Point of View

Innovations in Remote Cash Capture Put Financial Institutions in the Driver's Seat

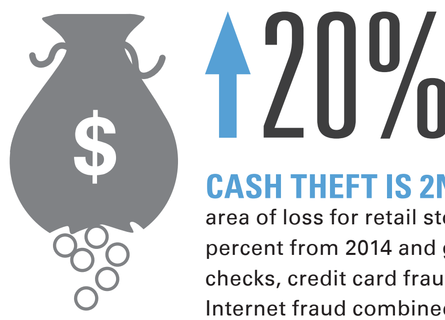
Over the last 15 years, remote cash capture technology has quietly been used by some merchants to deter theft and improve cash management. The deployment of secure, currency-accepting hardware devices or "smart safes," coupled with cash tracking and reporting software has helped merchants manage this process. As banks began offering provisional credit for validated currency residing in smart safes at business sites, demand intensified–yet remote cash capture remained largely a solution for armored couriers, big banks and big merchants due to the costs and constraints in the marketplace.

That was then. Recent changes in the way remote cash capture (RCC) is being delivered have created a positive business case for regional banks, community financial institutions and merchants alike. These more flexible, cost-effective solutions have arrived at a critical juncture–a time when financial institutions must find new revenue opportunities and improve client relationships. Experts predict that retailers of all sizes, struggling to contain costs in uncertain times, will now be attracted to RCC on a large scale.

The Cash Handling Problem

Cash accounts for 85 percent of global consumer transactions according to a MasterCard® Advisors' "Cashless Journey" study. For many merchants, couriers and financial institutions, cash handling still involves a number of manual and costly processes. Retailers must collect, count and reconcile cash numerous times, and an employee or armored transportation service must deliver it to a bank–exposing unwanted risks and liability. According to the 2014 US Retail Fraud Survey, cash theft is the second highest area of loss for retailers and has increased by 20 percent from the prior year. A TowerGroup survey found that employees at one fast food restaurant chain can spend 27 hours or more per week counting, verifying, reconciling and preparing cash deposits.

Cash Management Challenges



CASH THEFT IS 2ND HIGHEST area of loss for retail stores, increasing 20 percent from 2014 and greater than bad checks, credit card fraud, refund fraud and Internet fraud combined.

Source: 2014 US Retail Fraud Survey

In addition to man-hours, retailers spend a great deal of money and time on cash transportation. A recent Celent study found that 23 percent of cash handling expenses are related to transportation. One large retailer with 1,700 stores reported transportation expenses of more than $500,000 per month, which translates into $300 per store per month. Clearly, retailers can benefit by streamlining cash handling processes, reducing transportation requirements, gaining faster access to deposits and improving security controls.

Many Components to the Cost of Cash

Cost Component	Factors
Store-Level	
Transportation	Scales with frequency and distance. Often involves mix of armored courier and store personnel time and mileage costs.
Employee Time Managing Cash	Scales with cash volume. Scales with number of POS terminals.
Internal Theft	Correlates to the number of custodial changes in the cash cycle. Reduced through employee accountability and reduction in cash touch points. Averages nearly.
Administrative Errors	Bank deposit adjustment fees scale with error rate. Administrative errors also cause re-work and additional cost.
Liability	Insurance premiums linked to theft incidence and use of employees to make deposits.
Central Treasury	
Reconciliation Time	Increases with the number of stores and bank relationships.
Bank Processing Fees	Increases with number of bank relationships. Processing fees scale with volume. May include accounts if multiple banks are used.
Interest Cost on Store Funds	Function of rate and amount of cash retained on premise.

Source: Celent

The True Benefits of Remote Cash Capture

To date, a number of merchants have deployed various remote cash capture or smart safe solutions, such as the depository safe. These devices not only secure the cash but validate currency deposited and are designed to make cash handling and deposit processes more efficient. Many big box retailers have turned to advanced RCC solutions, deploying cash recycling devices to further reduce cash operations and transportation costs. Based on information from Celent, the table below outlines different solution options, prices, benefits and targeted retail segments.

Cash Automation Solutions Are Segment Specific

Solution	Price Range	Benefits	Target Segments
Drop Safes	Less Than $1,000	Cash security.	Single POS: CSRs. C Stores.
Depository Safes	$10k – 40k	Cash security. Reduced deposit preparation and transport. Reduced in-store handling. Reduced bank fees.	A few POS: QSRs. C Stores. Movie theaters. Healthcare providers. Liquor stores. Specialty retail.
Recycling Safes	Over $100k	Cash security. Reduced deposit preparation and transport. Further reduced in-store handling. Reduced bank fees. Reduced cash on hand.	Many POS: Large grocery. Big box. Department stores. Full-service hotels.

Source: Celent

There are four basic steps to understanding how smart safes work and benefit retailers:

- Secure, in-store safes or other devices accept, validate and count currency with a high degree of accuracy and dependability while detecting counterfeits.

  Benefits: Improved loss prevention and reduced errors.

- Electronic transmission of detailed cash deposit information from the safe and merchant's transport provider is available on CorPoint®: Deposit Manager from Fiserv for the company's central treasury to access online.

  Benefits: Streamlined control of the cash cycle, improved cash reporting from multiple stores and reconciliation.

- Smart safes enable the granting of provisional credit by the RCC provider for validated cash deposits.

  Benefits: Improved cash flow, earlier recognition of revenue.

- These devices also provide cash logistics services including cash pickup, change order servicing, reporting, deposit aggregation, virtual vaulting and equipment maintenance.

  Benefits: Reduced costs and risk through outsourcing. Theoretically, these services should also reduce the number of cash deliveries with their associated costs and risk.

How Smart Safes Work

Slower Than Predicted Adoption

Despite these clear advantages, the types of RCC solutions offered by armored couriers and financial institutions in the past have not been widely adopted. Each armored courier's solution has been proprietary and limited to a proprietary hardware solution. Financial institutions interested in offering RCC have therefore had to invest in systems integration and testing efforts for each merchant, and have been unable to support merchants' legacy hardware. In order to offer RCC to multiple merchants, financial institutions have either had to standardize their offering on a single type of hardware and transportation provider–or invest in technology compatible with multiple armored couriers.

With such prohibitive upfront costs, only a few dozen large banks and only the largest armored couriers have offered RCC. Retailers, meanwhile, have had little control over hardware, software and vendor selection. To date, successes in RCC have been centered on a singular hardware solution, proprietary software, exclusive relationships and focused on midmarket, regional retailers. The armored carriers have been first to market with early versions of RCC and the banks have been testing and launching the concept either independently or in conjunction with an armored carrier.

What Factors Are Inhibiting RCC Expansion?

Early successes seem to be limited to the retail midmarket. What has inhibited expansion to the "big box" retailer, the major national chains, and the multi-banked market?

- Too "Hardware-Centric"–By depending on tied hardware components, many of which are not suitable to the largest retail stores with centralized money rooms, the "big box" segment has not seen the opportunity. Heavy investments in cash processing facilities represent a sunk cost and an obstacle to hardware replacement. Some RCC vendors are unable or unwilling to integrate legacy hardware into their RCC solution.
- Disparate Solutions and Decentralized Data–National chains have multiple armored carrier relationships and having to acquire an RCC solution from each vendor requires retailers to train employees on multiple systems. The benefits of having a single data source to facilitate reconciliation and reporting at the corporate treasury level are lost. These chains require an integrated data and central reporting model to maximize the benefits of RCC at the corporate level.
- Lack of Integration and Flexibility–The multi-banked retailer has similar constraints with multiple, non-integrated solutions, lacking data aggregation and require repetitive investment in RCC–an obstacle to the overall business case for the retailer and the bank.

With New Solutions, Adoption Speeds Up

Fortunately, recent innovations have removed the barriers to widespread adoption of RCC. New offerings that are hardware and vendor agnostic are allowing banks and retailers to choose their smart-safe devices and service vendors based on the needs of each retail location, regardless of geographical footprint.

For example, the new solutions allow merchants to select a smart safe device with the capabilities and price that meets their needs and budget–rather than being forced to accept a standard offering. Similarly, the software supports any cash deposit device to allow merchants to order cash and track deposits via a bank-branded Web portal. This delivers centralized cash supply chain management to both financial institutions and merchants.

New options are bringing opportunities for banks and retailers:

- Retailers and merchants of all sizes can make a positive business case for RCC; regional, community banks and credit unions can now competitively offer a bank-branded RCC solution to small, mid-sized or large businesses.
- The barrier to entry for regional armored couriers is significantly lowered, improving choices, service levels and prices. All armored carriers can benefit from offering a multi-vendor solution.

- Adoption of an integrated data model and RCC program supporting multiple vendor relationships provides greater flexibility and choice for retailers.
- Financial institutions will also be able to offer merchants a single banking relationship, regardless of where store locations exist, because the physical transportation of cash is no longer as time sensitive as it once was. This opens the door for regional banks, community banks and credit unions to compete head-on with larger institutions in a burgeoning industry–an exciting proposition indeed.

Now, retailers, armored carriers and banks can think of RCC as a "deposit switch"–a universal solution that is scalable across multi-vendor supply chains. An independent, Web-based software solution is the next step in RCC.

The Road Ahead

The importance of the new, more flexible RCC solutions cannot be understated. In its latest market update, Celent predicted the number of installed safes growing at 16 percent compound annual growth rate over the next couple of years and bank participation to more than double through 2015. While the growth numbers are impressive, the United States is only scratching the surface with only about 10 percent market penetration of the total US RCC estimated opportunity of one million safes. Once a technology that solved cash supply chain management problems for a select few, RCC has truly come of age, providing a cost efficient, "one size fits all' solution that does not tie retailers and banks to a particular manufacturer, armored courier or cash processor. Through an agnostic approach, the new offerings are able to deliver cost savings, security benefits and greater cash management control to businesses.

Meanwhile, the road to RCC has been widened, giving regional, community banks and credit unions a high performance vehicle for gaining a lucrative new revenue stream, expanding their geographic footprints, and attracting a more diverse, more loyal merchant base.

About the Author

Louis Layton joined Fiserv in 1999 and is responsible for managing the product strategy for Cash & Logistic software products. During his tenure, Louis has managed software installations, new product development, process redesigns, system re-engineering and conversions for tier one global financial institutions. Louis brings a wealth of knowledge and a unique global perspective of the cash supply chain, having effectively managed programs in more than a dozen countries. Prior to joining Fiserv, Louis worked at JP Morgan Chase within its Cash Vault Operations and in Credit Risk at Bank of America. Louis earned his Bachelor's degree in Finance from Texas Christian University and his Masters of Business Administration degree from the University of Dallas.

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