

Banking Automation **BULLETIN**



Deposit automation – the new killer application

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DEPOSIT AUTOMATION

Deposit automation: the new killer application

A major new study by RBR shows that the number of automated deposit terminals has more than quadrupled since 2003

Cost savings relating to the acceptance, counting and sorting of deposited notes constitute a key market driver

Following a relatively slow initial adoption, deposit automation has finally taken off globally.

A recent study by RBR shows that deposit automation has become one of the fastest growing new banking technologies. Based on a survey of 311 banks across 26 countries worldwide, the number of automated deposit terminals (ADTs) has more than quadrupled, from 22,000 in 2003 to more than 96,000 at the end of 2007.

Furthermore, the market is expected to continue expanding at a breathtaking pace over the coming decade, reaching as many as 670,000 units by 2018.

Deposit automation market driven by an increasingly strong business case

For many years, deposit automation has been looked upon with considerable interest by manufacturers. Progress was initially slow in the majority of countries, but over the last five years, as automated deposit terminals have become more affordable and concerns over the reliability of the equipment have been allayed, the market for the technology has gained momentum.

In most countries, the key market driver is the positive business case built around cost savings

from the reduction in staff time spent accepting over-the-counter deposits and counting and sorting notes deposited in envelopes. To this end, a majority of ADTs are installed either in the lobby (55%) or in the bank hall (13%), close to teller positions where staff are at hand to provide assistance and encourage depositors to try self-service instead of queuing.

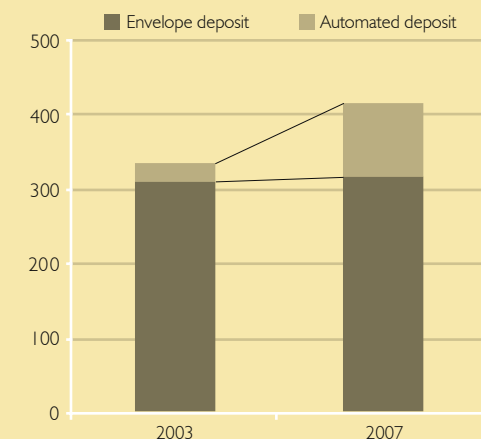
The market is hindered from a faster rate of growth, however, by deployers' continued view that purchase costs are still high, despite recent falls in the price of the technology. Insufficient usage is also deemed as a significant obstacle to deployment in some countries, as customer habits of queuing at teller positions to make deposits are in many cases entrenched.

ADTs are being rolled out in the majority of countries

Despite the sharp rise in the number of ADTs over the last few years, envelope-accepting ATMs still represent the majority of deposit terminals. 23% of ATMs accept envelope deposits in the countries surveyed, whilst automated deposit is currently available at only 6% of machines. The high number of envelope-accepting ATMs is a result of the long tradition of making envelope deposit a standard ATM

Deposit terminals by type

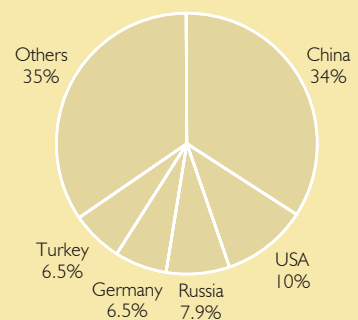
26 countries worldwide, (thousands)



Source: RBR analysis

ADTs by country

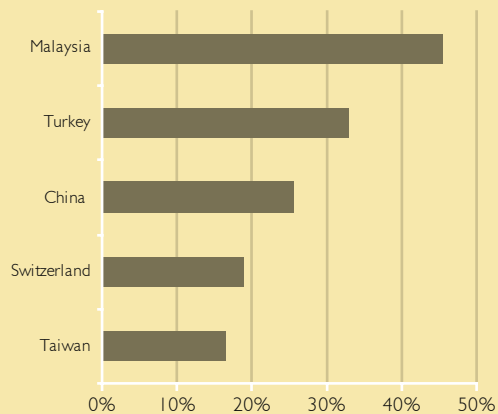
Top five countries, 2007



Source: RBR analysis

ADT penetration by country

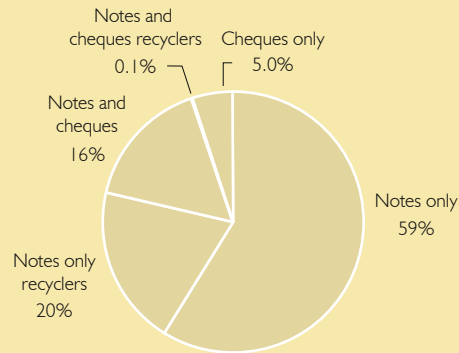
Top five countries, ADTs relative to ATMs, 2007



Source: RBR analysis

ADTs by functionality

26 countries worldwide, 2007



Source: RBR analysis

26% of ATMs with automated deposit functionality recycle the deposited notes

facility in several countries, as well as the relative simplicity and low cost of offering this service.

Five countries (China, Germany, Russia, Turkey and the USA) account for almost two thirds of the installed base of ADTs in the countries surveyed, although none of these markets has yet reached maturity.

Penetration levels tend to be higher in Asia-Pacific than in other parts of the world. Turkey is the only country outside Asia to have reached a penetration of ADTs relative to ATMs of more than 20%.

'Notes only' acceptance most popular automated deposit functionality

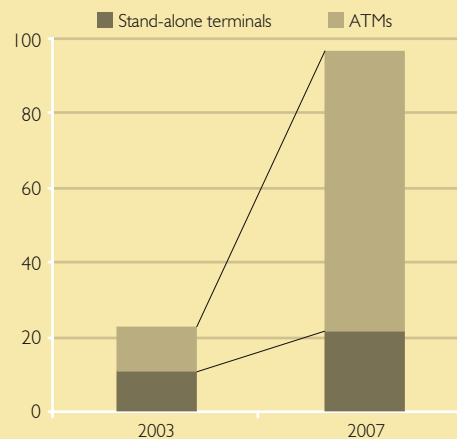
Of the automated deposit functions, note deposit is viewed with the most interest by deployers in the majority of markets, as over-the-counter note deposits typically take up a sizeable chunk of tellers' time. Among the ATMs with automated deposit functionality, 79% accept notes only (ADTs 79%), 2% cheques only (ADTs 5%) and the remaining 19% both notes and cheques (ADTs 16%). 26% of automated deposit ATMs recycle the deposited notes.

Cheque deposit functionality is still used in a number of countries, but low cheque usage in many markets has limited its appeal. Italy, Malaysia, Portugal, the

UK and the USA account for over 90% of cheque acceptors in the countries surveyed, with the USA alone accounting for over half the total.

ADTs by type

26 countries worldwide, (thousands)



Source: RBR analysis

Banks in a majority of countries prefer to offer automated deposit functionality at ATMs rather than stand-alone deposit-only terminals. In 2003, there was roughly an equal split of ADTs between ATMs and stand-alone terminals, whereas ATMs now represent close to 80% of all ADTs.

Most banks prefer to provide automated deposit functionality at ATMs rather than stand-alone terminals

Did you know...

...that Kalignite has supported ATM multi-vendor cash recycling since 2004?

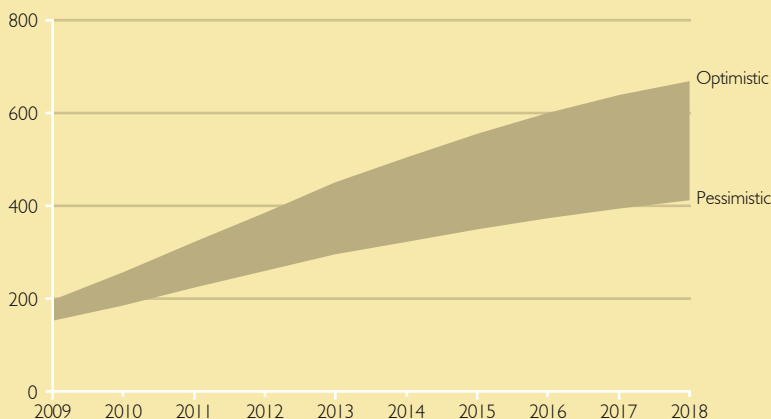
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ATM Software

Forecast deployment of ADTs

26 countries worldwide, (thousands)



Source: RBR analysis

► **Banks seek reliability, ease of use and affordability**

Deployers consider a number of criteria when selecting new ADTs; of these, reliability, ease of use and price are deemed the most important.

The key selection criterion is the reliability of equipment, as this can impact the total cost of ownership as well as uptime and usage. It is also important given that customers expect ADTs to have the same level of uptime as standard ATMs, an expectation which is difficult for ADTs to live up to in practice, owing to the added complexity of note-accepting mechanisms.

Ease of use is also considered a vital selection criterion because customers must feel comfortable using the technology if it is to be successful, especially in terms of migrating depositors away from tellers. Customers who find the terminals difficult to use will revert to using tellers. Many institutions feel that touch screens and clear on-screen messages make the machines more user-friendly.

Price, which includes purchase price as well as the total cost of ownership, is regarded as fundamental to a business case based on cost savings, and is a key ADT purchasing criterion during competitive tenders. However, the majority of banks claim they would not choose a cheaper machine if it meant compromising on quality.

ADT market forecast to reach half a million terminals by 2018

Overall, the 26 countries surveyed exhibit strong

growth potential, although most are not expected to achieve their full potential within the next 10 years. RBR forecasts that the total market for ADTs in these countries will expand at a CAGR of 14%-19% between 2007 and 2018, resulting in a market size of between 410,000 and 670,000 terminals. This long-term potential corresponds to a penetration rate of between 21% and 34% relative to ATMs. This is still modest compared to Japan and South Korea, where penetration of ADTs to ATMs already exceeds 90% and 60% respectively.

China and the USA are expected to remain the clear leaders amongst the surveyed countries, together accounting for over 40% of ADTs by 2018.

The number and share of ADTs offering cheque acceptance is forecast to increase substantially, although this function is likely to be available in only a limited number of countries. The proportion of cheque-accepting ADTs is forecast to nearly double, from 21% now to close to 40% by 2018. The US market will be the main driver behind this growth, followed by Brazil, where an Act on cheque truncation is expected to be passed in the near future.

Cash recycling is also expected to witness strong growth in the coming years, increasing from 20% of ADTs at the end of 2007 to 25%-30% by 2018. Asia-Pacific and western Europe are expected to see the highest penetration of cash recyclers, as countries in these regions tend to have a better balance between withdrawals and deposits. The split of denominations dispensed and deposited is also anticipated to be more conducive to recycling in these regions.

Although most markets are experiencing a shift towards electronic forms of payment, this is unlikely to reduce demand for automated deposit terminals in the short or medium term. Even if alternative payment methods are encouraged, banks acknowledge that cash (and in a few countries also cheques) will be around for many years, and must be handled as efficiently as possible.

Overall, the study has revealed that the benefits brought by deposit automation to banks and customers have led deployers to review their initial scepticism of the technology. As such, not only is the future for this facility bright, but early claims that this could be the new killer application at self-service terminals now appear to be justified. ■

The deposit automation market is forecast to reach half a million milestone by 2018

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