

Letter from the CEO



Welcome to the latest issue of Level Four news. In this issue, we report on the findings of our recent surveys and the message we're receiving is that cash is still very much King. While holidaymakers are favouring the ATM for accessing funds abroad, banks are placing ATM downtime at the top of their agendas.

Also on the agenda is the Payment Services Directive. As with EMV, it seems the ATM is in danger of being neglected, putting banks at risk of overlooking the significant challenges ahead. To help address this, we have released a guide to the ATM and the PSD, which can be downloaded for free by visiting our website at www.levelfour.com.

Ian Kerr, CEO, Level Four
Please email your comments to enquiries@levelfour.com

Holidaymakers shun cards and travellers' cheques in favour of ATM



Level Four conducted a survey with ICM Research in June examining consumer spending habits abroad. It revealed that the ATM is the most popular way to access cash abroad, with 30% of British holidaymakers using the ATM when they run out of their initial cash supply. Debit and credit cards come second, with only 17%, followed by travellers' cheques (12%), bureau de changes (8%), pre-paid bank cards (1%) and other methods (1%). The survey highlights the importance of ensuring a highly available and reliable ATM service across an international network of operators.

One third (34%) of consumers favouring the ATM abroad were unaware of the bank's rates and fees. Under the Payment Services Directive (PSD), due to become national law across Europe by November 2009, banks must display all transaction charges, including foreign exchange rates, prior to the payment being made. As banks make preparations for the PSD, the survey results are a reminder that the regulation's transparency will benefit customers directly.

Bank Al Bilad enhances customer experience at the ATM with Level Four



Level Four captures 90% market share for ATM testing software in Saudi Arabia

Level Four announced earlier this year that Bank Al Bilad, a fast-growing Islamic bank in Saudi Arabia, has implemented ATM Developer to provide innovative functionality and services for customers at ATMs. With the solution, the bank becomes the eighth Level Four Saudi banking customer to benefit from cost savings, improved productivity and faster time to market of ATM services.

Using ATM Developer, Al Bilad can customise ATM screens, rapidly introduce new ATM functionality and undertake end-to-end testing of its ATM network. Level Four's automated tools eliminate reliance on manual testing, which results in faster, more thorough and accurate testing processes such as fewer faults in the network and reduced downtime. The solution also ensures that Al Bilad's ATM services comply with regulations such as EMV standard for smart chip cards and SPAN2 (the second generation of the Saudi Payments Network that involves the implementation of electronic banking services across the country).

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ATMs: The forgotten channel in a regulations-driven industry?



With the first stage of Single Euro Payments Area (SEPA) now live and national interpretation of the Payment Services Directive (PSD) underway, banks are once again under increasing regulatory pressures. But as attentions turn to payment schemes and infrastructure, are banks facing up to the implications for their most critical customer touch point, the ATM?

The purpose of the PSD is to provide a harmonised legal framework for all payments made in the European Union. As such, it is a crucial milestone in paving the way for the implementation of the SEPA, which aims to achieve integrated payment infrastructures and products for all Euro credit transfers, direct debits and debit card transactions.

The European banking industry has so far missed the first milestone of January 2008 for introducing pan-European direct debit instruments under SEPA. This was largely due to EU member states having yet to apply the PSD into national law, the deadline for which is now 1 November 2009, although this is widely expected to be extended. With the pressure on the European banking industry to comply, it is vital to note that no matter what approach countries take for card schemes, it will directly impact ATM networks.

There are three key elements under the PSD. The first is the creation of licensed payment institutions across the EU, which also applies to ATM operators. Once an institution receives a licence in its home member state, it can provide cross-border payment services throughout the EU and is free to establish branches in other member states without

having to seek approval from each domestic regulatory body. The full implications of this for ATM operators are, however, yet to unravel. This is particularly the case in the area of how domestic encryptions standards, such as the ZKA in Germany and the Cartes Bancaires NAC standard in France will apply outside of a provider's domestic geographic area. As no clear direction has yet been given to the market, the November 2009 implementation is looking optimistic.

The second area to consider is a new framework of rights and obligations in relation to the provision and use of payment services, which covers unauthorised transactions initiated by the payment services providers (PSPs). Crucially, this applies to disputes between users and providers relating to the ATM and consumers' disputed transactions. Where a user contests a 'mis-dispense' of cash at the ATM, the Directive clearly puts the onus of proof on the bank and requires them to refund the disputed amount pending the outcome.

Traditionally, many banks rely on an archaic form of paper journalling, where they must manually check the paper records that are kept for each ATM in order to "prove" what actually happened inside the ATM when a transaction took place. Clearly this is a lengthy and costly process, meaning that it is often more effective for the bank to settle the claim without investigating it. To resolve this, banks must ensure they have the capability to query and retrieve the exact journalling data remotely from the ATM in question through an ATM operations centre. This will enable them to quickly provide evidence of the actual transaction and avoid unnecessary cash refunds.



The third key area of the PSD is the introduction of a new set of transparency requirements. The PSD essentially treats each transaction as a contract. This means that banks must disclose certain contractual information before and after a user opts to carry out a particular transaction. The biggest impact of this will be person-to-person (P2P) money transfers, or when a user is abroad, where the transaction is conducted at an ATM that accepts cash to be credited to another account in a different currency. In these cases, the Directive states that all transaction charges, including foreign exchange rates, must be displayed to the user prior to the payment being made. Because some countries in the EU are not in the Eurozone, this means that banks must ask their customers to proactively accept the displayed foreign exchange rate offered at the ATM. It is most likely this will be done through Dynamic Currency Conversion (DCC), where institutions can clearly display the foreign exchange options and the user can choose the currency they wish to be billed in.

In conjunction with the PSD, banks must address the unique challenges posed by the SEPA guidelines. The single biggest impact of SEPA on the ATM is the potential reduction of revenues from interchange fees. With SEPA aiming to standardise processing across the EU, all cross-border Euro payments up to €50,000 will be treated as national payments. Currently, the EU has 35 differing domestic automated clearing houses, each with its own fee structures, resulting in high costs for each cashless cross-border transaction. With the introduction of SEPA, all domestic schemes will ultimately be eliminated and lucrative revenue streams such as money transfers and interchange fees will start to dry up.

To counteract this, banks must place more emphasis on the ATM's potential to deliver revenue across its entire operations. The ATM remains the bank's single biggest customer touchpoint. It is also the foundation for a bank's multi-channel strategy and, as such, banks must ensure a highly available and reliable service for customers.

With the SEPA and the PSD changing the European landscape as we know it, the impact on the ATM channel cannot be ignored. Not only will banks have to become compliant within a tight timeframe, they will also have to address the challenge of new regulations and functionality affecting areas such as dispute resolution, e-journaling, as well as changes to payment industry dynamics.

Banks must ensure they have a modern and flexible ATM software environment in place if these demands will be met. It's also imperative that they ensure that their ATM hardware, terminal software and application protocols are fully certified and tested. This will enable them to be fully compliant with SEPA and the PSD prior to rolling it out to customers. Indeed, at the heart of any change at the ATM is the customer experience. With these regulations driving more advances, the readiness and flexibility of banks and processors in the Euro zone will be put under the spotlight.



Reducing downtime is top ATM priority for banks

At this year's ATMIA European ATMs show, Level Four conducted a survey of delegates. It revealed that 22 per cent of European banks regard ATM downtime as a top priority in the next 12-18 months. The survey highlights the ongoing pressure banks face to maintain their ATMs and the requirement for better management and control of the network with intelligent ATM monitoring.

Downtime has a serious impact on a bank's brand and customer loyalty, which can lead to lost revenue and potential customer churn. The challenge of network availability facing banks today is due to recent changes to the ATM network including Windows migration

and the introduction of multi-vendor ATM software. Ensuring a highly available and reliable service for customers is critical.

Ian Kerr, CEO of Level Four Software, said: "Talk within the ATM industry has focused on visionary multi-vendor strategies and the role of the ATM in multi-channel banking, which we fully support, but our delegate survey highlights the real problem that banks face today. Banks are still struggling to get their basics right; if they can't successfully tackle ATM network availability, they will find it increasingly difficult to introduce any new revenue-generating services that will retain and attract new customers.

A perfect storm of pressures

By Steven Lund, president of Level Four Americas



During this difficult economic time, financial institutions are struggling to reduce costs and remain competitive. On top of this, many banks are also trying to find ways to reduce their carbon footprint.

The real difficulty is to achieve environmental benefits that also positively impact the bottom line. Facing this perfect storm of challenges, banks are increasingly turning to automated processes to make cost, time and environmental impact efficiencies.

Following the migration to Windows, the ATM channel is ripe for automated remote

maintenance which can help address the higher level of upgrades and resultant instability of the network. Moreover, remote and predictive software enables banks to reduce the number of maintenance trips to ATM terminals, allowing banks to substantially reduce cost and also carbon emissions from service vehicles that no longer have to make the trip

The implementation of remote monitoring for the ATM channel is helping banks to make cost savings, improve performance and reduce the impact on the environment.

Upcoming events



Cartes

4 – 6th November 2008,
Paris

www.cartes.com

Cartes will host over 500 exhibitors and 20,000 expected visitors from all over the world. The event focuses on the future trends in smartcard and contactless technologies in the banking sector and beyond.



BAI Retail Delivery Conference

18 – 20th November 2008,
Orlando

www.bai.org/retaildelivery

This November, presenters at BAI Retail Delivery Conference & Expo will focus on "Return on Innovation" – using innovative strategies to get the most out of existing resources and ideas to prioritise for the future to ensure greater profitability and performance.

BAI Retail Delivery will bring together both U.S. and international perspectives, in addition to tapping into the successes of companies outside of the financial services industry that have faced similar challenges.