



How ISOs and merchants can benefit from serving the unbanked with surcharge-free ATMs

Low-cost access to cash can draw, retain members of a growing demographic

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More than one in four people living in the United States (28 percent) are unbanked (they don't have a checking or savings account) or underbanked (conduct some or all of their financial transactions outside of the financial mainstream), according to a 2011 FDIC report. They negotiate largely in cash, much of which is stored temporarily on some form of a general-purpose reloadable (GPR) card.

Prepaid cards are growing in popularity. Employers and government agencies are embracing prepaid cards as a secure and cost-effective way to deliver money to individuals without access to direct deposit or check-cashing privileges.

Overall, the prepaid card market is expected to expand by 20 percent annually from 2010 to 2016, as the number of cards grows from 9.7 million in 2010 to 29.2 million in 2016, according to a report from the Boston-based Aite Group.

As the unbanked and underbanked segments grow, so too do opportunities for retailers and other public-facing organizations to provide relevant low-cost services to attract their patronage. Savvy retailers can examine their own offerings and imple-

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ment a strategy to attract first the business and then the loyalty of these millions of consumers. A surcharge-free ATM network is one of the most potent tools available to help accomplish those goals.

Partnering with an independent ATM deployer that offers a surcharge-free network allows the merchant to create a prepaid card ecosystem that not only serves customers but also generates additional profits, said Doug Miraglia, president of MoneyPass, a network of Elan Financial Services, a provider of comprehensive ATM and debit-card processing solutions for financial institutions, IADs and retailers.

“The merchant, the card issuer, the card holder and the ATM IAD all benefit from this circular arrangement that provides a high value to the cardholder,” Miraglia said.

Retailers develop a GPR card ecosystem

Merchants agree that prepaid cards are growing across three primary distribution channels: stores, online and mobile. To capitalize on this growth while meeting myriad needs of merchants, prepaid providers should segment their merchant portfolios to develop and provide an array of product features and marketing strategies.

“The good news for merchants and prepaid providers is that there is plenty of opportunity in the prepaid market,” said Madeline K. Aufseeser, senior analyst with Aite Group and co-author of this report. “Organic opportunity for growth exists in stores, online, and via mobile, as well as in merchant penetration. As prepaid cards become a mass-market product, more merchants will embrace selling not only cards, but a wider menu of features on various card products.”

In addition to the unbanked, Aite Group research has identified a new group of consumers that is deliberately stepping away from banking relationships due to rising fees: the debanked.

“While the unbanked are often misperceived as disadvantaged consumers living outside mainstream society, the debanked are anything but underprivileged,” said Ron Shevlin, senior analyst with Aite Group. “Furthermore, convincing the debanked to use prepaid debit cards shouldn’t require a lot of education or persuasion. The debanked are already highly satisfied and frequent users of this product.”

By partnering with an IAD that offers a



surcharge-free network for in-store ATMs, a merchant can capitalize on this opportunity by creating an ecosystem that attracts these fee-conscious customers and retains cash flow within the store.

“The prepaid card they sell in the customer service area provides access to the MoneyPass network for surcharge-free transactions,” Miraglia said. “The beauty of it is that they can say, since you have access to the surcharge-free MoneyPass network we have a machine right there in the store.”

The payoff for the merchant can be considerable. The ATM supply company ATMGurus estimates that ATM customers spend 20-25 percent more than non-ATM customers. A surcharge-free ATM draws additional customers, who may bypass more convenient ATM locations.

“The benefit to the merchant is they get a chance to sell a prepaid card to their customer and service the unbanked with the obvious hope they’ll continue to frequent that store to fill the card and use the ATM,” Miraglia said. “The cardholder is happy because they get a surcharge-free transaction.

The prepaid card and ATM access give the cardholders a good feeling about that store – and they have money in their hands they can spend right away in the store.”

Surcharge-free ATMs drives volume growth for ISOs

As the GPR market increases, consumers will be looking for the service providers that offer the best value. A surcharge-free partnership positions an IAD to offer added value to its merchants. Consumers will bypass more conveniently located ATMs to reach the ones that offer surcharge-free transactions.

“We know this is something consumers want because they’re faced with \$2.50 or higher per transaction surcharge, so increasingly consumers are saying they’re tired of spending \$12-\$20 a month on surcharges,” Miraglia said. “They are going to do business where they get access to surcharge-free machines.”

With a surcharge-free network the IAD still generates interchange. And the volumes at a surcharge-free retail ATM often experience a lift in transactions of 3-5 percent in the first year, which continues to increase yearly. Furthermore, a portion of that additional cash flow is then spent in the retail location, adding value for the retailers they serve.

“The IAD has a good deal because they have a partner in the merchant who will have high foot traffic that’s going to use their machines,” Miraglia said. “The merchant benefits from a robust channel to support their prepaid card strategy.”

***About the sponsor:** Elan Financial Services is a business unit of Minneapolis-based U.S. Bank. For more than 40 years, Elan has provided a full range of payments, products and services to IADs and financial institutions.*