and-grab raids on ATMs occurring regularly in the U.S., ATM owners need to realize that, without specialist ATM insurance, they risk not having full coverage for losses or damage.

Kahuna's Smith warned that smash-and-grab raids on U.S. convenience stores are very common because ATMs are visible from outside the store. "Not only do the thieves remove the ATM, they also clear out the store of all valuable items," he said.

Specialist ATM insurance providers include Bader Company and American Special Risk.

American Special Risk

On its website, [American Special Risk](#) says that its ATM Insurance Program is tailored to meet IADs' needs.

American Special Risk coverage highlights:

- ATM physical damage — full replacement cost, including installation expenses.
- ATM cash — insures against loss of cash in ATMs.
- Loss of revenue — reimbursement for lost ATM revenues following claims.
- Commercial general liability — limits of \$1,000,000+ available.
- Cash-in-transit — for armored carriers and IADs performing ATM cash replenishment.



- Employee dishonesty — insures against theft of cash by employees.
- Errors and omissions — protection for wrongful acts, errors and omissions.
- Volume discounts.
- Expert risk management and claims handling.
- Endorsed provider for the ATM Industry Association since 1999.

The ATM Industry Association

The ATMIA provides an ATM insurance program for its members offering preferential rates, which is provided by American Special Risk.

For more information on the ATMIA Insurance Program, [click here](#).

Bader Company

Indianapolis, Ind.-based Bader Company offers specialist ATM insurance for ATM owners, which is underwritten by Pennsylvania Manufacturers' Association Insurance Company.

Unlike general commercial insurance policies, which can be subject to a deductible ranging from \$500 to \$10,000, the deductible on all Bader's ATM policies is just \$100. Commercial insurance policies are issued on an annual basis, requiring payment of an annual premium. However, Bader's ATM insurance policies are renewable monthly, and there is no annual contract, according to Bader representatives.

Bader's ATM insurance policies cover theft of cash from the ATM due to forced entry; physical damage to the ATM from fire, collision or upset; theft of the ATM; loss or damage to the ATM while in transit and loss of revenue following an incident.

To be insured, ATMs must be bolted to the floor with a minimum of four bolts, and not exposed on any one side to a full glass window, Bader said.

Bader's policies cover the policyholder for \$5,000 and higher in cash theft once the ATM is at a secured location; \$2,000 in physical damage to the ATM in location; \$2,000 in damage or loss of the ATM in transit and \$500 loss of revenue per occurrence. ATM owners have the option of just insuring the ATM for physical damage, without cash theft coverage.



CHAPTER 7

Security

Retailers and restaurateurs need to be aware of the risk of ATM fraud, even if they don't own the ATM located on their premises.

"In the last five years, there has been a big rise in ATM fraud in the U.S., such as card skimming at ATMs," Hobelmann said. "Other types of attacks include criminals hacking into ATM operating systems and stealing data, smash-and-grab raids to steal the cash from ATMs and malicious denial-of-service attacks on ATMs."

Malware can either be placed on an ATM locally, through USB devices or via unsecured network connections.

To protect ATMs against unauthorized access through hacking or malware, operators need to keep their machines up-to-date with the latest security patches for their ATM applications software and operating system, and also deploy firewall and antivirus technology.

Skimming

There are two types of ATM card skimming attacks.

In a digital skimming attack, criminals place a device on an ATM which looks like a card reader and copy the data when the card is passed through the device. The data is stored in the skimmer's memory and is downloaded to a PC where it can be read and used to make fake cards. In an analog skimming attack, criminals record the sound of the card's data signal during the transaction. The data is retrieved from the recording and used for fraudulent purposes.

Vendors such as ACG, NCR and Wincor Nixdorf, among others, have developed technology to prevent ATM skimming.

Physical security

In an ATM Marketplace blog titled "Smash and Grab Alive and Well," Kahuna's Smith recommends the following measures to ensure the physical security of retail ATMs:



- Placing bollards in front of the store to deter smash-and-grab raids.
- Installing an alarm that detects when an ATM is rocked off its base or if sensors identify extreme heat from a metal-cutting torch or if a vault is opened without authorization.
- Bolting the ATM down with bolts that can withstand vehicle impact.
- Attaching a digital camera to the ATM for surveillance purposes.

PCI DSS

ATM operators must comply with the Payment Card Industry Security Standards Council's data security standards, the most important of which is the Payment Card Industry Data Security Standard.

PCI DSS includes requirements for password management, network security and the implementation of system access controls. Its purpose is to protect cardholder information from unauthorized access by setting enforceable standards for the quality of an organization's information security practices.

Penalties for noncompliance with PCI DSS include substantial fines from the card schemes, as well as liability for fraud losses resulting from data breaches.

Any ATM bought or moved after April 2014 has to have an encrypting PIN pad (EPP), which complies with the latest PCI standards for EPPs. For example, ATM deployers buying or moving a Diebold ATM must use Diebold's EPP7 PIN pad. For more information, contact your ATM vendor.

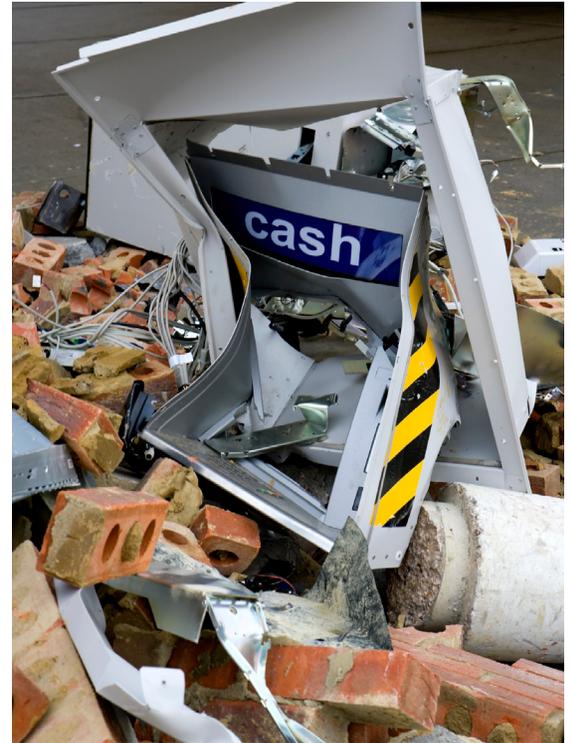
EMV

The U.S. is in the process of migrating its payment cards, ATMs and POS terminals to the EMV chip card security standard. The U.S. is one of the last countries to migrate to EMV. Most European, Latin American and Asian countries have migrated to EMV or are in the process of doing so.

EMV is designed to combat card skimming and counterfeiting, as EMV-compliant cards contain an embedded chip as well as a magnetic stripe. The chip contains the data needed to use the card for payment transactions, but is protected by several security technologies to prevent counterfeiting.

MasterCard and Visa have both established deadlines for shifting the liability for counterfeit card fraud from issuers to U.S. ATM acquirers.

In October 2016, counterfeit card fraud liability will shift to ATM acquirers that don't accept MasterCard-branded EMV cards at U.S. ATMs. From October 2017, counterfeit card fraud liability will shift to ATM acquirers that don't accept Visa-branded EMV cards at U.S. ATMs.



Once MasterCard's and Visa's deadlines have passed, if an EMV card is used fraudulently at an ATM that doesn't support EMV, the acquirer will be liable for the issuer's fraud losses. The acquirer will pass on the cost of this fraud to the owner of the non compliant ATM.

Migration

Migrating an ATM network to EMV involves three processes. Firstly, ATMs must contain EMV Level 1-compliant EMV card readers and PCI-compliant encrypting PIN pads. As defined by EMV standardization body EMVCo, EMV Level 1 is the standard for the hardware interface enabling data transfer between EMV cards and terminals.

Secondly, an EMV Level 2-compliant software kernel must be added to the ATM's application software. EMV Level 2 is the standard for the application software resident in the terminal that processes EMV transactions.

Thirdly, the acquirer's ATM network must undergo end-to-end EMV hardware and software testing to receive EMV Level 3 certification from the card networks whose cards the acquirer wants to accept. EMV Level 3 is the standard for the entire EMV infrastructure, encompassing the terminal hardware, software and network.

Planning

"[EMV Migration Guide](#)," an ATM industry report published by ATM Marketplace, says ATM operators should start planning their migration to EMV now, as leaving their upgrade to the last minute could be a costly mistake.

ATM vendors will likely not have the resources to assist large numbers of clients all trying to migrate to EMV very close to the deadline, the ATM Marketplace report says. For example, there may be a shortage of EMV card readers as well as resources for EMV testing and certification as the deadline approaches.

When installing new ATMs, it makes sense to ensure that they contain an EMV card reader, rather than a magnetic stripe-only card reader.

Windows 7

On April 8, 2014, Microsoft stopped providing updates for Windows XP, although it will continue to supply its Malicious Software Removal Tool to XP users until July 14, 2015.

This means that ATMs that still run XP and haven't been migrated to Windows 7 won't receive Microsoft security patches. They will face greater risks from



malware and network intrusions, and will be in breach of the PCI DSS requirement for ATM deployers to keep their operating systems updated with security patches protecting against known vulnerabilities.

The good news for is that, according to research by the National ATM Council, the majority of the ATMs operated by IADs and merchants don't use Windows XP and are therefore unaffected by Microsoft's end of support for Windows XP. Instead, most retail ATMs run on Microsoft's Windows CE operating system.

"Based upon NAC's discussions with the 'big three' manufacturers for the U.S. independent ATM industry sector — Nautilus Hyosung, Genmega/Hantle and Triton Systems — virtually all of the ATMs now operated by America's IADs/ IADs/merchants don't use Windows XP, and are unaffected by Microsoft's ending support for Windows XP," the NAC said in a statement.



CHAPTER 8

Selling Additional Products and Services at ATMs

As a way to generate extra revenue streams, ATM operators can offer additional products and services at their ATMs, as well as cash withdrawals and balance inquiries.

Selling noncash products and services such as prepaid cards, concert tickets, cellphone airtime, bill payments, person-to-person transfers, check cashing and dynamic currency conversion at ATMs helps to compensate for the decline in interchange rates in recent years.

“The reason why IADs are looking at other revenue streams is because interchange is falling,” Smith said. “However, if an ATM operator wants to offer services such as bill payments at their ATMs, the company supplying their ATM processing will need to be able to support these noncash services.”

Retail ATM deployers need to understand the demographics of their customer base because this will help them decide the appropriate types of additional services to offer at their ATMs.

According to Smith, providing bill payment services at ATMs in convenience stores could prove very popular, because of the large number of unbanked and underbanked consumers who use convenience stores. “Kahuna is looking at providing bill payments at its ATMs,” he said.

Dynamic currency conversion

DCC allows individuals traveling in foreign countries to complete ATM or point-of-sale transactions in the currency of their home country instead of in the local currency. If the customer chooses DCC, the transaction remains in the currency of the card throughout processing and settlement.

The benefit to consumers is that they can see the exact transaction amount and rate of exchange immediately at the point and time of transaction rather than waiting for a bank statement, enabling them to more accurately budget and manage their bank account.

“The reason why IADs are looking at other revenue streams is because interchange is falling.”

— Mark Smith, vice president of financial solutions at Kahuna ATM Solutions



According to Euronet Software Solutions, a subsidiary of U.S.-based processor Euronet Worldwide, DCC provides a new revenue stream for ATM acquirers, since the acquirer sets the rate of exchange instead of the issuer. The exchange rate margin provides acquirers with additional revenue on top of normal interchange fees. In a non-DCC transaction, the issuer receives this foreign exchange-related revenue.

DCC is most appropriate for locations popular with foreign tourists, Smith noted. "It won't work throughout the U.S.," he said.

Elan's Gernes warned that there is still not a huge demand for additional services at ATMs. "The exception is DCC, which we are seeing a lot of potential demand for," he said.

Prepaid cards

Open- and closed-loop prepaid cards, including gift cards and general purpose reloadable (GPR) prepaid cards, have become a major force in the U.S. payments industry. They are attractive to consumers because of their flexibility, with GPR prepaid cards having taken on a leading role as a preferred financial instrument among unbanked and underbanked consumers as well as millennials.

Mesa, Ariz.-based Better ATM Services has developed technology that enables ATMs to dispense open- and closed-loop prepaid cards from existing cash cassettes, with no need for costly upgrades. With its technology partners, Better ATM has designed polymer-based cards that are one-third the thickness of standard cards, so they can pass through an ATM's cash-dispensing mechanism.

Each prepaid card comes in three detachable parts: the card itself; a middle section displaying the terms and conditions and activation information and a bottom section offering promotions or incentives.

In Better ATM's business model, ATM operators generate revenues from the sale of prepaid cards and from advertisements on the cards' promotional panels, according to Better ATM representatives.



About the sponsor:

Elan Financial Services, based in Pittsburgh, Pennsylvania, is a business unit of U.S. Bank National Association. Elan has provided a full range of payments products and services to ISOs and financial institutions for over 40 years. Visit www.elanfinancialservices.com/atm-debit-fi for more information about ATM managed services from Elan.

LIST OF SUPPLIERS

Access Cash

Canadian ATM services supplier
www.access-cash.com
191 Attwell Drive, Unit 4
Toronto, Ontario
M9W 5Z2 Canada
Tel: 416-247-0200
Tel: 888-289-3939
Fax: 416-247-0235
Fax: 800-449-2331

ACG

ATM parts repair and
anti-skimming technology
www.acgworld.com
5010 McGinnis Ferry Road, Suite A
Alpharetta, Georgia 30005 U.S.
Tel: 800-536-5085

Allpoint Network

Surcharge-free network
www.allpointnetwork.com

American Special Risk

ATM insurer
www.asrisk.com
212 S. Tryon St., Suite 1780
Charlotte, North Carolina 28281 U.S.
Tel: 704-358-0447
Fax: 704-358-0977
Email: webinquiry@asrisk.com

ATMequipment.com

ATM supplier
atmequipment.com
854 W. 450 N., No. 4
Kaysville, Utah 84037 U.S.
Tel: 800-498-5795

ATM Marketplace

www.atmmarketplace.com
502-241-7545

ATM Industry Association

www.atmia.com
ATMIA directory of ATM services

ATM Tech Network

ATM maintenance provider
www.atmtechnetwork.net/
5457 Twin Knolls Road, Suite 101
Columbia, Maryland 21045 U.S.
Tel: 800-301-5214

Bader Company

ATM insurer
www.baderco.com
9777 N. College Ave.
Indianapolis, Indiana 46280-1628
U.S.
Tel: 888-223-3726
Fax: 888-329-2237

Better ATM Services

Provider of prepaid cards for ATMs
www.betteratmservices.com
6402 E. Superstition Springs Blvd., Suite 213
Mesa, Arizona 85206 U.S.
Tel: 480-296-2033
info@betteratmservices.com

Cardtronics

IAD
www.cardtronics.com/
250 Briarpark Drive, Suite 400
Houston, Texas 77042 U.S.
Tel: 832-308-4000
Fax: 832-308-400

Cash Connect

ATM cash services supplier
www.cash-connect.com/
500 Creek View Road, Suite 100
Newark, Delaware 19711 U.S.
Tel: 302-283-4100
Fax: 302-283-4116

Diebold

ATM vendor
www.diebold.com/Pages/default.aspx
Tel: 1-800-806-6827

Elan Financial Services

IAD
www.elanfinancialservices.com/
Tel: 800-343-7064

Genmega

ATM vendor that also manufactures
ATMs for Hantle
www.genmega.com/
30587 Huntwood Ave.
Hayward, California 94544 U.S.
Tel: 510-344-6333 main
Tel: 510-344-6334 sales
sales@genmega.com

GRGBanking

ATM vendor
www.grgbanking.com/en/index.asp
Sales and solution contact information
Tel: +86-20-8218-8564
Fax: +86-20-8218-9024

Hantle

ATM vendor
www.hantle.com/
Tel: 510-371-0400 main
Tel: 972-778-8191 sales

Kahuna ATM Solutions

IAD
www.kahunaatm.com/
325 W. Romeo B. Garrett Ave.
Peoria, Illinois 61605 U.S.
Tel: 888-357-8472

KAL ATM Software

ATM software vendor
www.kal.com
John Cotton Building
Sunnyside, Edinburgh
EH7 5RA U.K.
Tel: +44-131-659-4900
Fax: +44-131-652-1193
Email: info@kal.com

KAL- Retail Teller Machine

rtm.kal.com/index.php/en/

MoneyPass ATM Network

Surcharge-free ATM network
www.moneypass.com/

National ATM Council

www.natmc.org
9802-12 Baymeadows Road, No. 196
Jacksonville, Florida 32256 U.S.
Tel: 904-683-6533
mail@natmc.org

National Cash Systems

IAD
www.nationalcash.com
370 Goddard
Irvine, California 92618 U.S.
Tel: 949-417-5000
Fax: 949-417-5001
Email: info@nationalcash.com

Nautilus Hyosung America

ATM vendor
nhausa.com/index.php/en/
6641 N. Beltline Road, Suite 100
Irving, Texas 75063 U.S.
Tel: 1-877-HYOSUNG (496-7864)
sales@nhausa.com

NCR

ATM vendor
www.ncr.com/

Payment Alliance International

IAD
www.gopai.com/
1 Paragon Centre
6060 Dutchmans Lane, Suite 320
Louisville, Kentucky 40205 U.S.
Tel: 866-371-2273
Fax: 502-212-4004

Switch Commerce

ATM management and processing software
provider for IADs and IADs
switchcommerce.com/
6565 N. MacArthur Blvd., Suite 1000
Irving, Texas 75039 U.S.
Tel: 972-550-8900
Email: scinfo@switchcommerce.com

Triton Systems

ATM vendor
www.triton.com/
21405 B St.
Long Beach, Mississippi 39560 U.S.
Tel: 1-866-7-TRITON (1-866-787-4866)
Tel: 228-575-3100
Fax: 228-575-3392

Welch ATM

IAD
www.welchatm.com
643 Cepi Drive
Chesterfield, Missouri 63005 U.S.
Tel: 636-536-3030

Wincor Nixdorf

ATM vendor
www.wincor-nixdorf.com/internet/site_AT/EN/WincorNixdorf/Locations/USA/country_node.html
12345 N. Lamar Blvd., Suite 200
Austin, Texas 78753 U.S.
Tel: 512-676-5000
Fax: 512-676-5045



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