ACMA CURRENCY NOTES

June 2020 Volume 3 | Issue 4

IN THIS ISSUE

The Future of Self-service Terminals (ATM's/Recyclers/Cash Deposit Machines) **1**

CIT Operations During COVID-19 Pandemic A Case Study for Garanti BBVA Turkey **4**

What Happened to the Cash! **6**

Consortium for Next Gen ATMs - Free Invitation to ACMA Members **9**

THE FUTURE OF SELF-SERVICE TERMINALS (ATM'S/RECYCLERS/CASH DEPOSIT MACHINES)

TED DEVEREUX | SPEARPOINT GROUP

Only a few years ago the number of SST's deployed globally was increasing at a significant rate YOY driven by Commercial Bank's moving clients from counters to self-service machines, the drive to provide customers easy access to machines off branch, the introduction of Independent Deployers in a number of markets and the need in under-developed markets to provide financial inclusion. However, there still remains a large number of un-banked in Asia Pacific (globally 1.7 billion) and countries where the SST penetration per million population is still low. But the number of SST's globally has plateaued which means the deployment in developed markets is shrinking. Interestingly enough, statistics show that cash in circulation is still growing globally at 5% YOY. Given the rise of digital payment methods, it is hard to understand why. A school of thought is that people are holding more cash in reserve, given the low interest rates and the rather unsettled global landscape. Cash is much easier to trade in times of uncertainty.

But what has changed? Digital payment solutions for one, reducing the need for physical cash and banks replacing ATM's with Recyclers and in some cases reducing the overall number of SST's in their estate. Digital payment methods are gaining pace, but there is still the issue of cyber fraud and stolen personal information leading to concern and substantial losses. It is much easier to steal funds digitally than physically. Yes, cash is under pressure, but remains a viable payment method for low value

Continued on next page

Continued from previous page

transactions. Moreover, cash is less costly than the charges levied on digital or credit card payments. Especially where the Retailer is able to deposit the cash directly themselves with limited risk. This has made some retailers introduce a minimum charge before accepting a digital, debit or credit card payment.

In many markets, where there are no Independent Deployers, the Commercial Bank's control the numbers and deployment of SST's. Bank's may well outsource the cash replenishment, the First Line and Second Line maintenance, but even with relatively small estates, they operate their own control function to monitor all the SST's in their estate. This can be problematic where the feed is taken directly from the Switch which provides limited information. In many locations, Bank's deploy machines alongside other Bank's machines, for example, in Shopping Malls. How often have you walked by and seen a row of machines, all deployed by different Bank's, but with only the main Bank or Bank's machines being used with a queue of people waiting to transact? Overall it becomes an expensive way to service customers unless you have high volumes of transactions.

Perhaps it is time for small to medium and even large Banks, to think outside the box and outsource the management of their SST estates and to even consider no longer owning the machines. The cost of managing an SST Estate has a number of fixed costs regardless of the number of machines deployed. For example a Channel Management Team, whom, amongst many other activities, have to consider where best to deploy machines to service their customer base, negotiate lease rates with Landlords, man up a monitoring facility to direct the replenishment and maintenance of the estate, purchase or subscribe to software programs to monitor the operational readiness of the estate including optimizing cash and replenishment needs.

To reduce costs and improve uptime, a solution for the small to medium sized Bank's is to outsource the monitoring and to further consider combining their estates to provide a "Brown Label" approach to their customers. By combining their estates, they can remove duplicate machines and / or redeploy elsewhere which will provide an extended reach to their individual customer base. "Brown Label" means the machine services several banks with the machines labelled with the member bank's names and logos. Customers can see their own Bank's name and logo on the machine housing and when they insert their card, they are shown their own bank's screen and information. Not a generic one. By sharing SST machines, Banks, can reduce the operational cost. Only one monitoring facility, not multiple ones. Slim down the channel team, reduce software costs and rental costs by removing redundant machines. At the same time, reducing the amount of cash held overall and therefore the cost of cash, by relocating some of the excess machines to improve customer reach and convenience resulting in improved customer service and attract new customers.

Often times, multiple banks deploy their machines in the same location but much of the traffic ends up concentrated at the machine of one main bank — highlighting a significant efficiency conundrum.

The biggest barrier to entering into a "Brown Label" agreement with an outsource agent, seems to be the thought of sharing and the perceived dilution of the individual bank's brand. As a customer, I really do not care, as long as my own bank transaction is free and the location of the machines are convenient for my banking needs.

The big advantages of Managed Services, are improved up-time / machine utilization through improved data, customer convenience and most importantly, reduced cost. Another big advantage of Managed Services is that some solutions include an App which helps determine where best to locate SST's to attract a high level of footfall and as a result high levels of transactions.

Who is best positioned to provide outsourcing services? In my view, it is the Cash Management Companies. They

Continued on next page

Continued from previous page

already provide the cash replenishment, the First Line Maintenance, Cash Optimization and in some cases Second Line or Single Line Maintenance. In some instances, they have a feed from the individual bank and will plan and organize the replenishment program and any FLM / SLM calls. All they need to add is the monitoring software and a monitoring team to service multiple banks, not just a single entity.

Clearly there is an advantage for Banks with relatively small SST estates to outsource and to consider a "Brown Label" approach. But what about the Banks with large SST estates? Yes, they may well be able to share the costs over a larger estate, but as they rationalize, by deploying more recyclers and other digital means, numbers of machines will reduce and the cost per machine increase. Better to have a clear understanding of the fixed cost per machine rather than having to add staff and other associated costs, simply to add a few additional machines. Or have a limited ability to reduce costs when machines are removed.

As the economic landscape becomes more competitive and Banks want to expand or even rationalize their SST estates, reducing costs becomes a clear imperative. Why not outsource what is already partly outsourced and is really not a Bank's core business.

Competition has driven Banks to reduce costs wherever they can - outsourcing of SST management could be one way of achieving this.

I once heard that the President of a large Bank, when negotiating to outsource his ATM estate, said, "I want to expand the number of Self Service Terminals deployed, but need to know the cost to service each machine is fixed not variable which it will be if we do it ourselves". The Bank subsequently outsourced and were able to double their estate over the next few years at known and agreed costs.

> "CLEARLY THERE IS AN ADVANTAGE FOR BANKS WITH RELATIVELY SMALL SST ESTATES TO OUTSOURCE AND TO CONSIDER A "BROWN LABEL" APPROACH.
>
> BUT WHAT ABOUT BANKS WITH LARGE SST ESTATES?"

CIT OPERATIONS DURING COVID-19 PANDEMIC A CASE STUDY FOR GARANTI BBVA TURKEY

ALPER SAYIN | GARANTI BBVA TURKEY

--GARANTI BBVA TURKEY--

> MAKING CASH AVAILABLE ANYTIME WAS MUCH MORE IMPORTANT THAN ACHIEVING HIGH SLA'S.

Garanti BBVA is the second largest private bank in Turkey. At Garanti BBVA, cash logistics and cash processing are performed totally in-house by the Cash Planning & Operations Department. Cash services are provided to 7,094 service points (branches, off-site ATMs and retail points) via a fleet of 255 armored vehicles and 45 cash centers.

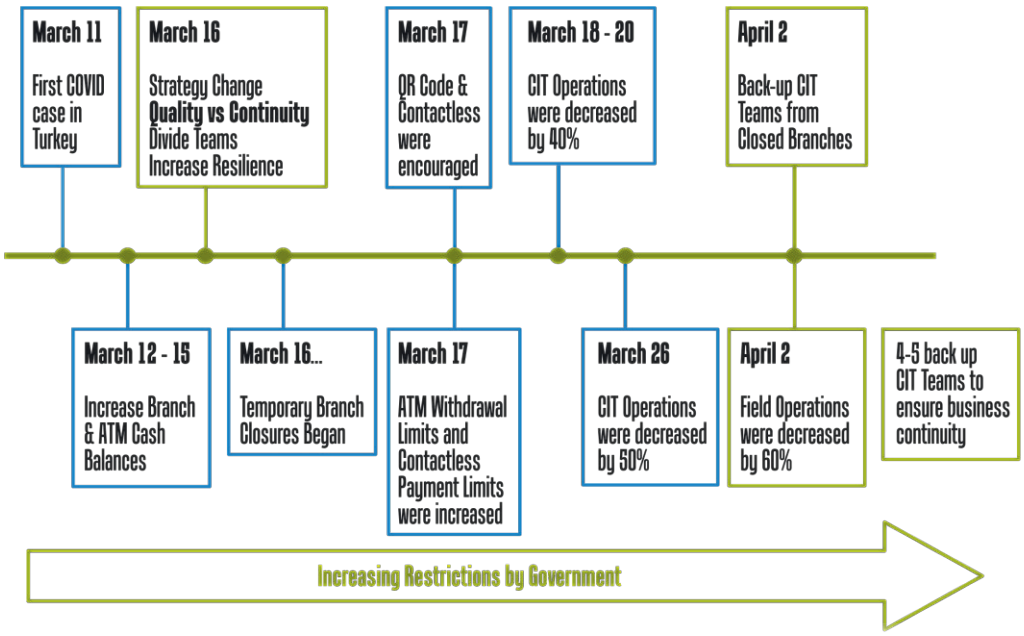
The first positive Covid-19 case was seen on 11th of March in Turkey. After the first case, government restrictions began such as closure of the schools, lockdowns on holidays, etc. In parallel, bank-wide actions were started to be planned. To ensure continuous CIT services, we focused on agile management, resilience, and building direct communication channels.

Centralized & Agile Crisis Management Team

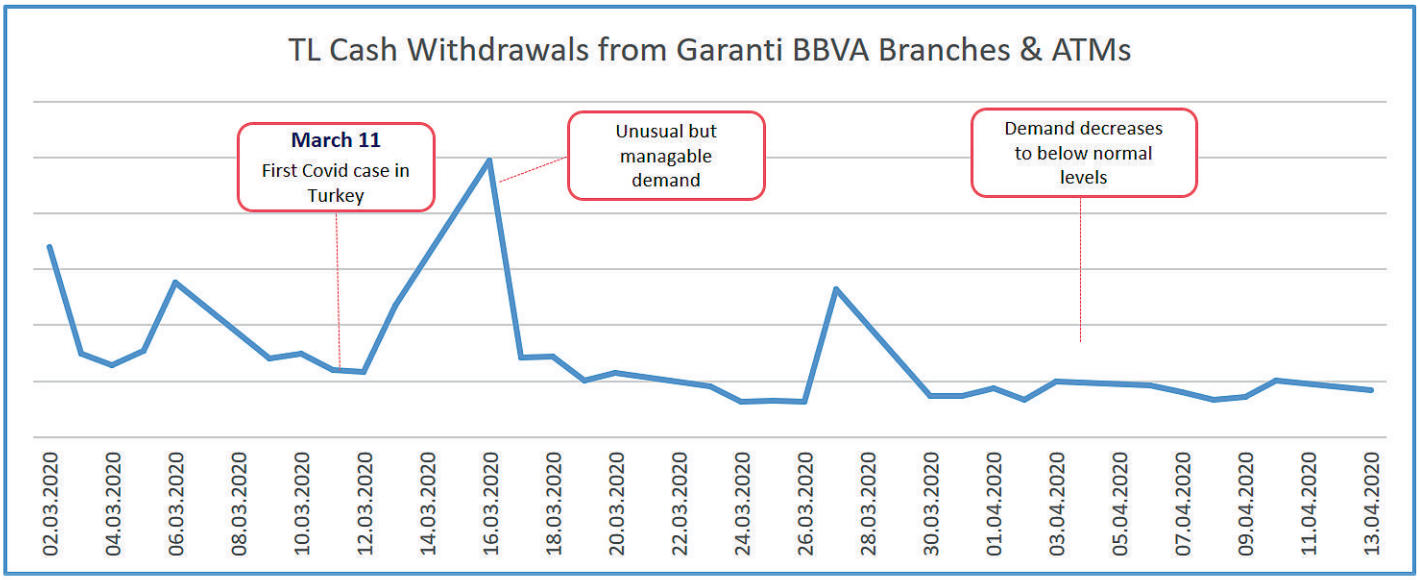
First, we formed a **centralized** and **agile** team in our department. The team consists of 9 people with different areas of expertise such as fleet management, IT communication, ATM management, cash balance monitoring, vendor communications, customer relations, central bank relations, etc. In this way, not only were we able to make decisions extremely quickly, but also we could evaluate all of the possible effects of any changes. This team was responsible for setting the strategy and informing our cash centers and related parties clearly and in a timely manner.

Continued on next page

As the Turkish government began restrictions and lockdowns, Garanti BBVA began its actions to ensure continuous CIT services.



The timeline of actions implemented by Garanti BBVA Turkey.



Cash demand observed during the pandemic in Turkey.

Continued from previous page

Actions Taken to Increase Resilience

As seen in the timeline (previous page), right after the first case was announced we started to increase the cash balances of our ATMs and branches.

The pandemic necessitated major hygiene precautions in order to protect both employees and customers.

After that, we took the first critical action (1st red box). Making cash available anytime was much more important than achieving high SLAs. Our workforce was divided so as to create an isolated substitute workforce. Accordingly, we had to decrease the amount of cash services provided. We persuaded our customers by explaining our win-win strategy as "we are decreasing the number of visits but ensuring a continuous service."

Since the positive virus cases were still increasing, we made the second critical decision (2nd red box). In order to increase the number of isolated teams, we had trained some of the cash service personnel of the temporarily closed branches to work on armored vehicles. These colleagues would be assigned to our department in the event we ran out of isolated 'clean' teams.

As a result of these actions, we had 4 or 5 rotating isolated workforce blocks and our resilience increased by four times over a very short period of time.

Cash Demand

There was a sharp increase in the cash withdrawals after the first case. But within 3 days, demand decreased rapidly. Three things were important in this period:

1. The cash levels at ATMs and branches had already been increased. So even though the CIT workforce diminished, there were no cash outs.
2. The Central Bank never stopped providing cash to the market.
3. Since vendor support was not interrupted, cashless payment systems worked seamlessly. As a result, **customers felt safe about reaching cash anytime** and stopped hoarding.

In the early stages of the pandemic, cash withrdrawals increased sharply due to hoarding. This stopped as cash was made readily available, which gave customers a sense of security and reassurance.

Major Hygiene Precautions

During the pandemic our top priority has been protecting our employees and customers.

Our occupational health and safety team applied very strict isolation

Continued on next page

Continued from previous page

procedures and precautions, including sending daily covid surveys to employees to track possible infected cases. Additionally, enhanced protection actions were taken such as using masks, gloves and disinfectants. Working hours and customer admittance to branches were limited, HQ departments started to work from home.

For an Agile & Scalable Shift in Contingency Plan

Since some parts of our contingency plan did not work because of the burdens imposed by social distancing we needed to swiftly change our approach, but the challenge was to implement those changes to the whole organization within days.

- First of all, building direct communication channels took top priority, because you have to communicate directly and urgently with all of the related parties (top management, vendors, peer organizations, central bank, etc.). So, be sure that your professional network really works!
- It is crucial to form a **centralized** and **agile** crisis management team in which members have different areas of expertise as it was mentioned earlier. This team should be able to communicate directly with the related parties (especially with the top management) and should have a decision autonomy to some extent.
- Additionally, listening to your employees and being aware of their challenges is very important. Weekly updates, periodical meetings/phone calls with focus groups (managers, supervisors, cash officers, drivers, etc.) builds a very efficient channel between the management and those executing the decisions. In this way, you will stay aware of whether the changed policies are applied, and if they leave a positive influence on the employees.

Alper presented CIT Operations During Covid-19 Pandemic, A Country Case Study for Garanti BBVA Turkey as part of a series of webinars by Currency Research in relation to the CR Europe Cash Cycle Seminar (ICCOS). The recordings of the four webinars in that series, as well as information on upcoming webinars can be seen on the website: **currencyresearch.com/webinars**

WHAT HAPPENED TO THE CASH!

TOM MITCHELL | CURRENCY RESEARCH

In 2019 and with the publication of two major industry reports—Access to Cash (ATC) and Cash Industry In Transition (CIIT)—the global cash industry has been forced to reflect internally on its place in modern society and its future role, given the seemingly unstoppable rise of the FinTechs and Big Techs. With the unprecedented impact of Covid 19 and the misinformation circulation, the pressure on cash is only likely to increase. Time will tell what the long-term impact on cash will be, but its important to have a good understanding of the longer term trends and issues that the industry was facing even before Covid 19 started to take effect.

Supply and demand

On the creation/supply side, the currency suppliers have to some degree been a victim of their own success. Increasingly resilient banknotes and advances in security features that enable the banks to stay ahead of counterfeiters mean that notes last longer and need replacing less often. With decreasing demand, the supply industry is under strain. Covid 19 caused a massive spike in currency production orders which will for sure provide some relief to an overcapacity industry in the short term, but the longer term affect remain to be seen. It can be argued that the introduction of the Euro in Europe

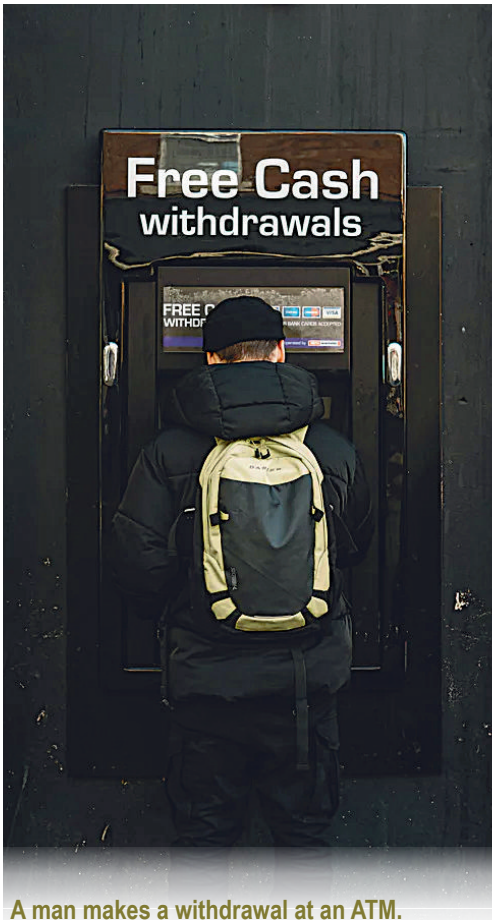
Continued on next page

Continued from previous page

increased or held production demand to an unsustainably high level in the build up to the single currency, as was witnessed by the subsequent close or a raft of currency production facilities across Europe once demand decreased and normalised post introduction….will we see something similar on a global scale in the wind down from Covid 19…..

Innovation

From the mid-1990s onwards the trend has been for central banks to outsource more of their cash operations to commercial companies in order to cut costs. While the overall supply and use of cash was increasing, outsourcing was a win-win-win situation; central banks reduced costs, commercial operators grew revenue from cash-handling activities, and consumers had increased access to cash for their daily needs. The number of bank branches and ATMs soared.



A man makes a withdrawal at an ATM. If fewer such transactions are made, it becomes less cost-efficient to maintain the service.

Tipping point

But the 2008 financial crisis caused a wave of consolidation and cost cutting among banks. At the same time, internet banking was gaining momentum and the contactless revolution was beginning.

Disruption

Until Covid 19, cash in circulation was registering growth on a global basis. Covid 19 caused a huge and rapid increase in cash in circulation. But both before, Covid 19 and even as cash in circulation was spiking, transactional cash use decreased, although it must be pointed out that some regions bucked this trend, for example Southeast Asia and parts of Africa.

As transactional cash use stops growing, or even decreases, the per unit cost of maintaining its supply and distribution increases. Banks, for example, earn less from ATM interchange fees if fewer ATM withdrawals are being made. CIT companies run fewer trucks to retailers as consumers deposit (ie. spend) less physical currency at retailers.

Why continue to invest?

This leads to the heart of the issue - in cash systems predominantly run by private/commercial companies what incentive is there to continue? In most countries, at least for now, commercial banks are under no obligation to provide cash services and if they do not consider cash services a core or profitable activity, why should they continue to invest in them?

Cash has a number of inherent benefits that many alternative payment methods attempt to mimic, but have not quite replicated. Yet. For example, cash is anonymous, fast, ubiquitous, secure, inclusive, recognisable, trusted, and government backed. Alternative payments have succeeded in mimicking some, but not all, of the inherent benefits of cash. To compound the challenge for alternative

Continued on next page

> **WHILE THE OVERALL SUPPLY AND USE OF CASH WAS INCREASING, OUTSOURCING WAS A WIN-WIN-WIN SITUATION; CENTRAL BANKS REDUCED COSTS, COMMERCIAL OPERATORS GREW REVENUE FROM CASH-HANDLING ACTIVITIES, AND CONSUMERS HAD INCREASED ACCESS TO CASH FOR THEIR DAILY NEEDS.**

Among various other products, the COVID-19 outbreak caused a major surge in demand for cash.

Cash is anonymous, fast, ubiquitous, secure, inclusive, recognisable, trusted, and government-backed. Newer payments have mimicked and perhaps even outperformed cash in some of these areas — but still lag behind in others.

Continued from previous page

payments players, there remain very serious issues around financial inclusion.

Despite the headlines, no clear link between changes in cash levels and fluctuations in crime or black market activities has been found, whereas there are daily news releases about system outages affecting millions, and. national-level data hacking scandals.

In the short term, declining transactional cash use does benefit some sectors. Cash management companies (CMCs) benefit from increased commercial bank outsourcing, cash handling equipment suppliers can introduce cost saving measures into the system, and for those banks remaining 'in', cash is a differentiator. Consumers also benefit - cash remains available for those that want it, while alternative payments are ever evolving for those who don't.

Can't the central banks sort this out?

Central banks have a responsibility to maintain stability and promote an efficient payments and settlement system. Until a payment system is able to replicate all of the inherent benefits of cash and be truly inclusive, cash is still the only feasible option…but one that's getting increasingly expensive.

Central banks are becoming increasingly aware of the problem and some in low cash use countries are now looking into ways to address these issues. In Sweden, the removal of much of the cash infrastructure has created a situation where the sustainability of cash is at risk, and the politicians have now stepped in with a legislative response compelling commercial banks to provide cash services.

Norway has done likewise, whilst the UK is also is all too aware of these issues. 2019 saw the Access to Cash review address growing concerns that people who cannot use or access cash in an increasingly digital society are being left behind.

What next?

While legislation and political interventions appear to focus more on the quantity and accessibility of cash, the industry is focusing on innovation to reduce its costs, from more efficient processes in cash production through to network distribution and destruction. The current challenge is to convince cash distributors of the benefits of investing in what appears to be a declining market.

Enough countries have attempted to move citizens away from cash for us to see that, at this time, it is very difficult to achieve a truly cashless society. Those countries that have seen some success in moving to cashless have been confronted with challenges, especially in terms of financial inclusion. Not to mention, once cash use has declined to a certain level, the withdrawal of commercial operators and commercial distribution infrastructure becomes rather problematic to reverse.

One thing is clear, efficiencies and communication at all levels is not only important, it is key to finding the solution. Central banks, commercial banks, CMC/CITs, cash wholesale companies and even retailers need to come together in an unbiased and impartial environment to discuss the different ways in which they are each looking to address the problems of the cost of cash and maintaining its accessibility.

The more communication between the parties can happen, the better the solution for the general public, the more clarity our industry has to plan for the future.

CONSORTIUM FOR NEXT GEN ATMS – FREE INVITATION TO ACMA MEMBERS

ATMIA would like to invite all Asian Cash Management Association members to consider joining their Consortium for Next Gen ATMs. In order for the industry to remain relevant in these challenging times, innovation continues to play an integral role in future-proofing the industry. It is key that we, as ACMA members, as primary players in the industry and main service providers to ATMs, help shape the direction of the industry so that in future it is still a valid and usable model. To do this, we must engage with others such as ATMIA and their wide network of companies, as well as each other through our association.

ATMIA

For Next Gen API App ATMs

ATMIA is leading the way with their global futureproofing exercise with Next Gen ATMs creating a new API model for ATMs. They currently have over 333 participating companies worldwide, integrating the 50 plus yearold technology of ATMs into the emerging mobile digital ecosystem.

We urge our members to look into this further here:
https://www.atmia.com/connections/committees/consortium-for-next-gen-atms/

ADVERTISE WITH US

ACMA CURRENCY NOTES is a quarterly industry newsletter read by over 4000 professionals in the cash handling industry globally.
Advertise with us to increase your presence across Asia, Africa, and Australia & Oceania.

Members pay
$400 *for a full-page advertisement;*
$200 *for a half page; and*
$100 *for a quarter page.*

Non-members pay double.

We also offer a ***free quarter page advertisement space*** *to contributors who provide a* ***full-length article*** *for the main section.*

Send enquiries to Tan Chee Meng at: tancmsia@gmail.com

ABOUT ACMA

Mission

To provide a platform for Cash Management Companies (CMCs) in Asia, Africa and Australia & Oceania to raise their professional reputation and standing in the Cash Handling and Cash Management Industry, and to act as a representative with the appropriate authorities on issues of common interest.

Founding Members

AB Securitas	*Phiroze Kevin Pestonjee*
Currency Research	*Richard Haycock*
Linfox Armaguard	*Scott Forster*
Spearpoint Group	*Ted Devereux*

Office Bearers

Chairman	*Óscar Esteban*, Prosegur
Executive Director	*Ted Devereux*, Spearpoint Group
Secretary	*Tan Chee Meng*, Currency Research

Committee Members

Steven Cole, Marsh Ltd
Scott Forster, Linfox Armaguard
Stephan Kazes, Loomis International
Huseyin Memis, Streamcorp Armoured
Baskaran Narayanan, Brink's
Phiroze Pestonjee, AB Securitas
Iman Sujudi, PT Nawakara Arta Kencana
Abdul Malek Sutan, MEPS Currency Management
Benjamin Thorpe, Glory
Charles Wink, G4S

www.acma-asia.org

To become a member, write to Tan Chee Meng at: tancmsia@gmail.com

ACMA CURRENCY NOTES

SHARE YOUR INSIGHTS

If you would like to have an article published in the ACMA Currency Notes, please write to Tan Chee Meng at: tancmsia@gmail.com

Contributors to this issue:

- Ted Devereux
- Alper Sayin
- Tom Mitchelll