ACMA CURRENCY NOTES

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IN THIS ISSUE

SOLVING COIN HANDLING ISSUES

HUSEYIN MEMIS | SHRAP UK

No matter which way you look at it, managing, transporting, storing, processing, and manufacturing coins is a costly and labour-intensive process. Despite recent innovations in currency management equipment and operating practices across the cash supply chain, coins still represent significant cost to retailers, businesses, CIT companies, banks and governments that are dependent on coins for their day-to-day business transactions.

With an increase in the use of alternate payment methods, cash still remains an important and viable payment instrument for many people and businesses across the globe, especially within emerging markets and specifically when making micropayments, which continues to remain a cash stronghold across the various cash eco cycles.

As the globe continues to grapple with the continuing affects of the pandemic, businesses and supply chains are in a constant state of evaluation as most pivot and consider available options at their disposal to ensure the viability of their businesses now and into the future.

Retail has been one of the sectors most affected by COVID-19, in both positive and negative ways. Grocers, pharmacies, and e-commerce marketplaces are sustaining consumer confidence by preserving the access to essentials such as food, medication, toiletries, and selected "at home" categories, while striving to protect their customers and employees.

The pandemic has underscored the need for businesses to remain fluid with resource allocation and deploy labour that encompasses a broader range of activities than before. These movements will undoubtably accelerate the move towards a more agile and dynamic environment across the various business sectors.

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> WHILST COINS MAY HAVE HISTORICAL AND SOCIAL SIGNIFICANCE, INFLATIONARY PRESSURES AND MORE RECENTLY HYGIENE ISSUES HAVE LED MANY PEOPLE TO HAVE A GENERAL DISDAIN TOWARDS COINS...

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Unfortunately, as these changes occur, store closures and sharp declines in discretionary consumer spending have crippled nonessential retail such as non-food, apparel, fashion, and luxury products. Many retailers have already had to make tough choices, including temporarily or permanently closing doors, furloughing employees, and more.

REDUCING CASH HANDLING COSTS

Although the percentage of cash transactions has been reducing within certain markets over the years, the processes for handling cash have largely remained unchanged. Most often, retailers task the most expensive employees in the store to count and prepare the cash, which means these employees are not available for other, more profitable customer-focused transactions.

Much has been made about the cost of credit and debit transactions. But the real cost of cash ranges from 4.7% to over 15% for some retail segments. These costs are often hidden as they are part of a manager or supervisor's job rather than their complete focus. Optimising these processes through targeted automation can provide hundreds of labour hours per month to businesses to improve their bottom line and overall customer experience.

As businesses continue to re-evaluate their current cash handling costs, they will need to reduce the cost associated with cash processing. Historically, the retail sector has operated on significantly lower margins than other industries, now more than ever, margins are tighter and the competition for customers is even more fierce.

Unfortunately for many businesses, providing change to customers comes with unavoidable costs. These costs have increased in time and despite various technological advancements with currency handling equipment, there has not been any significant solution or strategy to challenge or eliminate the cost of coins within our society.

A LATERAL APPROACH

Coins currently contribute a disproportioned cost within the cash cycle, costing an average of 1.6 times the amount to produce and manufacture when compared to its face value. Most developed economies are making significant losses in minting coins, for example, the U.S is losing around $70M annually to produce the penny.

As with many things in life you are only as strong as your weakest link and unfortunately, cash's weakest link is coin. Coin is essential for cash to function and the clearest reminder of this came last year in the U.S where, when as a result of the ongoing global pandemic, the production and distribution of coins all but collapsed. As a result, this led to monumental issues across various businesses and how they accepted and managed their cash requirements. The disruption was so significant, that the Federal Reserve set up a Coin Task Force and embarked on a marketing campaign to encourage the public to re-introduce their saved-up coins at home back into businesses at the point of sale.

This campaign highlighted an issue which is not only apparent in the U.S but is evident in several emerging and mature markets across the globe. Whilst coins may have historical and social significance, inflationary pressures and more recently hygiene issues have led many people to have a general distain towards coins, particularly with lower

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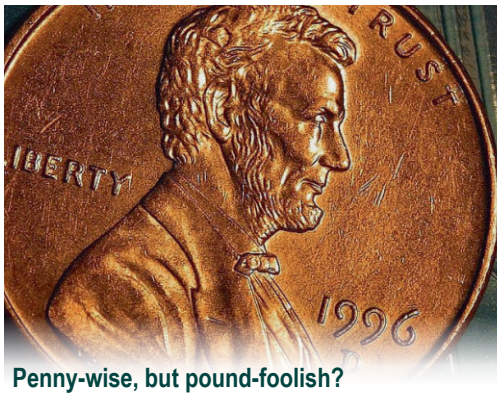

Penny-wise, but pound-foolish?
The US is said to lose $70 million each year, just by producing pennies.

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denominations, with the majority now being lost, discarded, or left indefinitely in coin jars.

Despite there being no available figures, it is estimated there may be tens of billions of coins held in peoples coin jars across the globe. This represents a huge inefficiency and waste both in terms of lost value and environmental costs. The fact that so many coins are never re-used represents considerable challenges to cash circulation initiatives. As long as coins are required to be issued as

The unused coins being held in coin jars across the globe represent a huge inefficiency for cash circulation.

change, there will still be a need for them to be minted, stored and transported at disproportionate high costs.

Regardless of its form, any changes to current legacy systems or technological innovations to sustain and protect the core attributes of cash must not discriminate and remain accessible to all those that consider cash as an important and viable payment instrument now and into the future.

"We can't solve problems by using the same kind of thinking we used when we created them"
Albert Einstein

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THE COST OF PAYMENT

BRYAN PEDDIE | GLORY

For many businesses, managing costs is very high on their priority list. Reducing costs, while also continuing to deliver excellent customer service, is the Holy Grail for many businesses. Indeed, solutions that can offer retailers a way to reduce costs and quickly give a provable ROI are worthy of investment.

Many retailers continue to strive to deploy alternative payment methods, moving away from cash. This is part of a war on cash that has been going on for many years. While cash has not been described as thriving in recent years, the value and volume of cash in circulation has increased – even during the last 12 months.

To put this increase into context, we should consider that not only has the use of debit and credit cards increased, but there has also been great effort from technology giants to move payments over to mobiles. In emerging Asia, without legacy infrastructure and the inertia to switch from cards or card-powered payments, countries such as India and Indonesia have skipped the cards and embraced mobile wallets and transfers altogether.

So, what are the reasons that businesses continue to offer the ability to pay with cash? Many small businesses operate and survive on small margins. It is simply uneconomical for them to give a percentage of every transaction to the card companies or payment processors. A recent article published by the UK's BBC spoke about what business owners

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were calling "crippling hidden costs." There were a couple of really quite troubling parts in the article.

The article featured multiple business/restaurant owners talking about the fees they have to pay to: takeaway platform providers, card terminal providers, credit card companies and additional costs if a restaurant uses a delivery driver that is employed by the takeaway platform. The costs that are incurred by these restaurants have in some cases increased by over 500% through the combination of commission and service fees.

In fact, it could be argued that by accepting cash, retailers are better able to manage their costs and forecast more easily. It is undeniable that there are costs associated with cash acceptance but by deploying cash automation devices, daily reconciliation and management of cash can be cut down from hours to mere minutes. Coupled with solutions such as self checkout, retailers are able to reduce labour costs, while delivering higher customer service levels at the same time.

Many consumers across the world are behind the idea of supporting smaller businesses that have struggled to survive through the pandemic. They understand the importance of these local businesses to both the economy and society as a whole. They are employers for many and provide important services for all. What many consumers have not registered is that their payment choices can have a real impact on these businesses and their ability to remain in business.

Another important consideration, especially in Southeast Asia where 75% of the population remains unbanked or underbanked according the Bain & Company, the push to cashless has been met with great concerns from certain members of the society. For this group of people, the ability to pay with cash is key to getting their essential needs met. Without a way for employers to make direct payments into an account, cash is the only way for them to receive payments as well.

With cash being so prevalent in much of Southeast Asia, cash is a necessity. Businesses must find ways to process cash that they are handle efficiently. Those retailers that handle cash in large quantities will find real and immediate impact by deploying cash recycling solutions. For retailers and financial institutions customer service and store operations can be positively influenced by deploying cash recycling solutions in the front of the store. Retailers and financial institutions can also benefit from cost savings that can be achieved in the back office. Furthermore, CIT and cash processors can reduce the amount of time spent counting cash by deploying high volume cash recyclers.

The limited use of the banking system and bank accounts creates something which, while is not unique to Southeast Asia, is much higher in its use. Cash on delivery (COD) is frequently used for e-commerce purchases. In Vietnam COD is used for around 19% of e-commerce transactions, while in India, it is used for 60% of e-commerce transactions.

The digital transformation has presented many innovation opportunities across online and offline transactions, even for the unbanked masses. As McKinsey writes 'Even as digitalisation delivers added convenience and new revenue opportunities, existing cash processes will not be fully retired in the foreseeable future. Therefore, more efficient models must be implemented to address these ongoing needs.'

CASH-TARGETED ROBBERIES IN EUROPE WHAT 20 YEARS OF ESTA'S ATTACKS & LOSSES REPORT TELLS US

CLIVE O'FLYNN, THIERRY LEBEAUX | ESTA

An argument regularly put forward by those who do not like cash and would wish to replace cash by electronic money is the allegedly inherent risk of cash for retail linked to robberies. Some go even further and claim that if you reduce cash, you reduce crime. As examples from Sweden or the UK (where the transactional use of cash is decreasing) would show, crime, which continues to grow, is not a function of cash transactions.

ESTA strongly rebuts that cash business is an inherently dangerous activity because of the risk of robbery. Cash management companies and CIT operators are, and have always been, an attractive target for robbers. They are, however, an increasingly difficult target, and statistics show that the rate of unsuccessful, failed, attacks against the industry has increased significantly over the last decade.

There is no such thing as 'easy' cash! Stealing it is risky, and that is what ESTA's data shows.

Each year ESTA compiles data on all incidents and related losses from its members.

As Fig. 1 shows, the pattern of the number of attacks and the level of loss has substantially reduced over the last two decades and the average number of reports has been divided by 5, from 1,400 at the peak to 250. The losses, which culminated in a maximum of €158 million in 2006, are now around 15 million, so a 10th or so of what it used to be. The exceptionally high level of

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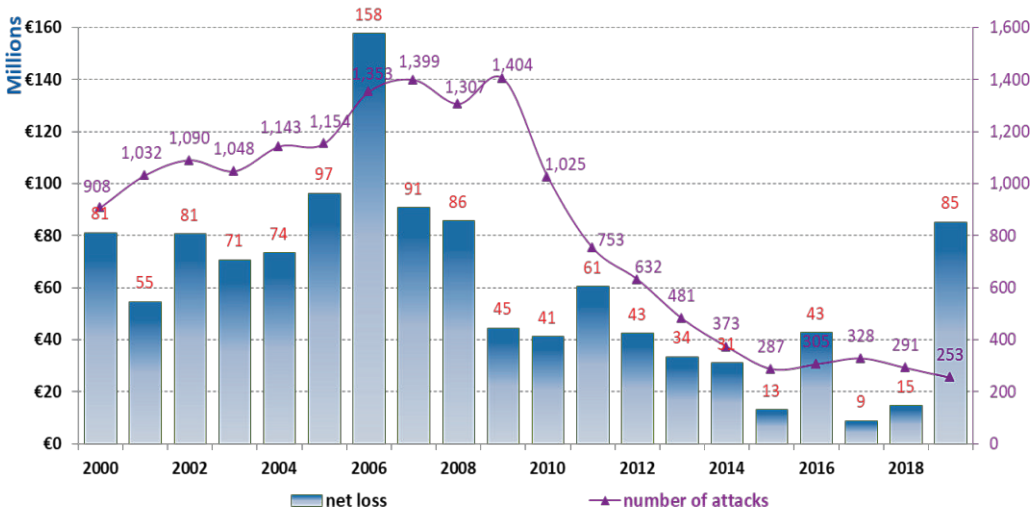
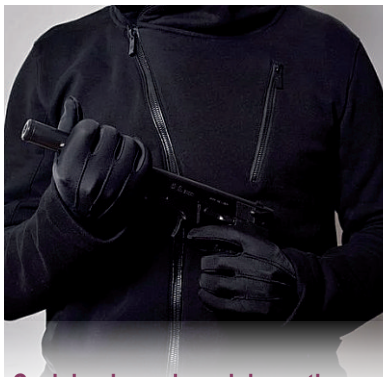


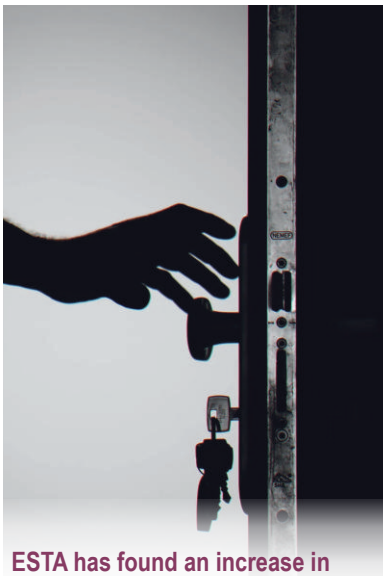
Fig. 1: Attacks and loss (all including the UK) - 2000 – 2019; source: ESTA.

> THE PATTERN OF THE NUMBER OF ATTACKS AND THE LEVEL OF LOSS HAS SUBSTANTIALLY REDUCED OVER THE LAST TWO DECADES AND THE AVERAGE NUMBER OF REPORTS HAS BEEN DIVIDED BY 5, FROM 1,400 AT THE PEAK TO 250.



Cash business is an inherently dangerous activity because of the risk of robbery. However, ESTA finds that the failure rate of attacks against the industry has increased over the last decade.

> ESTA'S ATTACK & LOSS DATA TENDS TO FLATTEN IF THE LARGEST INCIDENT/COUNTRY IS DISCOUNTED. WHICH ALSO MEANS THAT THE OVERALL PICTURE OF LOSSES IS VERY MUCH DEPENDENT ON ISOLATED EVENTS.



ESTA has found an increase in internal theft, probably a result of increased security against external attacks.

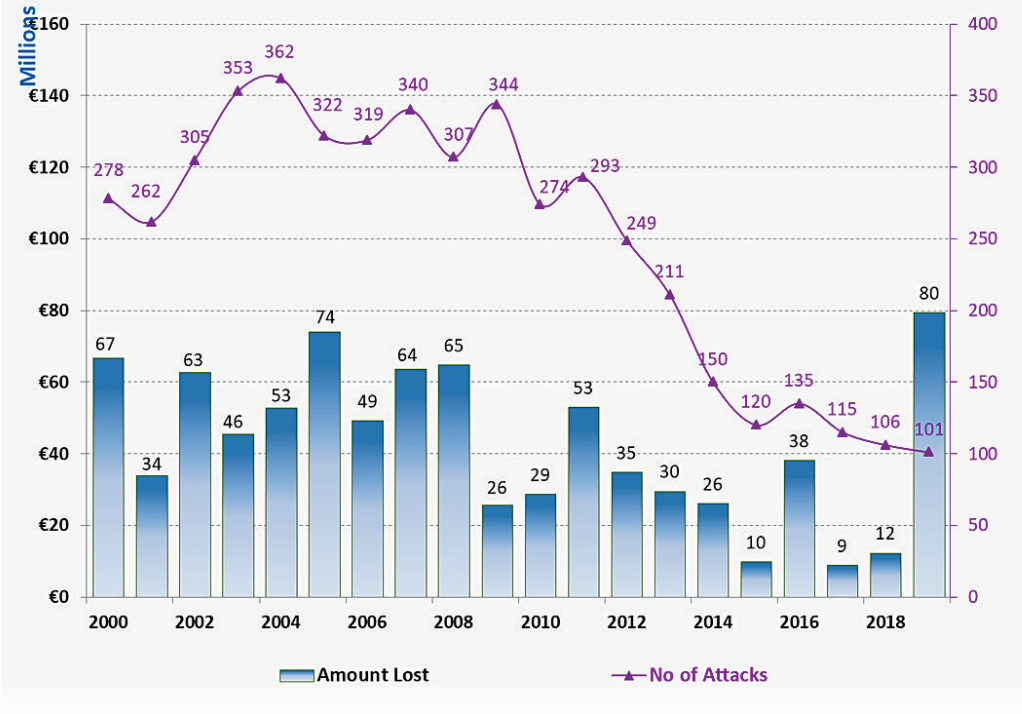


Fig. 2: Attacks and loss (all excluding the UK) - 2000 – 2019; source: ESTA.

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€85 million in 2019 is due to one single country, which in itself accounted for over €70 million losses in a handful of successful truck attacks (essentially due to migration of crime from organised criminal organisations from France): it would otherwise have been aligned with the losses of previous years, i.e. around €12 million, a mid-point between 2017 and 2018. In fact, changes in regulation in that country, prohibiting night transport by heavy trucks, have probably helped robbers. Rules have now been changed, and the number of events to be reported for 2020 will show a reduction in that country.

Most significantly perhaps, the decrease in the number of occurrences has taken place in a context where cash in circulation has grown significantly.

As a matter of fact, year on year, ESTA's Attack & Loss data tends to flatten if the largest incident/country is discounted. Which also means that the overall picture of losses is very much dependent on isolated events. This is a positive and a negative thing for the industry and its customers. The good news is that, apart from individual events, the risk situation has substantially improved and continues to gradually ameliorate in Europe.

The bad news, however, is that the industry is not immune from major hits with dire consequences, and this needs to be addressed.

ESTA also computes the same figure of the evolution, however, without the UK (see Fig 2), since the UK pattern of cash related crime is so peculiar: the UK represents the largest share of events, albeit decreasing from 75% to 60%.

Two thirds of events reported in the UK are cross pavement – often opportunistic – occurrences and the loss is often limited to what the agent is carrying between the vehicle and customer's premises. However, the number of reports from the UK is decreasing rapidly, year after year, from over 200 a few years ago to 153 in 2019, of which 110 were cross pavement. In just one decade, the number of attacks in the UK alone has gone down from 750 to just 150.

Robberies requiring major preparation such as against cash centres and trucks are now exceptional, with a strong probability of failure. As can be seen from ESTA's data, the number of these incidents is decreasing

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rapidly, as the rate of unsuccessful attempts increases.

In ESTA's opinion, the key to reducing criminality against the industry is that robbers get no reward from the high risks they take. Therefore, it matters less that cash is destroyed during a robbery attempt if robbers make no profit from it. In the same vein, ESTA has publicly advocated that a "stained note is a stolen note" and therefore should not be accepted anywhere. The call has been heard with the European Central Bank policy treating stained notes as counterfeit: they should be removed from circulation, record should be held on the bearer of the note, and they should be credited to the original bona fide owner only.

Also, the role of the CMC industry in the cash cycle should adapt to the ongoing reduction in the network of central bank branches in Europe: with less of them and longer distances to be travelled for the return of notes, the CMC industry's role in the cash cycle should increase, reducing risks from longer journeys.

Since 2015, ESTA's report collects data on internal theft. The data covers incidents of a minimum of €25,000. It is not that incidents of lesser scope are not considered – all incidents are examined thoroughly – however ESTA's report initially focuses on major events. The data gathered since 2015 shows an increase in internal theft, both in numbers of incidents as in the level of loss, as can be seen from Fig 3. This evolution of internal theft probably reflects the increased security against external attacks on cash and the need for

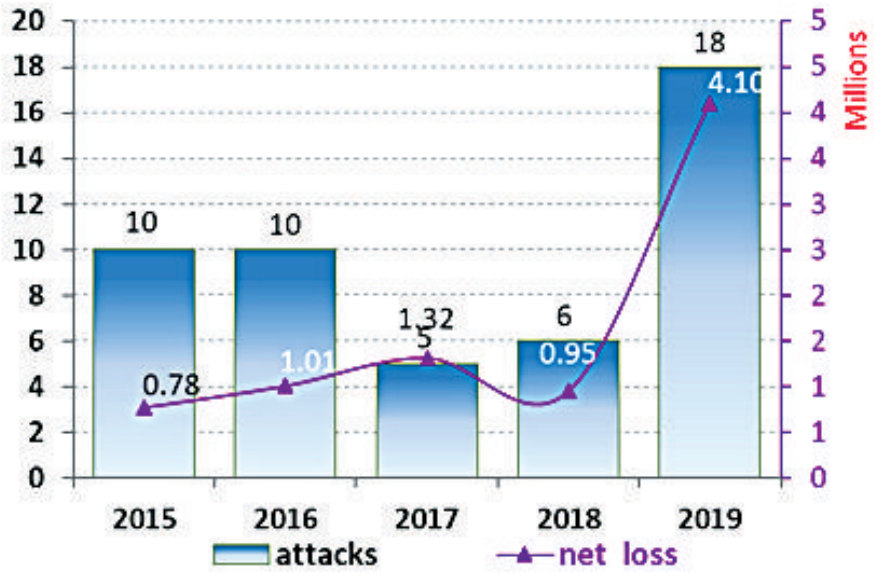

Fig. 3: Internal theft 2015 – 2019; source: ESTA.

'intelligence from within'. In Greece, on 25 January 2019 a CIT branch manager claimed that he was taken hostage inside his home and that his 4-year-old daughter was being kept hostage. He was subsequently forced to open the branch and following the procedures, he entered the branch while the CCTV system was off. Since he could not open the vault, the criminal used an angle grinder. They stole over €4.2 million. However the perpetrators were arrested a few months later and three quarters of the stolen monies were recovered. The abduction of the 4-year-old daughter never happened.

In 2015, ESTA adopted guidelines on internal theft. All companies have put in place dedicated internal policies to prevent incidents, how they should be handled and sanctioned, both through disciplinary measures and, where relevant, criminal prosecution. This includes the ongoing vetting of staff, particularly at the time of promotion or change of function with the company, the monitoring of specific personal circumstances of life which may flag a possible need to steal money, and the monitoring of work attitude of staff as an early warning signal. Dual control procedures are put in place to mitigate risks.

The guidelines make a distinction between blatant intentional actions (theft) and 'unintentional' actions such as breach of procedure, miscalculation, false reporting or human errors. In all cases, emphasis is given to post incident procedures to establish a routine that maximises the successful outcome of the investigation and, where relevant, the recovery of monies.

Technology can help. Beyond the now obvious CCTV, operators are implementing new devices such as voice stress analysis, to identify unusual situation (e.g. a manager under constraint from robbers), particularly effective where remote control is required (e.g. for opening vaults).

With all this in place, cash has become a safer place and the industry is striving to make it even safer in the future.

HOW A UNITED ATM NETWORK BENEFITS ALL

EVA DONALDSON | ARMAGUARD

> "THE AUSTRALIAN PRUDENTIAL REGULATORY AUTHORITY (APRA) RECENTLY REPORTED THAT FINANCIAL INSTITUTION OWNED ATMS HAD DROPPED FROM 11,249 ATMS IN JUNE 2017 TO JUST 7,104 IN JUNE 2020."

The arguments for maintaining community access to cash have been made clear by many, and it is well understood that access to cash is essential to social equality, payment freedom and flexibility.

But as use of cash declines due to the increased take-up of alternative payment methods, it becomes progressively more expensive for financial institutions to maintain large networks of offsite cash points.

Recognising the need to ensure access to cash in a cost efficient and streamlined way, various talks amongst the major Australian banks kicked off in 2015 with an attempt to establish a shared national ATM model. Unfortunately, the model was relegated to the too-hard basket soon after, but was brought to the forefront again in 2017 when the announcement of removing all domestic direct charges from ATMs flipped the entire industry on its head.

Removing domestic direct charge fees added significant operating cost pressures to all financial institutions, and gave them little to no incentive to expand and reinvest in their own branded ATMs. With ATM channels no-longer considered a differentiator, many banks gladly promoted the use of competitor ATMs, and accordingly reduced the size of their own fleets.

As the major banks no longer considered their ATM channels a draw for new-to-bank customers, capital investment was quickly downgraded, which also reduced investment in further innovation. In Australia this trend is expected to continue with at least 2,500 more fee-free ATMs scheduled for removal in the next 12 months.

The Australian Prudential Regulatory Authority (APRA) recently reported that financial institution owned ATMs had dropped from 11,249 ATMs in June 2017 to just 7,104 in June 2020.[1] So, in three years 4,145 ATMs were removed which represents a 37% decline in numbers. While some of this decline has been due to the sale of mainly offsite ATM networks to independent deployers, overall ATM numbers in Australia have reduced significantly in recent years.

The mass national ATM cull doesn't raise too many eyebrows in major cities and centres, however regional administrators must remain mindful of the cash access gaps for people living more than 4km of an identified ATM, ADI branch, or Australia Post Bank@Post outlet. According to the June 2019 Reserve Bank of Australia's (RBA) report almost 95% of people had ready access to cash, however this is forecast to change as bank networks continue to contract.[2]

All of this sounds familiar when considering the rest of the banking world and ATM usage trends. Banks right across the world have long recognised the benefits of a shared asset model to deliver and distribute cash for their customers, resulting in global pressure for centralised ATM utility models. And such models have been successfully

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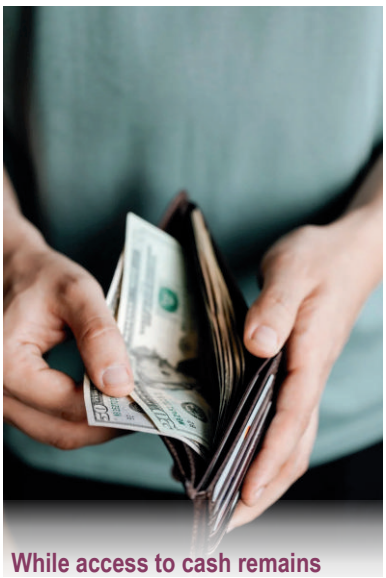

While access to cash remains essential, it is becoming more expensive to maintain large networks of offsite cash points.

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implemented in Sweden, Brazil and the Netherlands, just to name a few.

Now Australia will be no different, with CMC operators tackling the issue by developing unified national ATM networks, welcoming all financial institutions to join an access agreement to provide fee-free ATM access for their cardholders.

The Australian model is set to provide the perfect solution for financial institutes to provide ongoing essential access to cash for their customers in all communities, without needing to invest significantly in managing and maintaining their own fleets.

With a unified national ATM network in Australia, all financial institutions would be able to offer fee-free ATM access for their cusomers.

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ARMAGUARD

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Recognising the societal importance of access to cash, and the ever-escalating cost of providing access to cash to cardholders by financial institutions, Armaguard Group has tackled the issue head-on by developing a united national ATM network.

Launched in December 2020, **atmx by Armaguard** is the culmination of a number of major bank acquisitions, including the rediATM network (which is a subnetwork operating under the RBAs ATM Access Regime), absorption of part of the CBA offsite network, as well as the majority of the ANZ offsite ATM fleet.

In developing **atmx by Armaguard**, it was identified that while 95% of people in Australia had ready access to cash now (according to the June 2019 Reserve Bank of Australia's (RBA) finding in their "Cash Withdrawal Symptoms" report), this may not be the case much longer, as financial institutions continue to remove

Automated solutions could increase productivity and efficiency to help maintain the viability and relevance of cash.

ATMs due to the high cost of managing owned fleets.

To learn more, please view the full story on the ACMA website, **here**.

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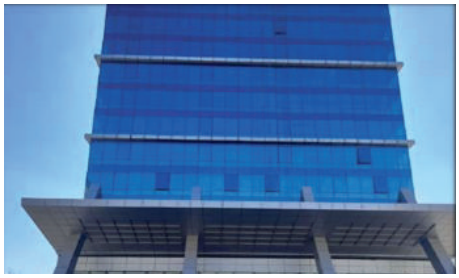

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