

# DIGITAL TRANSACTIONS

Trends in the Electronic Exchange of Value

## Social Unrest

**Social networks and game sites—and sites that are some of both—are capturing consumers by the millions. Where there's such commerce, transactions will follow. But can anyone come up with a workable payments system?**

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- **Yes You Can (Fight Chargebacks)**
- **A Revival in ATMs**
- **Getting to Know Web 2.0**

**DIGITAL  
TRANSACTIONS**

Trends in the Electronic Exchange of Value

**C O N T E N T S**

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## Getting Bullish on ATMs Again

**Peter Lucas**

**The prospects for ATM deployments and transaction volume are looking brighter thanks to the development of new applications aimed at helping deployers better service and retain customers.**

**A**fter years of little or no growth in automated teller machine sales and per-machine transaction volumes flattening out due to market saturation, both categories are poised for gains. Paving the way for the comeback are new ATM capabilities and, somewhat surprisingly, the current economic crisis.

With consumer confidence in financial institutions shaken and a wave of bank consolidation underway, market observers say financial institutions are looking to the ATM as a tool that can expand their footprints to remote locations and deliver an array of new services to attract customers and much-needed deposits.

One of the drivers behind financial institutions' renewed interest in the ATM is the emergence of new applications that turn the ATM into a full-service provider of bill payment, gift cards, prepaid card loading, and payroll-check cashing. These are the types of services consumers want beyond traditional cash dispensing, deposit acceptance, and monitoring of account balances.

In addition, imaging technology that scans cash and checks as they are deposited, thereby eliminating the need to enclose them in an envelope,

is reducing deposit-handling costs and helping to strengthen the case for expanding the ATM fleet (box, page 22).

Concurrently, surcharge-free ATM networks such as Allpoint and Money-Pass are growing in popularity with consumers and in the process undercutting the rationale that emerged in the 1990s for ATMs to generate fee income from consumers who withdraw cash from an ATM but aren't customers of the bank or credit union that owns it.

"The business case for ATMs that emerged after the dawn of the surcharge era is being ground down by the popularity of surcharge-free networks and [that's] prompting [financial institutions] to ask why they have an ATM fleet," says Tony Hayes, a partner with Oliver Wyman Group, a New York-based management-consulting firm.

If the answer to that question is to provide service and convenience and extend the bank's footprint, many financial institutions are concluding that they need to embark on a strategy to support those goals.

"Some of the strongest banks in the current economic climate are the ones that recognize the importance of the ATM network as a service channel

rather than a revenue channel," says Hayes. "The banks with more ATM density are more effective at attracting and retaining customers. In today's economic climate, banks need a stable, low-cost customer-deposit channel."

### **Vending Gift Cards**

That's good news for ATM manufacturers, and not just the big financial-industry suppliers such as NCR Corp. and Diebold Inc. Even Hayward, Calif.-based Tranax Technologies Inc. and Triton Systems of Delaware Inc., both of which cater to the off-premise market of stores, restaurants, and other non-bank locations, see skies brightening. Korean companies sensing opportunity and aided by the weak dollar that has until recently made U.S. assets relatively cheap have bought or are in the process of acquiring Tranax and Triton Systems.

South Korea-based Eltna Corp., an original-equipment manufacturer for Tranax, bought Tranax in September. Jeffrey Lee, Tranax's vice president of marketing, says some forecasts are calling for ATM sales to increase as much as 9% in 2009 compared with a 4% increase that was predicted for 2008. Much of the anticipated sales increase will come from the purchase of machines with greater self-service features than older models, according to Lee.

"The industry is much lighter on its feet when it comes to developing

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new applications and bringing them to market,” he says. “Consumers are being trained to use self-service terminals for checkout in retail stores, supermarkets, and check-in at airports, so they are comfortable with them and are starting to expect the same level of technology, service, and convenience through the ATM.”

One application garnering a lot of attention right now is dispensing closed-loop gift cards and open-loop prepaid cards. Adding this capability is expected to grow off-premise ATM volume and open up new locations for off-premise ATMs.

“Gift cards are the gift of choice with many consumers and making it possible for the them to purchase a gift card through an ATM is more convenient than having to go the gift card mall in a supermarket or the retailer,” says Todd Nuttall, chief executive of Mesa, Ariz.-based technology supplier Better ATM Services Inc. “By adding this type of service, ATM deployers are finding they can make a business case for deploying machines in marginal locations because of the increased traffic at the machine.”

The benefit to ATM deployers is that they can earn a fee from the gift card or prepaid card issuer. Better ATM Services in late 2008 launched a holiday-season pilot with three independent sales organizations to dispense Amazon.com Inc. gift cards along with free Restaurant.com promotional certificates through about 24 ATMs. Restaurant.com sells gift certificates online on behalf of 8,500 member restaurants and operates a Web site that drives viewer traffic to members’ sites.

While merchants can use the promotional coupons to pull customers into their stores or eateries to use the ATM, transaction volume also depends on offering the right gift card and incentives to consumers in a specific market. Nuttall says Better ATM Services opted to dispense Amazon cards because of the Amazon.com site’s immense popularity. Amazon.com is ranked as the leading e-commerce site by sales, according to *Internet Retailer* magazine.

Retrofitting ATMs to dispense the gift cards and coupons is relatively easy as manufacturers configure ATMs to dispense and accept foreign currency, which typically is the same width as gift cards and coupons. The cards are dispensed in a sheet about the length and width of the foreign bank note that can be broken apart for use.

“The other big advantage of adding prepaid cards is that ATM deployers do not have to increase the cash float of the machine to provide this service,” says Nuttall. “Some deployers have even approached us about using ATMs to dispense only gift cards.”

## **Risk Factor**

Dispensing gift cards has opened the door to dispensing open-loop prepaid cards and allowing consumers to top off their cards at ATMs. Visa Inc. is in talks with several banks about offering reloadable prepaid card services through their ATMs. Cardholders would deposit cash into the ATM, the value of which could then be loaded onto the card.

Visa’s ReadyLink network allows Visa prepaid cardholders to top off their cards at more than 7,000 ATM locations, including Safeway Inc. supermarkets and 7-Eleven Inc. convenience stores. Visa officials were unavailable for comment. The service is targeted primarily at consumers who have no bank accounts or lack a checking account and access to a debit card.

This new gateway to the so-called non-banked and under-banked piqued banks' interest in offering such consumers bill-payment and check-cashing services.

"Bill payment and check cashing are applications that are gaining interest as financial institutions look for new transaction services to provide through the ATM," says Mike Shirk, director of deposit automation strategy for North Canton, Ohio-based Diebold.

Part of the attraction of bill payment is that, with rising unemployment, many consumers are waiting longer to pay their bills as they struggle with reduced income.

"More and more consumers are paying their bills at the last minute in the current economic environment, and offering expedited [same-

day posting] bill payment through an ATM is a way for financial institutions to increase the self-service functionality of the ATM," says Brian Bailey, vice president of financial industry marketing for Dayton, Ohio-based NCR.

Check cashing through the ATM is something that manufacturers and financial institutions have wrestled with for years. The holdup has been centered more on managing the risk factor than technology. The biggest risk with check cashing is verifying the authenticity of the check and whether the funds exist to cover it.

"The big question for the financial institution is, 'What is the risk profile of the check casher?'" says Shirk. "A decision engine that can evaluate the risk in real time is going to be needed."

Diebold is working with Salient Systems Corp., an Austin, Texas-based provider of customer-authentication applications and security services, to develop such an application. Consumers wanting to cash checks would be enrolled in a program and required to provide data to authenticate themselves and determine their risk profile at the time of enrollment.

"Check cashing through ATMs is still an emerging application, but one that can expand the financial institution's footprint to the unbanked and under-banked," says Bailey.

### **Bye-Bye Surcharge?**

One benefit of offering bill payment and check cashing is that they are services for which consumers are more apt to pay a fee. Consumers, however, are not as willing to pay a surcharge

## **Imaging Gains Some Traction**

**F**rom its modest beginnings earlier this decade, imaging technology that allows ATMs to accept cash and check deposits without first being inserted into an envelope is finally moving into the mainstream.

ATM manufacturers say that the largest banks are committed to rolling out the technology *en masse* over the next few years. Dayton, Ohio-based NCR Corp. says that in 2008 more than 60% of its ATM orders in North America were for ATMs with self-service features. Of those orders, 75% were for ATMs with NCR's intelligent deposit-imaging technology.

In total, NCR has more than 50 customers that now transmit check and cash images from the ATM directly to their back offices. In the United Kingdom, where ATM imaging technology is common and the ATM market mirrors that of the United States, Alliance & Leicester Bank has seen 75% of its self-service transactions migrate from the teller to the ATM, according to NCR.

"Consumers will embrace anything that helps them get through the transaction quicker," says Brian Bailey, NCR's vice president of financial industry marketing.

For banks, the benefit is the reduction of check and cash-handling costs and reducing the risk of fraud, as imaging technology can verify the authenticity of bank notes and the checks, as well as the amount of a check,

in real-time. It also reduces the risk of fraud from empty-envelope deposits and posting errors resulting from customers mistakenly entering the wrong amount.

"With banks enabling their back offices to support imaging technology, the business case for imaging is clearly there," says Mike Shirk, director of deposit automation strategy for North Canton, Ohio-based Diebold Inc. "The reduced handling costs alone offset the 25% to 30% increase [in ATM capital costs] over non-imaging ATMs."

One remaining hurdle is customer education. Mark Smith, senior VAR manager for Long Beach Miss.-based Triton Systems of Delaware Inc., says one credit union had a customer deposit coins into an imaging ATM, which damaged the machine. A new imaging unit cost the bank \$900.

"A lot of people still don't know how to use an imager, which is why we send in teams to train our clients and their customers," says Smith. "Education is going to be very important going forward."

While there have been reports of imaging ATMs sometimes malfunctioning, banks claim problems have been few and manufacturers expect consumer demand for imaging units to increase. "Consumers are embracing imaging because it provides a teller-like experience," says Shirk. "Once they start using it, they embrace it."

for using another bank's ATM, which is why surcharge-free networks are growing in popularity. Network members instead cover the cost.

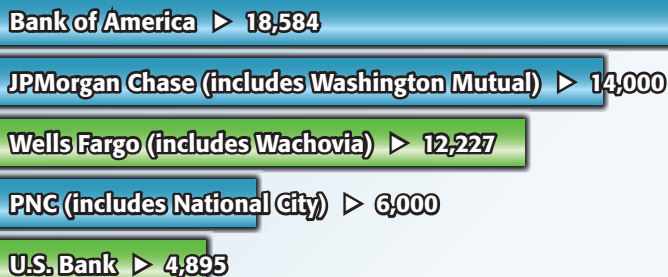
"Consumers will go out of their way to avoid paying an ATM surcharge," says Dan Stechow, chief operating officer for King of Prussia, Pa.-based Select-A-Branch ATM Network LLC.

Select-A-Branch, which operates a 2-year-old surcharge-free network of about 200 ATMs and is installing five to 15 machines per month, enables consumers to log into their financial institution's ATM network, thereby saving them a surcharge. Although multiple banks and credit unions are linked to each Select-A-Branch ATM, once the user inserts her debit card, she sees the same screen she would see if she were using one of her own bank's ATMs.

Select-A-Branch, which owns and operates all its ATMs, has 19 member

## Leading Bank ATM Deployers

(Numbers reflect recent bank mergers)



Source: Celent, Digital Transactions

financial institutions. Members pay Select-A-Branch \$2 per transaction when one of their debit card holders uses a machine. Consumers who aren't customers of any member are surcharged \$2.

So far the network has been a hit with consumers. A six-month pilot program that ended in August and involved 59 machines at McDonald's

Corp. locations in the New York City-area generated 35% more transactions than prior ATMs installed at those locations, according to Stechow. The higher transaction volume also could translate into increased sales for the merchant as a result of increased customer traffic. McDonald's franchisees saw sales increase 0.5% to 1% after installing a Select-A-Branch ATM.

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“For small banks and credit unions looking to increase their ATM footprint, this is a way to do it without having to make the capital investment in hardware,” says Stechow. “In today’s tumultuous economic climate, a lot of consumers are jumping ship to other banks, so offering them incentives they can feel good about can help keep them in the fold.”

In November, Select-A-Branch announced an agreement in principle with TRM Corp.’s Access To Money network that would give Select-A-Branch potential access to about 3,000 retail ATMs.

Industry experts acknowledge that resistance to joining surcharge-free networks still exists because many financial institutions have built their ATM strategies in part on surcharge income from non-customers. But Oliver Wyman’s Hayes contends that staying out of such networks can end up costing banks more in the long run.

“Banks that want a competitive ATM network are going to have to move away from surcharging,” says Hayes. “The cost of inaction by the consumer or lower transaction volumes at those machines is going to be much higher than the loss of the surcharge revenue.”

### More Investment

Select-A-Branch’s model of owning all the ATMs in the network is helping to shine a light on the benefits of outsourcing ownership of ATMs for financial institutions. The case for outsourcing is based on saving maintenance costs and the capital investment of new machines.

“Outsourcing is a way for banks to monetize their investment in ATMs at a time when they need more income,” says Paul Tomasofsky, president of Montvale, N.J.-based Two Sparrows Consulting. “ISOs, processors, and EFT networks are potential owners.”

About 41% of banks will explore outsourcing management of their off-premise ATMs in the next few years,

predicts Mark Smith, senior VAR (value-added reseller) manager for Long Beach Miss.-based Triton Systems of Delaware, which supplies ATMs to Select-A-Branch. In July, Triton Systems owner Dover Corp.

One of those efficiencies is related to Microsoft Corp.’s Windows operating system, which can support many of the new applications coming to market, such as bill payment and check cashing. As many as 30% of the ATMs

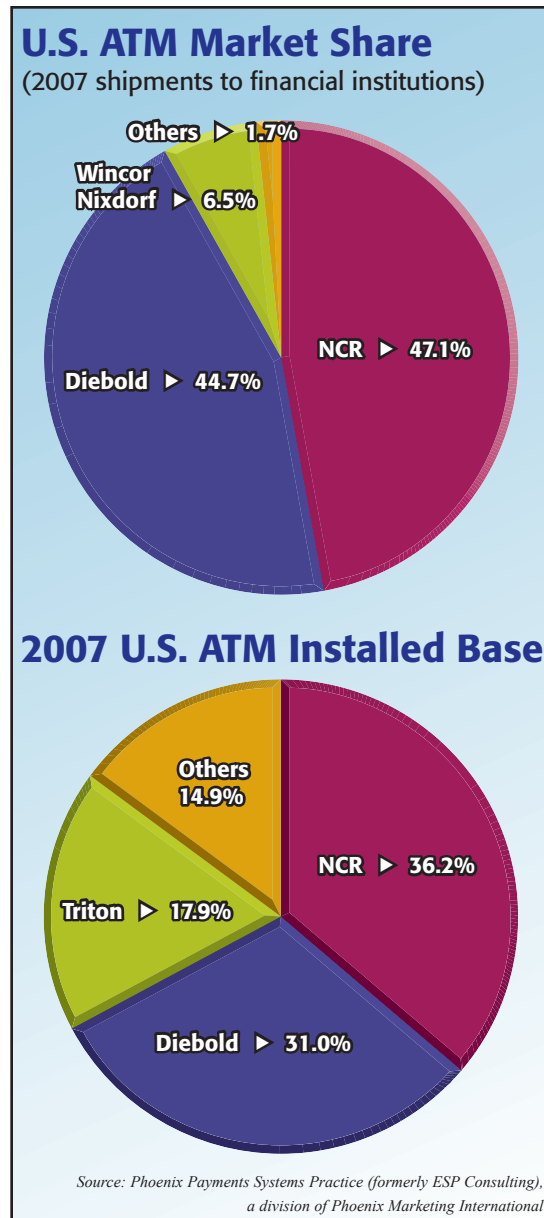
deployed by small financial institutions and credit unions are still running the OS/2 operating system developed by International Business Machines Corp., according to Alan Walsh, vice president of banking for Wincor-Nixdorf International, a unit of Paderborn, Germany-based ATM maker Wincor-Nixdorf AG.

Outsourcing can bring rapid upgrades to the ATM fleet that can support more advanced applications. “[Canada-based] TD Bank outsourced its ATM fleet to Hewlett Packard and got an infusion of Windows-based machines, better software, and a new data center,” says Hayes. “The question for the bank is whether trading the capital costs for the ATM for a lease agreement makes sense.”

With the breadth of new applications being introduced and operating efficiencies to be gained from outsourcing, growth prospects for the ATM business and per ATM transaction volume are

brighter than they have been years. As a result, industry experts are bullish on a business that had been in the doldrums for quite some time.

“Banks are realizing the importance of the ATM in attracting and retaining customers and that’s why the marketplace is going to see a lot more investment in ATM technology,” says Hayes. **DT**



signed an agreement to sell Triton to Nautilus Hyosung Inc., an ATM-manufacturing subsidiary of Korea’s Hyosung Corp.

“A lot of banks are struggling with the ATM as a profit center, and outsourcing not only management but ATM driving and processing can create a more efficient operating model,” says Smith.