ACMA CURRENCY NOTES

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IN THIS ISSUE

EMBRACE CHANGE

Ted Devereux | Spearpoint Group

A few editions ago I wrote an article titled "Embrace Change" and at the end I said "We are no different from any other industry, change or become irrelevant."

It is clear that cash is still a popular form of payment, especially in developing countries, but we must not be complacent. Digital payment methods are gathering pace and, in some developed countries, have been accepted as a simple and pain-free way to make small purchases. However, cash remains the most cost-effective payment method for the retailers when compared to debit and credit card payments. This has caused countries where digital payments have gained traction, and where there is a push to be cashless, to be concerned about the cost of digital payments becoming prohibitive and without any checks and balances. Many of us are also concerned about the security of digital payments when compared to cash and that some sectors of society will be disadvantaged. To physically steal cash in bulk has its challenges, but to move it digitally in large quantities, does not!

There are clear logistical challenges that may preclude stealing large amounts of physical cash - not so for digital cash, though.

With cash under pressure, banks and retailers need to find ways to make the movement, processing and recycling of cash more efficient and cost-effective to ensure it remains a viable payment method when compared to digital transactions.

It is therefore up to the Cash Management Industry to step-up and offer services above and beyond the traditional transportation, processing and recycling of coins and banknotes. Even the bigger banks

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with multiple touch points, branches, SSTs (ATM's / CDM's / Recyclers / Deposit Safes) both on and off branch, find it difficult to operate efficiently themselves due to density issues making the secure logistics of moving and processing cash expensive. This is compounded for the smaller banks and for the bigger banks when expanding their reach to less populated or rural areas. A key objective for Central Banks is financial inclusion for all. This puts pressure on banks to expand their touch points.

Many banks wish to promote their own brand and are reluctant to share platforms with other banks. This results in a line of machines in shopping malls or other areas, the majority of which are under-utilized.

Many banks operate their own SST monitoring either direct from the switch or by employing a tool. For small SST estates, this is just not cost effective. Some SST manufacturers and independent providers have provided monitoring services, but do not directly supply the field services that are necessary such as the cash supply, processing, reconciliation and first-line maintenance and in some instances, the second-line maintenance.

The Cash Management Industry is in a much better place to provide fully managed services monitoring the bank's SSTs, as it already provides the cash replenishment services and the first-line maintenance and are well able to provide second-line maintenance. In the UK and Australia, Cash Management Companies directly monitor SST estates and provide what is termed "single-line maintenance". By the Cash

Banks face challenges as they expand their reach into rural communities - challenges which can be mitigated by the Cash Management Industry.

Management businesses directly monitoring the SSTs and by providing single-line maintenance, the UK and Australia have managed to substantial reduce the callouts per machine to less than one per month. In Asia the average callouts per machine are in excess of 5 per month. This is partly due to a lack of or poor preventive maintenance and limited information provided by the monitoring tool making repairs more difficult.

To assist in reducing SST callouts, the monitoring software needs to provide detailed information to support the field engineers but must also provide a high level of inbuilt security to detect and prevent skimming, malware, etc. Cyber attacks are becoming more prevalent and costly.

Whilst it makes good economic sense for small SST estate operators to outsource fully managed services, it also makes sense for them to consider brown label machines where they share machines with a number of other estate owners and can thus remove the duplication of machines. This allows for the redeployment of excess machines to new locations and thereby significantly extend reach to their existing customers. By increasing touch points, the acquisition of new customers becomes that much easier.

Research shows that the number of off-site SSTs now exceed those deployed on-site. This trend, together with a push to recyclers, is changing the dynamics in the field and may see a slowdown in the purchase of new machines. This leads to banks needing to rethink their operating strategy if they wish to extend reach at a known and reduced cost.

Retailers are embracing smart safes where they get end-of-day credit and can reduce collections from daily to twice or even once weekly. Smart safes provide the added benefit of limiting the touch points, counting cash accurately (avoiding miscounts and / or shortages), removing excess cash from the till which enhances security, and by reducing the number of times it needs to be counted and banked. In addition, counterfeits can

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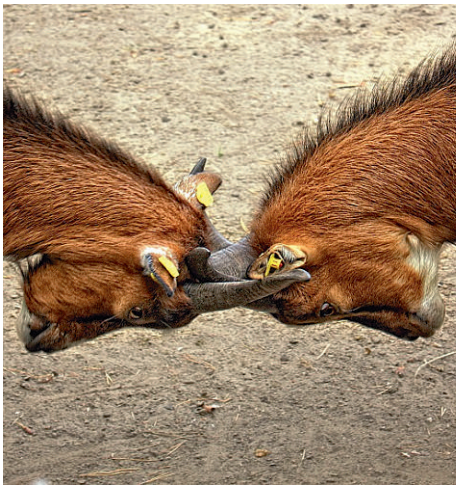

Brand competition often discourages banks from sharing machines with each other despite there being good reason for doing so.

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be identified earlier and the retailers have oversight of how much cash they are holding at any given time. Banks and Cash Management Companies need to be a part of this initiative, otherwise they will lose accounts. Smart safes are gaining traction by replacing Cash Deposit Machines in bank branches as they are more reliable and not as expensive.

It is clear that banks and retailers need a more efficient and cost-effective way to handle cash. As standalone entities, this is difficult to achieve, which presents an opportunity for the Cash Management Industry to fill the gap. But this requires vision and investment by the CMCs to put in place the tools and equipment that will provide world-class outsourcing services to satisfy the changing needs of cash.

We, the Asian Cash Management Industry, need to change or run the risk of becoming irrelevant!

> "IT IS CLEAR THAT BANKS AND RETAILERS NEED A MORE EFFICIENT AND COST-EFFECTIVE WAY TO HANDLE CASH."

VIEW FROM THE SIDELINES - CASH HANDLING FACES SERIOUS CHANGE

Tan Jit Kent

The increase in digital payments need not be a harbinger of certain doom for cash. And indeed why should it? Digital books and audio books have burst on to the literary scene in the past decade and yet virtually no-one seriously expects printed books to die out altogether. The validity of that analogy notwithstanding, the simple truth is that cash will remain an important mode of payment despite rapid developments in the digital space. And there are numerous reports from all over the globe to prove this.

In the USA's 2018 Diary of Consumer Payment Choice Report published by the Federal Reserve System, it was shown that:

- Cash continues to be the most frequently used payment instrument, representing 30 per cent of all transactions and 55 percent of transactions under $10.
- While online shopping continues to grow, 77 per cent of payments were made in-person. For these in-person payments, cash accounted for 39 per cent of the volume.
- Survey respondents between 18 to 25 years of age and those 45 years and older use cash approximately 34 per cent of the time to pay for transactions.

With 6.6 billion banknotes printed in 2014, the US continues to produce around 8 billion banknotes per year, seeing strong growth in one and twenty dollar notes for domestic use and hundreds for international use. There has been a rise from $1.2 trillion in circulation in 2013 to $1.66 trillion in circulation in 2018.

Meanwhile the Reserve Bank of Australia's report, published in December 2018, on 'Where's the Money? An Investigation into the Whereabouts and Uses of Australian Banknotes' found that:

- Out of the total outstanding banknotes, 15–35 per cent are used to facilitate legitimate transactions
- Roughly half to three-quarters are hoarded as a store of wealth or for other purposes, of which we can allocate 10–20 percentage points to

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Neither gone nor forgotten - reports on the death of cash have been greatly exaggerated.

For years, ATMs have been the go-to solution for cash withdrawal needs. Could we ever imagine life without them?

> WHILE WE WILL IN ALL LIKELIHOOD CONTINUE USING JUST AS MUCH CASH AS WE ALWAYS HAVE, THE WAY IN WHICH WE OBTAIN CASH IS LIKELY TO CHANGE.

Continued from previous page

domestic hoarding and up to 15 percentage points to international hoarding

- 4–8 per cent are used in the shadow economy
- 5–10 per cent are lost

Although Australian consumer payments in cash (by transactions) declined from over 60% in 2010 to only 37% in 2016, the value of outstanding banknotes grew an average of 6 per cent per annum over the last ten years.

Adding on to this, Travelex's December 2018 Report on its study on the UK, Australia, Brazil, and South Africa revealed the following:

- Most people neither expect nor desire a cashless society. Instead, they want a mix of payment methods to be available, including cash.
- As many as 24 per cent of people will never give up cash, no matter how convenient cashless payment technology becomes.
- Cash is no longer king—but neither is it dead, and where cash is less common, there is far less desire to go 100 per cent cashless.

On the global front, many developing countries are still seeing a double-digit growth in demands for banknotes. Other than Sweden and Norway, most developed countries continue to experience moderate increase in demand.

So maybe physical money is not dying out after all – but that is not to say that there will be no disruptions in the cash scene overall. While we will in all likelihood continue using just as much cash as we always have, the way in which we obtain cash is likely to change. For years ATMs have been the main source of cash, and indeed it is not easy to imagine any other means of withdrawing money. Yet several novel alternatives have emerged which improve convenience for users as well as efficiency for banks and affiliated merchants.

Debit card cashback (or cash out) has been available for some time now. It allows retail customers to add an amount to their total purchase value which is then paid by their debit card. The customer receives that amount of cash together with purchased goods. Customers find it a convenient way to withdraw cash without going out of their way to locate an ATM. At the same time, stores have less work to do with cash and spend less resources on cash management.

Retail Teller Machines (RTM) work on an analogous concept. When they were launched in 2012, RTMs were the first cashless ATM that dispensed a secure ticket which could then be exchanged for cash. RTMs are located inside stores and provide a full range of banking services like a normal ATM. There has been an increasing use of Point of Banking Terminals as cashless ATMs that process bankcard payments with the provision of a cashback service. The terminal is small and can sit on the countertop right next to the cash register. A customer just has to swipe their card, enter their PIN, and choose an amount to withdraw. A receipt is issued which they then present to the cashier to get the cash plus the goods they have purchased.

The advent of FinTech has made it even easier to implement retail teller machines. Using a mobile Point of Sale (Pin Entry Device) and a mobile phone with a mobile app, accredited merchants enable their customers to withdraw cash using their ATM card. This is already happening in the Philippines where, in many locations, the local ATM is often a bus or ferry journey away. It will probably be a matter of time before this service is rolled out in other countries.

There are emerging solutions that take this a step further – allowing people to withdraw cash using just their mobile

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phone. One only has to download an app and create an account, choose a shop and select an amount to withdraw, let the cashier scan the barcode, and voilà: cash in your hand and your bank accounted is debited the corresponding amount.

This could foretell a future where anybody with a mobile phone can simply search for a nearby shop to withdraw cash – or they might make an online purchase and have it delivered together with cash. These novel cash withdrawal methods could render today's conventional ATMs redundant, or at the very least reduce their usefulness. Would banks then cut down on the number of ATMs they use, or perhaps move towards sharing of machines? How would this in turn affect cash management services that transport money to and from ATMs? We have established that cash is here to stay, but many disruptions lie ahead in terms of the way it is obtained and handled. And as is often the case, much uncertainty and speculation is to follow. One thing is for sure though – it promises a fascinating view from the sidelines.

Many innovative cash withdrawal solutions incorporate retail merchants into the picture. Customers are able to withdraw money at shops instead of seeking out ATMs.

Further reading:

1. Raynil Kumar, Tayeba Maktabi, Shaun O'Brien, "2018 Findings from the Diary of Consumer Payment Choice", 1 November 2018.
2. Richard Finlay, Andrew Staib, Max Wakefield, "Where's the Money? An Investigation into the Whereabouts and Uses of Australian Banknotes", December 2018.
3. Travelex's report - available upon request via press@travelex.com.

THE RISE OF THE ITM

Brad Moody | Lowers & Associates

As bank customers converge into fewer centers, crowds begin to have an impact on turnaround time for transactions.

Recent and significant acquisitions in the banking industry have left many banks with an overabundance of brick and mortar banking centers located in close proximity to (if not right across the street from) one another. As the natural lease expirations of these banking facilities occur and banks merge their customers into a single center, they face a common complaint: It takes too long in the teller line to perform simple transactions such as cashing a check on a Friday afternoon.

The ITM (interactive teller machine) allows banks to offer services to their customers in an automated fashion where upwards of 80% of transactions can be performed with no teller assistance. The ITM also permits the unbanked to cash the bank's customer checks with ease and without human interaction. This frees up the teller line for customers who prefer personal interaction, who need to perform more complex transactions, or who wish to inquire about products and services the bank has to offer.

The ITM presents a win-win scenario for customers and banks. On the other hand, the details cause concern and complexity for CIT carriers.

For example, it is becoming clear that banks fully intend to deploy the ITM to the drive-through lanes and piggy back the machines in each lane in order to allow multiple customers to utilize the machines quickly. ITMs are also being installed in the lobbies of the banking center and bank lobby leaders are educating customers on the advantages of using the ITM/ATM for future transactions.

Since these machines are deployed in a fashion that increases risk, banks are turning to the services of the CIT carrier. What many CIT carriers fail to realize is that the risk goes beyond exposure caused by the placement of the ITMs. It extends to the complexity of servicing the ITM itself, as various manufacturers have very specific service requirements.

Consider a typical deposit image ATM with a total service time of 12-15 minutes to complete the cash swap, cash deposit pull, imaged check retrieval, receipt paper change, captured card processing, etc. with the management of three receipts and typically one or two denominations. In comparison, ITM service time extends to 18-22 minutes with additional bagging procedures, management of coin, additional denominations inclusive of $100 notes, and up to eleven receipts to manage. This level of exposure and service time

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> "THE ITM PRESENTS A WIN-WIN SCENARIO FOR CUSTOMERS AND BANKS. ON THE OTHER HAND, THE DETAILS CAUSE CONCERN AND COMPLEXITY FOR CIT CARRIERS."

ITMs free up the teller line for customers who prefer or require assistance over the counter.

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increases even further when you consider the security impacts of servicing ITMs in drive through lanes where ITMs are stacked or back to back with one another.

The risks involved with ITM servicing and replenishment are complex and far-reaching. Yet, the opportunity for carriers to successfully mitigate the risks and employ sound operating practices can reap them more business from banks as ITM deployment continues to increase.

This story is the foreword from A CIT Carrier's Guide - Building Your ITM Program. For a full discussion, have a look at the complete article - which is available **here**.

A CIT Carrier's Guide - Building Your ITM Program, by Lower's & Associates.

UPCOMING EVENTS

Currency Conference
7-10 April, 2019
Dubai, United Arab Emirates
www.currencyconference.com

Future of ATMs & Payments, Middle East & Beyond
25-26 June, 2019
Dubai, United Arab Emirates
www.atmia.com/conferences/middle-east/

Asia Cash Cycle Seminar (ICCOS)
23-26 September, 2019
Colombo, Sri Lanka
www.asia.iccos.com

Asia ATM Payment Innovation Summit
19-21 November, 2019
Kuala Lumpur, Malaysia
www.atmia.com/conferences/asia/

MEA Cash Cycle Seminar (ICCOS)
Feb 2020
Oman
www.mea.iccos.com

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