

An Inside Job

Bringing ATM driving in-house for speed, customization and cost savings

By Gary Crum

Frustrated by a lack of control over its ATM processing, FirstBank of Lexington, Tenn., opted to do what few community banks have: manage its ATM driving software operations in-house. The bank was confined to do whatever its ATM processor could do, when it could do it, explains Scott Smith, vice president of electronic banking at the \$1 billion-asset community bank, which operates 30 ATMs. “You will not save a whole lot of money [handling ATM driving responsibilities in-house],” he says, “but it will give you control and you will not have to wait months to set something up.”

The \$450 million-asset Central National Bank of Inid, Okla., has been driving its own 14 ATMs, and those of other local

banks, for 20 years. Brud Baker, president of Central National, says the bank has not looked back from its decision to drive ATMs internally. The only change has been a recent software upgrade, which helped the bank process debit cards. With all the advantages to be gained, Baker emphasized that ATM driving requires specific expertise and any bank contemplating such a move should be sure that they have the right people in place. “It does involve more than just pushing a button. When practical, it is better to bring it in-house, from an economic and a reliability standpoint.”

Choosing Self Service

While it’s not for every community bank, the step of bringing



in-house the software operations that make the ATM transaction-processing interface with the networks is on the rise, according to Jerry Silva, a retail banking delivery channel expert at technology consultancy TowerGroup. The cost of driving ATMs from

traditional mainframe CPUs was prohibitive in the past, but recently a few software providers have made driving software cheaper by running on Windows, Silva explains. "Thus banks with Windows-based operating systems find it a relatively easy installa-

tion. There are no real special capabilities required."

With direct control of its ATMs, FirstBank is saving processor fees by intercepting its cardholders' bank-card transactions and processing them in-house. That's significant because over 65 percent of the bank's ATM transactions are carried out by its cardholders. During the first quarter, in-house ATM driving saved the bank \$110,000. The biggest savings came from no longer having to pay a service provider the \$0.08 per own customer transaction fee. (Non-customers still have to be processed through the service provider). With anticipated exponential growth of debit card transactions, that cost savings should only increase in the future. By going directly to Pulse, a credit card communications network, FirstBank is still able to provide worldwide access for its customers.

Through its third-party processor, it took FirstBank two weeks to get a new ATM online. But now FirstBank staff can set up the machines in under 10 minutes. Reliability has also increased dramatically. ATM downtime is less than 0.5 percent, including cash refill time, versus a 10 percent downtime for the bank's previous service provider. And if the host is unavailable, the driving software provides stand-in authorization based on positive account balances, so FirstBank's customers can continue to access their accounts. The new software

does not require a great deal of time. Smith and his staff handle updates, patches and annual certification as required. “About 95 percent of the ATM-related work was there before the new software was installed, so it has not significantly changed work volume,” says Smith.

Customized Options

FirstBank’s use of its ATMs as a marketing tool is limited to changing the standardized messages on the wait screens.

2. As a way to make money by charging fees to non-customers.
3. As a means to market other bank products to ATM users.

When an outside processor is driving the ATMs, that processor does not have access to the same type of information. For example, the outside processor can verify that the customer’s balance is sufficient to cover the transaction, but it cannot analyze the customers’ spending habits, such as to whom the

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However, they are considering a plan to customize on-screen messages based on the accounts a customer already has with the bank, Smith explains. This effort would require additional software that would read customer files and use the information to trigger responses such as “consider refinancing your mortgage” or “check our CD rates.”

In the past, Silva says, outsourcing the processing of ATM transactions became the best practice based on the efficiencies achieved in the flow of credit and debit card transactions at a relatively small fee per item.

Why then would FirstBank and others be motivated to take on this task? As Silva explains, banks look at ATMs in one of three ways:

1. As a must-have service to remain competitive.

customer makes a monthly mortgage payment. That type of in-house information can allow a customer to receive a mortgage refinance pitch at the ATM.

“From a marketing view, ATMs can be combined with the bank’s core processing system to recognize customers, search the database and make targeted sales pitches to the customer based on the customer’s profile,” says Baron Ubehagen, vice president of marketing and alliances at Postilion (a software company specializing in electronic banking services).

FirstBank officers understood the commitment involved with bringing such a complicated process in-house. They studied how to implement the changeover for almost three years, which included a

two-year search for the right software at the right price. They also hired Smith before embarking on their program. (Eventually FirstBank settled on Postilion software to drive its leased line and dial-up ATMs machines. However, several vendors such as Metavante Corp., Pemco Technologies and Fifth Third Processing Solutions offer competitive ATM driving software in the marketplace as well.)

While the primary reason for the change was control, FirstBank was able to recapture its investment capital in 10 months—four months faster than the projected 14 months. The bank’s ROI calculation included half the salary of an employee who was already assisting the branches with balancing and cash replenish-

Answer to ATM Downtime

Reliability is critical to ATM profitability, and any ATM downtime due to ATM servicing can be costly. To combat this problem, Data Probe, an electronic equipment company, offers lboot, a switch that can be controlled remotely to take down an ATM when something goes wrong. True to its name, lboot also restarts the ATM automatically when the ATM is working again. Data Probe’s lboot costs \$200.

Since a technician does not have to be sent to an ATM when it needs to be taken down or rebooted if lboot is in place, the cost of a service call is also saved. And since lboot brings the ATM back on line faster than a technician, it further increases customer satisfaction and reduces lost revenue.

ment. The typical conversion—from order to testing is 90 to 120 days, according to Ubehagen.

“We actually have servers within the ATM area, and while the IT department supports the network that supports the ATMs, [our] department supports the ATM servers

involvement of branch personnel with the ATMs.” Mechanical maintenance of the ATMs and some cash replenishment duties continue to be outsourced.

The switch to in-house ATM driving is probably a decision for individual banks to make based on their capabilities and needs. According to Tower-

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ment, and who has taken on additional duties associated with the new system, such as running reports.

What did it take once the software decision was made? The bank beefed up its servers because of disaster-recovery issues, and additional servers were purchased for the ATM function. The process of preparing for the changeover to the in-house servers began in March, and the first ATM came up in August. The program was fully implemented that same

themselves,” explains Smith. “We use all Windows-based systems, so interface is not an issue, but it is really important to make sure the infrastructure is very secure.”

The software installation process went very smoothly for FirstBank, according to Smith. “We fine-tuned settings, but there were no major bumps and no additional personnel were allocated to the installation tasks. The installation did not require any special training since it actually reduced the in-

Group’s Silva there are \$10 billion-asset banks that still use third-party processors because it works for them. But, as Smith says, times may be changing. “I am receiving many calls for references to make this change because of the increasing amount of debit card usage. The transaction cost savings and reliability make it a sound investment.” **ib**

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