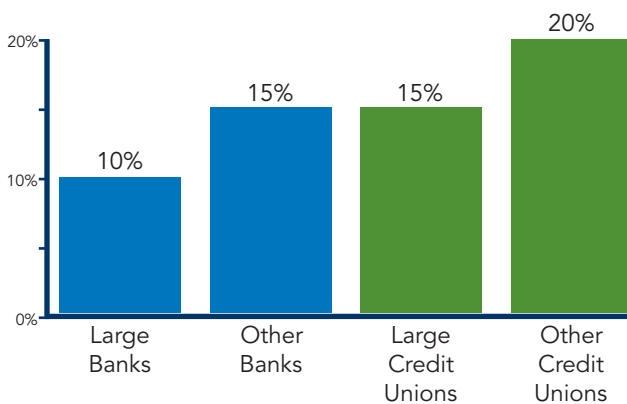


SELF-SERVICE OUTSOURCING: A CLOSER LOOK



Banks, credit unions, and other ATM owners are outsourcing their entire self-service channels at a rate of nearly \$2.5 billion annually.



Financial Services Technology,
US Edition, 2007, www.usfst.com

Over the past decade, retail and financial institutions that deploy ATMs have learned that outsourcing the components of a self-service network can bring a quick boost to the bottom line.

These banks, credit unions, and other ATM owners are outsourcing their entire self-service channels at a rate of nearly \$2.5 billion annually, and they're saving an average of 15 - 20 percent over the cost of managing ATMs on their own.

The trend toward turnkey outsourcing has momentum.

Nearly ten percent of large banks and 15 percent of other banks outsource ATM operations while nearly 15 percent of large credit unions and 20 percent of other credit unions do the same. In almost every market segment, the number of financial institutions employing full-service outsourcing is set to double.

And while regional institutions are leading this trend, major institutions like Toronto-Dominion Bank have also announced large ATM outsourcing projects. >>

This white paper examines the market forces behind this trend, the components of a comprehensive self-service outsourcing program, important considerations related to self-service outsourcing, and strategies for ensuring success.

Motivating Factors

To understand the trend toward outsourcing, it's important to understand the backdrop against which many banks and credit unions have been operating.

For financial services providers, the past decade has been marked by competition, consolidation, and technology change.

Even so, self-service networks can help attract new customers and satisfy needs for self-service banking and convenience. Not surprisingly, then, self-service outsourcing has emerged as an ideal means to achieve balance between profitability and service.

A recent survey revealed the following leading motivational factors among banks, credit unions, and other ATM owners who outsource much or all of their ATM operations:

- Focusing more on core business activities
- Cutting operational costs
- Staying current with technology.

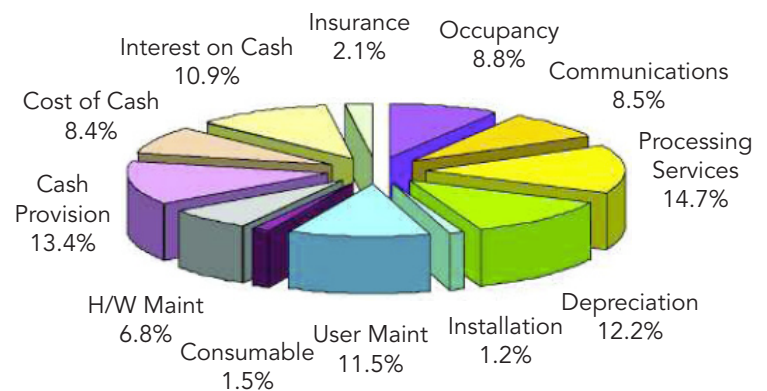
By enlisting third parties to manage their self-service channel, banks and credit unions can pay less than by doing it on their own. They can put more energy toward the profit centers of their companies, and they can benefit from technical expertise they won't find in-house.

When to Outsource

While market dynamics, in general, have certainly contributed to a rise in the number of banks and credit unions interested in outsourcing, a handful of very specific issues can also serve as an immediate signal to trigger closer consideration of self-service outsourcing.

1. "We would like to move our self-service network from tactical to strategic, from a business necessity to a competitive advantage."

According to recent data from a Dove Consulting report on ATM terminal deployment, financial institutions lose an average of \$242 per month on each of their off-premise ATMs. An experienced outsourcing partner can show banks and credit unions how to reverse this erosion in profits.

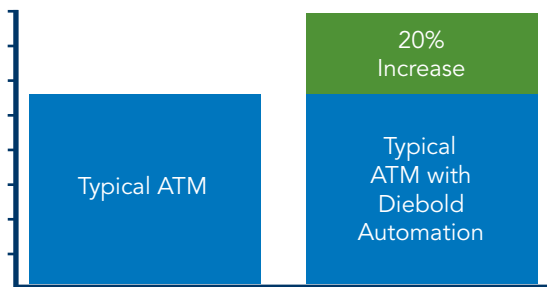


Diebold Estimate

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2. "We have concerns about the capital expense of ATM replacements and upgrades associated with compliance issues such as Triple DES and Encrypted PIN Pad or new laws such as the U.S. Check Clearing for the 21st Century Act."

For banks and credit unions with a reliable, knowledgeable outsourcing provider, compliance is a given. So is the ability to take advantage of emerging technology designed to enhance efficiency, such as deposit automation and advanced check clearing activities.



Diebold estimates a 20% increase in ATM revenue when banks and credit unions install and effectively market Deposit Automation capabilities

3. "We don't really understand the costs of owning our ATMs well enough to create a true cost analysis."

Financial institutions admitting to this shortcoming are not alone. In fact, most ATM owners don't optimize their ATM cash positions, can't identify the true cost of ATM ownership, and find it virtually impossible to calculate a true return on investment in their self-service channel.

4. "Our self-service network has become dated, leaving much to be desired from a customer service perspective and opportunity for improvement relative to our competition."

Successful outsourcing solutions provide customers with the ability to adopt new, state-of-the-art technology. By combining state-of-the-art equipment with specialized expertise, established outsourcing providers can help financial institutions attract and retain customers by providing a high level of self-service capability.

Older Legacy ATMs

- Too old to take advantage of new technologies:
 - One-to-one marketing
 - Deposit automation
- Outdated security
- Inability to communicate with newer ATMs and systems

Comprehensive Outsourcing Solutions

- Increases availability
- Increases revenue
- Lowers/eliminates investment
- Reduces cost
- Reduces risk
- Responds faster/innovates
- Supports new transactions
- Enables 1-to-1 marketing

The Outsourcing Palette

It's important to note that the most successful outsourcing arrangements involve turning over comprehensive responsibility and accountability for a strategic business activity to a company with the required core competencies to succeed.

Too often, corporations engage in something closer to "out-tasking" — handing over small pieces of something without making a fundamental shift in responsibility, process, accountability, or control.

Out-tasking adds human and financial resources without a great deal of benefit. More often, it's a recipe for disaster, marked by adversarial relationships, cross purposes, and double-duty. This type of disservice not only hurts the financial institution's bottom line, but also leads to little, if any, quantitative data to help them make confident business decisions.

Components of a typical self-service outsourcing engagement include everything from hardware deployment and maintenance to driving and monitoring. Below is a more in-depth look at each of the different elements.

Hardware and Software Selection

To start with, a self-service outsourcing arrangement includes hardware and software selections to make the self-service channel more efficient.

Providers are more likely to succeed because they are able to choose the most important tools related to self-service channel management, clients benefit because they get state-of-the-art equipment, and consumers win with greater access to increased customer service.

Implementation Services

These services include site selection, product delivery and installation, along with project management services associated with upgrading ATMs or network infrastructure.

Experienced self-service outsourcing experts are likely to have encountered hundreds of implementations; while the typical small bank or mid-sized credit union is liable to have much more limited experience. Economy of scale combined with experience is likely to equal lower cost and greater efficiency.

Implementation and project management services are particularly useful for small to mid-sized financial institutions struggling to justify unprofitable ATM placements. It is not uncommon for financial institu-

tions to have misjudged the viability of a placement or to discover that a once profitable ATM placement has experienced a decrease in transactions over time.

Outsourcing helps financial institutions mitigate such issues by reducing expenses and increasing the availability of equipment and capital. All of this can be accomplished without sacrificing branding, market share, personalization, or the ability to waive ATM fees for loyal customers.

Maintenance Services

Who better to service ATMs than the experts who provided and installed them? As obvious as this may seem, many financial and retail service institutions have several points of contact depending upon the various types of ATMs operating within their networks. A well-crafted outsourcing approach eliminates this problem and consolidates first line maintenance, second line maintenance, and cash handling services to a single point of contact.

Managed Services

These services are at the heart of a comprehensive outsourcing program. Day to day activities are not just managed, they're optimized for efficiency, including:

- ATM & Debit Card Processing
- ATM Status Monitoring
- Content Distribution
- Currency Management & Forecasting
- Software Deployment
- Support Desk & Site Management
- Remote Diagnostics
- Performance Metrics & Reporting

It is the comprehensive bundling of all of these services that provides the foundation for outsourcing excellence.

The Benefits of Self-Service Outsourcing

Self-service outsourcing reduces total cost of ownership and improves customer service.

It lets financial institutions focus human and financial resources on retail banking.

It lets ATM experts provide day-to-day ATM management, sophisticated ATM & Debit processing capabilities, a robust infrastructure, and a single point of contact.

It puts cutting edge technology in the hands of experts, a benefit that cannot be overlooked as research reveals consumers are demanding greater access, more services, and advanced functionality from ATMs.

Total Cost of Ownership

- Migrate ATM network cost from a capital expense to an operational expense
- Promotes knowing fixed costs over terms of engagement
- Reduces staffing needs related to ATM operations, allowing banks to redeploy employees to more profitable activity.
- Minimize hidden or "surprise" costs associated with self-service networks and related infrastructure.
- Self-service outsourcing providers bring economy of scale that typically cannot be achieved without them.
- Optimizes ATM cash levels.
- Reduces or eliminates unnecessary service calls.
- Improves forecasting with predictable fee structures for guaranteed levels of service.

Improved Focus

- Financial Institutions are able to re-allocate resources in support of core, strategic issues.
- Relieves financial and retail service providers from the business of managing the self-service network.

Outsourcing helps financial institutions mitigate such issues by reducing expenses and increasing the availability of equipment and capital.

Proven Management

- Puts experts in charge and holds them accountable
- Ensures implementation of industry best-practices
- Increases ATM uptime through better monitoring, service, and support
- Improves speed to market associated with new products and services
- Mitigates risk by shifting liability
- Provides pro-active vs. reactive self-service channel management
- Improves customer satisfaction
- Reduces suppliers by creating a single point of contact

Cutting-Edge Technology

- Provides state-of-the-art equipment and infrastructure
- Offers new opportunities to generate revenue
- Provides the foundation for advanced functionality
- Improves brand perception
- Enables cross selling products and services

How Outsourcing Lowers Cost

One of the best ways outsourcing lowers cost stems from the leverage a qualified outsourcing provider brings to equation. Such leverage is typically not available to an internal department of a small to mid-sized financial institution.

Such leverage – and the cost savings it produces — depends upon four factors.

Economy of scale. An outsourcing provider is a specialist in certain systems and processes, possesses extensive experience in a given field, and has already invested in infrastructure that probably does not exist on the client-side of the outsourcing equation.

Process expertise. Especially in information technology, the best talent flecks to outsourcing providers, where their specialty best matches the core competency of the company for which they work.

These specialists maintain and enhance their expertise, because their job depends upon keeping up to date with the latest technology in their industries.

Access to capital. When outsourcing providers invest in their businesses to enhance capabilities and increase efficiency, outsourcing clients benefit from these investments without having to pay for them in their entirety.

Access to proven technology. Outsourcing providers provide their clients with a cutting edge technological infrastructure that individual companies would be hard pressed to duplicate. Simply stated, better equipment and software produces better results for clients.

Strategies for Success

Once financial institutions have made the decision to outsource, there are several fundamentals to look for when choosing an outsourcing provider.

Perhaps the most important qualification of a self-service outsourcing provider is experience. Outsourcing providers should have an understanding of the most pressing issues facing financial institutions today, as well as knowledge of what consumers will expect in the future.

Also important is a providers ability to bring appropriate resources to the equation. A larger, more established outsourcing provider with a reputation for leadership in the self-service industry is more likely to be able to help financial institutions achieve economy of scale.

Technology is another factor to consider. Outsourcing providers who cannot provide access to the most current self-service hardware and software will be ill-equipped and unable to advance the performance of their customers' self-service networks.

And finally, comprehensive service is a critical success factor. Outsourcing providers should be able to provide a single point of contact for virtually all of the activities, processes, and tasks associated with managing a self-service network.

Diebold's Approach

For banks, credit unions, and other ATM owners wanting to investigate outsourcing as a way to better manage their self-service networks, Diebold offers a proprietary seven step process designed to ensure success by vetting issues and identifying the unique needs of a particular customer.

Our process begins with a "Needs Assessment," a simple, easy-to-navigate conversation during which we discuss where a customer is today vs. where a customer wants to be. This lets us determine where we can help, and it provides customers with an initial opportunity to better understand our service.

Next, we conduct "Due Diligence" in an effort to identify the assets, locations, and management practices associated with a particular customer. This is a comprehensive step often involving discussions with many people within a financial institution. Usually, no one person within a financial institution can answer the many questions we have at this stage of the process. More often, we speak with employees across a variety of departments and disciplines.

One benefit of our due diligence process is that when we're through, we'll provide a solution design document that puts incredible intelligence gathered during due diligence into a single document, creating a useful "policy manual" or "reference guide" associated with an institution's self-service network design and management.

The third step in our process is known as "Solution Design." It involves presenting financial institutions with the report described above. This document provides an opportunity to share consistent information with all stakeholders involved in a self-service outsourcing decision. Once approved, this Solution Design becomes a detailed roadmap for Diebold's work on behalf of a customer.

The fourth step in our process, "Design Acceptance," is an acknowledgement that our Solution Design is a living document. Diebold works closely with outsourcing customers to ensure we end up with a tangible representation of the project we're working on, including the architecture for our relationship, as well as clear articulation of specific needs, goals, and strategic objectives.

Creating a pricing structure is the fifth step in our process. Once we have Design Acceptance, we can define costs in a reliable, open, forthcoming manner. Our customers know what they're getting and what they're paying with great precision relative to the customers of other outsourcing providers.

Remaining steps include agreeing upon contractual terms and developing an approach to governance. Governance cannot be overlooked, because this step defines how Diebold will respond to a customer's changing needs after a contract is signed. In other words, if technology changes or shifts in the self-service market occur, our customers will know what to expect from Diebold.

The benefits of our 7-step process are precision and confidence. Our process results in a meaningful engagement and useful service.

Even before a financial institution "signs on" with Diebold, that institution will know — perhaps for the first time — how it functions with regard to its self-service network. Beware of any firm offering to manage your ATMs without a similarly sophisticated approach to defining your needs and your relationship.

Next Steps

If you're ready to maximize the efficiency of your self-service channel without the day-to-day complexities you've come to know so well, contact Diebold today. We'll work with you to simplify your operations, lower your costs, and produce results that will free you to exceed your business goals.

If you need more convincing, we invite you to explore our services in more detail.

Simply visit our website for a better understanding of the depth of our services:
www.dieboldintegratedservices.com

Or contact us today at:

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