

## Are gift cards the Next Big Thing for ATMs?

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In 2011, consumers loaded about \$460 billion onto prepaid cards. According to research from the Mercator Advisory Group this figure will balloon 50 percent over the next two years, reaching \$685 billion by 2014. Prepaid cards have come a long way since Blockbuster and K-Mart introduced the first non-phone cards in the mid-90s.

Currently when consumers think of making a gift card purchase, they imagine a supermarket or drugstore spinner rack (also known as a "card mall"). But one company intends to change the picture in consumers' minds, persuading them instead to think of their neighborhood ATM.

According to Better ATM Services president and CEO Todd Nuttall, there couldn't be a more natural combination than ATMs and prepaid cards.

"That whole [prepaid] industry is hungry for better ways to get into consumers' hands," Nuttall said, "Then you turn and look at the whole ATM world — after 40 years, they're already in all the best locations in the world, right? By definition an ATM is located where people are walking, working, playing ... And so if you had a vending machine business you couldn't pick a better place than where ATMs already are."

Banking on this belief, Better ATM Services launched its first ATM-based prepaid card program less than two months ago in partnership with Triton Systems and a trio of Arizona-based credit unions. And so far, Nuttall's theory seems to be holding up.

### **It's all in the cards**

The concept behind ATM-dispensed prepaid cards is quite simple, involving minimal modifications to a Triton multi-cassette ATM ("two little hardware components," Nuttall said) and a few slight menu and command features to the software that runs it.

The tricky part, Nuttall said, was developing a card that an ATM could dispense.

"One of the more difficult challenges was to adapt the whole visa world to a plastic that will work in a cash machine, but is still good — durable, usable enough to where it works at the point of sale just like people are accustomed to," he said.

Better ATM Services brought together all the players — Visa, Triton Systems, printing companies and others — to develop a workable card. The end product was a card made of a poly-based material similar to that used for transit passes around the world. It is one-third the thickness of a PVC credit card and is produced on a sheet sized to fit in a cash cassette.



Each poly sheet is divided into three snap-apart panels: the first contains the card itself; the second provides bankcard compliance information, instructions for use and phone numbers to call should the card become lost or unusable; the third offers available space for a coupon or promotional message. The pilot program offered a coupon for \$10 off services from a popular local automotive service chain.

"We found in research that everyone struggles when they pay a fee for a card but they do it because of the convenience factor," Nuttall said. "But when you get an offer or something of value, Coke or a free dinner or breakfast or something, you feel much better about it. You feel you got something for what you did. So you're actually bringing that additional value to the consumer where they get the card and they also get an incentive coupon."

### **How it works**

To buy a gift card from an ATM, the customer dips or swipes his or her ATM/debit card as usual and selects the gift card purchase option from the ATM menu. The customer is prompted to choose a dollar amount to load onto the card (the pilot program offered choices in \$25 denominations). The ATM then picks the card and delivers it to the customer via the cash dispenser. The amount on the card is deducted from the user's bank account just as it would be for any cash-out transaction.

The cards in the pilot program were preactivated, but Better ATM Services and Triton Systems are now finishing development of a soon-to-be-released program that will activate a card upon purchase and load it with any amount the customer chooses.

"That's a big benefit for the merchants and the distributors out there deploying ATMs in the gift card programs because now they don't have to have a lot of capital tied up in a preloaded gift card that's loaded into the ATM," said James Phillips, vice president of sales and marketing at Triton Systems. "We really think that's where it will take off."

In the variable-load system, a scanner would be added to the ATM to identify the particular card and a dollar value would be assigned to that card number. Purchase and use information would then be tracked on the back end by a proprietary service provided by Better ATM Services. Phillips said the variable load system would be demoed at the ATMIA US Conference Feb. 29 through March 2 in San Antonio.

To tap into the gift card revenue stream, a merchant or ISO must use ATMs outfitted with multiple cassettes — one for cash and at least one for gift cards. Currently, not many US vendors offer this capacity, Phillips said. Those using Triton's newer machines, the RL2000 and RL5000, can do a field upgrade to add a Talaris NMD 50 or NMD 100 multi-cassette dispenser. Phillips also said the timing might be right for deployers who are already pulling older machines to comply with new ADA and EMV requirements.



## **How it's worked so far**

For Credit Union West, adding gift cards to ATMs made sense, said CEO Robert MacGregor. "We saw it as a really progressive step to giving our members a new product and a better level of service with basically little modification to our current systems. We saw that as a real plus to be able to offer this extra feature right from the safety and security of the ATM."

Though the final numbers aren't yet available, both MacGregor and Nuttall said the launch didn't just meet their expectations — it far exceeded them. "It's been really overwhelming, the response," said MacGregor. "We've had repeat customers come back and back for the thing ... it's just a new type of technology that they're adopting very quickly."

To encourage trial, credit unions in the Better ATM Services pilot program did not charge a fee for card activation, however MacGregor said a fee eventually would be added.

"Our primary motivation was just to bring another service to our members — that's kind of what credit unions do," MacGregor said. "But we have to keep the lights on so we will charge something once we get through this pilot program and decide what we need it to be ... but I think it's going to be a pretty low cost."

He said that because ATM-dispensed cards don't have to be activated manually and aren't subject to fraud as spinner rack cards can be, fees can be highly competitive with those charged by retailers.

MacGregor said he thought the Better ATM Services system offered an almost unlimited array of eventual possibilities — for movie and concert ticket sales, closed-loop cards and more. He said that while cassette space could be a limitation, this might be addressed to some degree by working with companies that offered a large family of brands (for instance, the Darden restaurant group) that could all accept the same gift card.

## **Will it work for ISOs?**

Introducing a new service to ATM customers is rarely easy, and ISOs may have it especially hard. Unlike financial institutions, they lack the communication channels — bank statements, newsletters, e-mail alerts and "employee ambassadors" — to acquaint their customers with the new service. Also, they often don't have the trust relationship with a user that a customer has with a bank. So they must break down barriers to use with people whose attitudes range from timidity to skepticism.

Sam Kandah, president and CEO of ATM distributor and deployer National Link, offered an example of the challenge that faces any new ATM feature: "We worked with a company that does money transfers to Mexico and they installed the machines in Los Angeles," he said. "For that program to work, for three months [a store owner] put a person standing next to the machine and anybody that wanted to do a



money transfer, they had to walk them to the machine and help them do it. That [program] is working only at that store right now. So that tells me a lot."

Triton Systems senior US retail manager Alex Karetas said he understands the difficulty. "The employees of the credit union really pushed and encouraged their members to go out and use the ATM to buy a gift card," he said. "So it's going to take a financial institution or a retailer getting their people to direct customers to the ATM for that product. That goes for anything you do at an ATM, whether its gift card, stamps, anything we've looked at over the last 15 years of retail machines."

Despite the drawbacks, Kandah sees the intrinsic value in adding a new fee stream to an ISO network. "It's a fantastic idea. Everyone is looking for that next big thing. The gift card is one of the most appealing things. That would be my number one priority that I would jump on," he said.

However, Kandah isn't jumping just yet. "You have to have the ROI to make it work ... on an [independent] ATM they are more expensive than anywhere else because you have so many people involved ... everybody needs a cut. So it's expensive because you have so many hands."

"The technology, that will work," he said. "The problem is who's going to pay for it. Bottom line."