

A Euronet Software Solutions White Paper



Reach a New Market with Deposit Automation

Leveraging Your ATM Investment

Ruby Chong
Product Manager, of Self-Service Payment Solutions

Euronet Pakistan
7th Floor, Bahria Complex III
M.T. Khan Road
Karachi, Pakistan
Tel: +92-21-111-SECURE
E-mail us at: pakistan-info@eefit.com
Visit our web site at www.euronetpakistan.com

Copyright © 2013 Euronet Pakistan, a subsidiary of Euronet Worldwide. All rights reserved. Any and all product names, company names, logos and trade names used in this publication are assumed to be the legal property of their respective companies and are used here for identification purposes only. No part of this work covered by the copyrights hereon may be reproduced or used in any form or by any means without the express written permission of Euronet. This document contains confidential and proprietary information. Its contents may not be disclosed without the express written consent of Euronet.

LIMITATION OF LIABILITY: PRODUCT DOCUMENTATION IS AS ACCURATE AS POSSIBLE AS OF THE TIME OF PRODUCT RELEASE. HOWEVER, EURONET WILL NOT BE LIABLE FOR ANY DIFFERENCES BETWEEN PRODUCT FUNCTIONALITY AND THE PRODUCT DOCUMENTATION. EURONET MAKES NO OTHER WARRANTIES WITH RESPECT TO THE PRODUCTS, OR ANY SERVICES, AND DISCLAIMS ALL OTHER WARRANTIES, EXPRESSED OR IMPLIED, INCLUDING WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND NON-INFRINGEMENT. FURTHER, EURONET DOES NOT WARRANT, GUARANTEE OR MAKE ANY REPRESENTATIONS REGARDING THE USE, OR THE RESULTS OF THE USE, OF ANY PRODUCTS OR RELATED DOCUMENTATION IN TERMS OF CORRECTNESS, ACCURACY, RELIABILITY OR OTHERWISE.

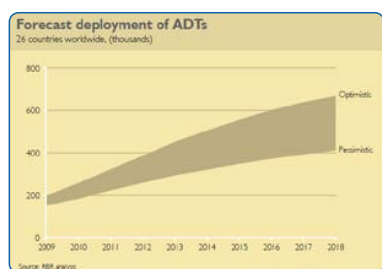
Euronet Worldwide Inc.
Corporate Headquarters
3500 College Boulevard
Leawood, Kansas 66211

A publication of Euronet Software Solutions



Introduction

The initial premise of the ATM was to offer 24x7 convenience to banking customers. Although this is still true, the needs of customers have evolved over time and financial institutions must reassess their changing requirements. This can be clearly seen in the development of off-site ATMs as well as the more conventional bank branch installations in retail locations. A challenge financial institutions face is to optimize the utilization of their existing ATM network. They have to fulfill the changing needs of their customers to maintain and grow their revenue stream.



A very significant recent development in ATM technology is the deposit automation functionality which provides ATMs the capability to accurately count and validate deposited cash and checks.

This brings cost savings benefits to financial institutions and gives customers immediate access to their deposited funds. Although the implementation of this functionality does require a significant investment, the benefits it brings far outweigh the cost. In addition, this functionality enables non-cardholders to transact with cash at a terminal traditionally used by cardholders.

The focus of this paper is to look specifically at the uses of deposit automation and to identify the revenue opportunities that this functionality could present to financial institutions. This paper should be of interest to financial institutions that recognize the importance of keeping and attracting new and profitable customers whom they can retain in the longer term.

Deposit Automation

Deposit automation utilizes technology to automate the deposit process by which customers deposit cash and checks at the ATM. Customers place their deposits directly into the ATM, thus eliminating the use of the envelope. The customer's deposit experience is enhanced and it provides an opportunity to lower cost for the financial institution by increasing deposit processing efficiencies and reducing risks.

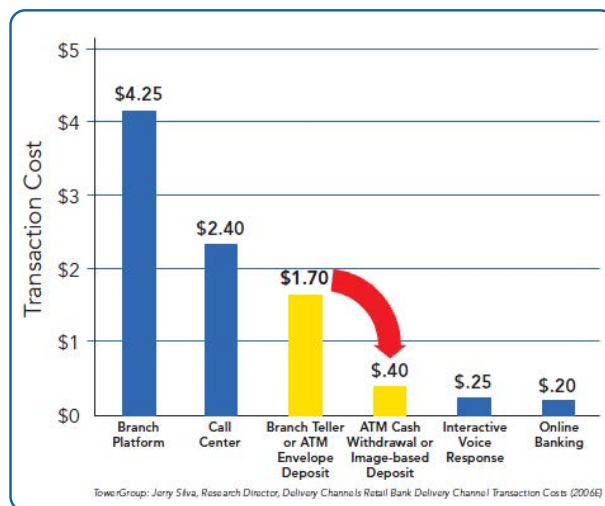
According to a recent report by Retail Banking Research (RBR), deposit automation has become one of the fastest growing new banking technologies. The market for the technology over the last five years has grown, although initially slow. This was largely due to reliability concerns which have now been addressed and coupled with the

improved affordability of automated deposit terminals (ADTs). RBR forecasts that the total market for ADTs in the 26 surveyed countries will expand at a CAGR of 14-19 percent between 2007 and 2018, translating into a market size of between 410,000 and 670,000 terminals.

The key driver in most countries comes from the cost savings which are a direct result of time spent by bank tellers in dealing directly with customers' over-the-counter deposits as well as counting and sorting notes deposited in envelopes. This is why a majority of ADTs are either lobby installed (55 percent) or in the banking hall (13 percent). Bank tellers are close by so they can assist customers and encourage them to try the self-service instead. This frees up the teller's time to promote sales and marketing of additional products to customers.

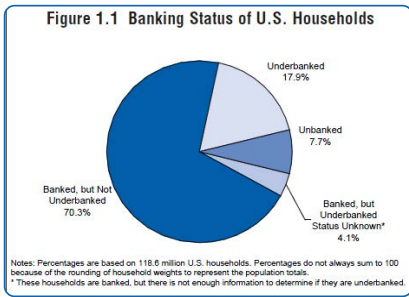
TowerGroup's estimated channel costs chart illustrates the correlation between an ATM envelope deposit and one made at the teller line, which costs \$1.70 per transaction. It also clearly shows the drastic reduction for a no-envelope deposit transaction, which is 40 cents per transaction. Thus, it proves to be very straightforward for financial institutions to model this element of cost savings when constructing their business case.

Automated deposit terminals can serve as extensions of branches to increase market reach. With this terminal, it is economically feasible to attract new customers in off-premises locations by extending deposit services. Financial institutions are beginning to consider new ways to profitably deliver banking services to less affluent segments commonly referred to as the unbanked and underbanked. These households have a need to build assets and there is an opportunity to sell this segment more sophisticated products over time.



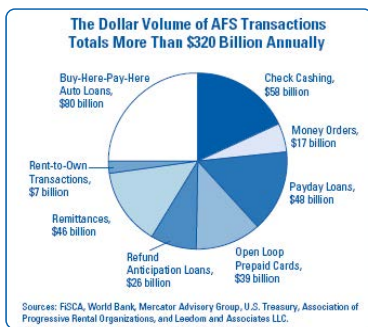
It is also worth bearing in mind that unbanked and underbanked customers are not necessarily any more risky than banked customers. With deposit automation, ATMs

are able to detect fraudulent notes as they are inserted into the ATMs. If notes are fraudulent, the payment and purchase transaction is denied. In the case of remittance payout, the authorization code is checked before money is dispensed. With deposit automation, check images can be uploaded and verified before money is dispensed on check cashing situations.



Unbanked and Underbanked – A United States View

According to the FDIC National Survey of Unbanked and Underbanked Households, the unbanked are those households that do not currently hold checking or savings accounts at banks or financial institutions. They consist of those who have never owned a bank account, as well as those who previously owned an account but no longer maintain the account.



The underbanked are banked households who have used alternative financial services at least once or twice a year to fulfill their needs. Some have used services such as non-bank money orders and check-cashing, pawn shops, payday loans, rent-to-own agreements as well as refund anticipation loans. Implicitly, the unbanked do not own payment cards such as debit and credit cards as those cards were traditionally issued by banks. That said, some retailers have started to issue open-loop prepaid cards to capture some of the card use market.

The FDIC survey also shows an estimated 7.7 percent of U.S. households, approximately 9 million, are unbanked, and at least 17 million adults residing in these unbanked households. Of these 9 million unbanked households, approximately 46.9 percent never had a bank account while 49.0 percent were households that were previously banked. An estimated 17.9 percent of U.S. households, roughly 21 million, are underbanked. The number of adults that reside in these underbanked households is about 43 million. Taken together, at least 25.6 percent of U.S. households, close to 30 million, are either unbanked or underbanked. Approximately 60 million adults reside in these households.

Unbanked survey respondents indicated that not having

enough money to feel they need an account is the most common reason why they are not participating in the mainstream financial system. On the other hand, the majority of underbanked households that go to non-banks for money orders and check cashing do so primarily for convenience, speed and cost reasons.

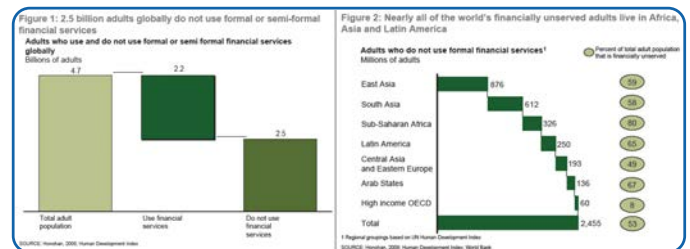
According to Financial Service Centers of America (FiSCA), the national trade association that represents nonbank financial service centers, more than 13,000 nonbank financial services companies operate nationwide, providing a variety of financial services. The transaction volume is estimated at more than \$320 billion annually.

Unbanked and Underbanked – A Global view

Based on 2005 statistics from Honohan, out of a total world population of 4.7 billion adults, only 2.2 billion used some form of formal financial services. The remaining 2.5 billion adults, just over half of the world's adult population, are unbanked. They did not use any formal or semi-formal financial services.

Nearly all of the 2.5 billion unbanked adults live in Africa, Asia and Latin America. For these regions, the total percentage of unbanked adults climbs to 62 percent of the adult population. The greatest number of unbanked adults, almost 1.5 billion, resides in East and South Asia. In Sub-Saharan Africa, 80 percent of the adult population, 325 million people, remains unbanked, as compared to only 8 percent in high income OECD countries.

The Potential Service Offering



With the use of automated deposit terminals, the infrastructure is in place for new, incremental transactions. Customers will have the ability to perform transactions at the ATM using deposited cash instead of debiting their accounts. This also enables financial institutions to extend services to the unbanked and underbanked customers. The same technology that supports cash and check deposit supports the services described below.

Therefore, this builds upon existing infrastructure which can be easily leveraged to move more services across the established channel.

Bill Payment

Customers need to pay bills. By offering this service at an ATM with deposit automation, financial institutions are able to serve both cash-preferred and banked consumer

markets. Billers will have a new way to collect payments from their customers. The bill payment service is gaining popularity with consumers who want control over their payment activities and those who wish to pay their bills in person at their convenience. The service will provide the financial institution with an avenue for additional transaction volume, thus translating to additional revenue.

The bill pay kiosk evolved as a self-service terminal solution for the cash-preferred and unbanked consumers. Since then, it has been growing steadily over the years as it provides customers a more convenient option for paying their bills on time. According to the Center for Financial Services Innovation's report, kiosks that allow consumers to deposit cash into machines to pay bills in real time have proven very attractive to consumers who are primarily cash carriers. It's not surprising that retailers, grocery stores, convenience stores and gas stations have offered this service to customers in return for a premium.

Euronet's Bill Payment solution enables customers to pay their bills at the ATM as well as other channels such as internet and telephone. For the unbanked and cash-preferred customer, a cardless bill payment feature will be utilized. The customer is prompted to select the biller he/she wishes to pay and enters some details about his/her bill, such as biller number, account number with biller, and amount of payment. The customer will then insert cash into the ATM for validation. Once the amount is validated and the transaction is completed, the customer receives a receipt to confirm payment.

Person-to-Person Payment

This service is similar to bill payment, except that the recipient is an individual. The recipient gives their bank account number to the sender and the sender pays the required funds into the recipient's account. Examples of this payment type are payment to a friend, rental payment to the landlord, etc.

Customers can perform person-to-person (P2P) payment using Euronet's P2P Payment solution at the ATM as well as through the internet and telephone channels. A cardless payment feature will be utilized for the unbanked and cash-preferred customer. The customer is prompted to enter details about his/her payment, such as recipient's bank account number, and amount of payment. The customer will then insert cash into the ATM for validation. Once the amount is validated and the transaction is completed, the customer receives a receipt to confirm payment.

Remittance

International remittance activity is conducted primarily

outside of banks. Most banks offer wire transfer and automated clearing house (ACH) services as part of their normal course of business for account customers. However, others have specifically targeted international remittance business as an opportunity to generate fee revenue and to cross-sell accounts and other products.

Remittances are a relatively high-margin business and point of entry to immigrant markets. According to the World Bank, remittance fees can be as high as 10 to 15 percent of the principal amount for remittances below \$200. Estimates show that officially recorded remittance flows to developing countries fell from \$338 billion in 2008 to \$317 billion in 2009 due to falling migration flows and a weak job market in many destination countries. However, a recovery in migration and remittance flows in 2010 and 2011 is expected.

Euronet's Remittance solution will enable the unbanked customer to send cash from the ATM without the need of a card to a recipient in another country. The sender inserts cash into the ATM for validation. Once the amount is validated and the transaction is completed, the sender receives a receipt to confirm remittance and the recipient receives instructions by SMS text message to collect remittance from either an agent correspondent or at an ATM. The recipient is prompted to enter details about the remittance, such as authorization number and amount of remittance. Once the transaction is validated, the recipient receives cash from the ATM and a receipt to confirm the payout.

Check Cashing

According to FiSCA, check cashers typically charge 1 to 4 percent of the face value of the check, depending on the check issuer and subject to limitations of state law. About two-thirds of checks cashed at nonbank outlets are payroll checks; another 18 percent are state or federal benefits checks. Given the generally low-risk nature of most checks cashed, losses tend to be below.

Retailers are increasingly recognizing the revenue-generating potential of check cashing and other transaction-based financial services. For instance, the retail giant, Wal-Mart, opened its first MoneyCenter in 2002. In fiscal 2008, it cashed 45 million pay checks with a face value of \$17 billion. Likewise, convenience chains like 7-Eleven Inc. also offers check cashing services in select stores through their V-Com self service kiosks.

Some financial institutions have started experimenting with check cashing as a way to bring new customers to mainstream offerings. They offer support and education programs to unbanked on managing fees and balances in



addition to repayment plans that allow customers to redeem themselves after incurring a negative balance, while continuing to use check-cashing services.

Prepaid Mobile Recharge

A prepaid or pay-as-you-go mobile phone is an alternative cellular service for customers who are unable to, or choose not to, have a post-paid mobile phone service contract. Service credit is purchased in advance of use on the mobile phone network. Users can use the mobile phone network until they run out of credit. A customer can add more credit to the prepaid account at any time using a recharge or top-up card or voucher.

Consumers can recharge their prepaid mobile account at the ATM, POS or the mobile channels using Euronet's Mobile Recharge solution. The customer is prompted to select the mobile phone network and amount of credit he/she wishes to purchase. The customer will then insert cash into the ATM for validation. Once the amount is validated and the transaction is completed, the customer receives a receipt to confirm credit purchase along with an authorization code and redemption instructions.

Conclusion

Financial institutions must find new ways to capitalize and build their customer bases. By deploying the automated deposit technology at the ATM, financial institutions can begin to offer new products to the unbanked and underbanked market with minimal additional investment. Deposit automation offers financial institutions the

opportunity to improve their profitability by growing revenue streams in serving new customer groups but also in reducing underlying costs within their operations. In turn, if executed correctly, this should also improve customer satisfaction with shorter queues in branch. However, the installation of deposit automation functionality alone will not guarantee success. Bank tellers will need training on how to serve this new segment of customers. The new customers will need educating as they would not have been exposed to traditional banking products.

By encouraging customers to use self-service terminals, their increased familiarity with more interactive channels allows them to be more self-sufficient, thus reducing time spent with bank tellers. This will enable bank tellers to spend more time promoting sales and marketing activities to all customers. There is potential to develop future cross-selling revenues through sponsored products and the prospect of evolving the unbanked and underbanked into fully banked customers.

Historically, retailers have met the needs of unbanked and underbanked consumers by offering alternative financial services at the counter. As financial institutions work to reclaim those services by enhancing their self-service channels, the branch provides an ideal venue for those new walk-in customers. For example, a simple bill payment transaction for a consumer with no traditional or established banking relationship could lead to future opportunity for the financial institution.

For more information write to us at: pakistan-info@eefit.com



Euronet Pakistan (Private) Limited
7th Floor, Bahria Complex-III
M.T. Khan Road, Karachi-74000, Pakistan
Tel: +92 21 111-SECURE, URL: www.euronetpakistan.com

