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Improving Eurozone Cash Processing Harmonisation and Efficiency within SEPA

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<i>Purpose</i>	<i>EPC has conducted a detailed review of both wholesale and retail cash handling and processing. The objective of this paper is to present the results of this analysis.</i>
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1. Introduction

The introduction of euro bank notes and coins in January 2002 has been a successful operation and one step towards increased European unity. It has achieved its primary aim and has enabled citizens to use their everyday currency to compare the price of goods and services purchased throughout the eurozone. From a retailer's perspective, particularly those who do business with customers from many countries, the common euro currency has also greatly simplified cash face to face payments at the point of sale.

However whilst cash is the most popular payment instrument for small value purchases, it remains amongst the most expensive to operate from a societal point of view. It is estimated that today 7-8 out of 10 face-to-face transactions per annum are made with cash in the EU. The total cost per year to the EU economies has been estimated at between 0.4% and 0.6% of GDP, between 45 billion and 70 billion per annum. In addition, annual cash in circulation continues to grow rapidly at between 7% to 10%.

The current landscape for the distribution of cash is characterised by multiple national infrastructures each organised at a national level and based on different business models. In addition, for retail cash, banks, merchants, public authorities and transport organisations are all finding it difficult to handle any increasing volume of cash. This growth and lack of harmonisation, common approach and best practice, increases the cost of cash processing and creates many inefficiencies across the eurozone.

Whilst some stakeholders have found it difficult to communicate the high cost of providing cash to consumers, others may not see the need to do so. Consumers have a great affection for cash because it is real, instantaneous and apparently free. Few customers (i.e. consumers and retailers) understand the cost and complexity of the back office processes that manufacture, distribute and recycle cash. Few appreciate the very high costs of the eurozone cash processing infrastructure.

Also, many citizens are unaware of the high societal costs of cash: the cost burden cash requires to provide security, the use of cash by criminal elements within society, and the consequences of the unofficial economy in some communities.

Given this background, the European Payments Council (EPC) believes that actions by all stakeholders within the eurozone could contribute to reduce the high cost of processing and handling cash. Within this paper the EPC describes how this could be achieved.

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2. The Future for Cash

The EPC's vision for the future of cash in SEPA was described in the EPC report "Findings and Recommendations¹" and approved by the EPC Plenary. In that document a view of the future for cash was stated as follows:

"The euro will not be the single currency as long as there are significant differences in the treatment of wholesale cash within national borders, nor as long as the provision or sourcing of cross border wholesale and retail cash services is not possible under the same conditions than the provision or sourcing of equivalent domestic services."

It is suggested that meeting this objective will require all stakeholders to work towards: the harmonisation of operational conditions across the eurozone; the development of common standards for cash processing and security; the dismantling of legal barriers that limit a free and open market for cash; as well as the implementation of best practice to enable the cost of cash processing to be reduced.

Over the past year the EPC has conducted a detailed review of both wholesale and retail cash handling and processing. The objective of this paper is to present the results of this analysis.

¹ EPC090-02

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3. Wholesale Cash Processing

Prior to the introduction of the euro every nation had its own distinct framework (i.e. a set of laws, regulation, practices, and infrastructure) for distributing and recycling cash from the issuing National Central Bank (NCB) down to ATMs and retailers. With a few exceptions these national organisational arrangements have changed little since 2001. The euro replaced national currencies but the processes for distribution and recycling remained. Conscious of this challenge, the Eurosystem is now in the process of implementing a wide ranging harmonisation process across the eurozone.

Capitalising on the co-operation that has occurred between the European Central Bank (ECB) and the EPC, it is suggested that both parties and key stakeholders should now work towards creating a level playing field for wholesale cash distribution. It is proposed that the basic functions performed by NCBs in Europe are harmonised, providing common services to banks and similar processing arrangements for the handling of coins and notes in every nation. This would create a common eurozone wide infrastructure for wholesale cash.

Establishing this level playing field is expected to require:

- Subject to a dialogue between the EPC and the Eurosystem, the agreement of principles to enable access to NCB cash services across national borders. In addition, the objective would be ensure a network with sufficient coverage, to enable changeability of services for lodgings and withdrawals and also the establishment of information flows and feedback to enable the efficient operation of services between NCB's and banks.
- The optimisation of NCB operational conditions, in particular minimum and maximum debit and credit rules, opening hours, authenticity control policy, cash quality control processes and procedures for compliance and dispute resolution.

If such global principles and harmonised operational conditions can be defined through dialogue with the Eurosystem and the EPC, then national market implementation can be devolved to national market NCBs and national banking communities.

Third parties also have a significant role to play in enhancing cash processing efficiency. The EPC proposes a dialogue with third parties, in particular: merchants, public authorities, cash sector suppliers, and cash-in-transit (CIT) operators. Topics could include initiatives against euro counterfeiting and standardisation matters, including service levels for the supplier sector.



A set of eurozone-wide standards will be required to achieve harmonisation and improved efficiency

A set of eurozone-wide standards will be required to achieve harmonisation and improved efficiency. Some standards have already been delivered, e.g. common definition of fit/unfit euro bank notes and others are in the process of development by the EPC's Cash Working Group. The Cash Working Group has identified two priority areas, namely:

- The development of common security requirements for euro note transportation, including standards for bank note neutralisation systems.
- Best practice standards for coin and bank-note packaging including bundle types (content, number of coins/bank notes, single or multiple denomination countries, packaging and procedures for returning counterfeits and stained bank notes). These standards should also include harmonisation of processes across national markets and bank-note standard packages compatible with cash degradation systems.

4. Retail Cash Processing

Retail cash processing also generates very significant costs. There is a need for continued improved methods and processes in this sector. Current retail processes are highly labour-intensive, particularly at small and medium sized merchants, at bank teller operations and at branch and regional cash centres. There is a general recognition that efficiency could continue to be improved through further automation, and further centralisation. In addition, there is a need to encourage the supplier sector to invest further in developing low cost coin and note processing equipment for in-bank branch teller assist operations, note recycling and medium to large sized retailer back office processing.

Specific areas where the EPC could encourage its members to review the detail of their cash handling processes and to implement best practice are:

- Shortening the cash processing chain, elimination of double handling, the increased use of outsourcing and the encouragement of CIT direct-to-merchant contracts.
- Increased centralisation, multi bank cash centres, centralised deposit taking, sharing stocks of coins and notes and the removal of errors, exceptions and inefficient processes.
- The automation of coin processing and the improvement of labeling, checking, weighing at cash centres and the use of coin accepting machines.
- The implementation of new processes for cash management, the improvement of cash flows, reductions in stock and cost of float for cash centres, branches and ATM devices.
- The optimisation of teller operations, improved deposit processing, the use of teller cash dispensers and the implementation of chip cards to assist cash withdrawal, cash deposits and cash orders.
- Recycling of cash at branch/ATM level to reduce costs, lower branch stocks and to improve security through the reduced need to transport cash.

There is a general recognition that efficiency could be improved..

In addition, there is a need to encourage the supplier sector to invest further..



The EPC recognises that customers need to be educated to understand the “true cash costs”.

The EPC continues to acknowledge the crucial importance of its member banks’ obligations to distribute only genuine and quality cash. This is an imperative to maintain the confidence of the general public. In addition, the EPC recognises that customers need to be educated to understand the “true cash costs” including societal costs, the risks of cash movement and provision of end to end security. Through national banking communities the EPC will encourage member banks to communicate these messages to their personal and corporate customers. The EPC also strongly supports co-ordinated actions to fight counterfeiting and will continue to liaise with key stakeholders at the eurozone level and in national markets to ensure fraud is contained.



5. Conclusions

To summarise, the EPC is fully committed to encouraging key stakeholders at the eurozone level and national banking communities to make every effort to reduce the end to end cost of cash processing. In addition, the EPC will continue to work closely with the Eurosystem to move towards the gradual harmonisation of wholesale cash processing in each eurozone country.

The key messages the EPC would like to deliver in relation to the harmonisation and improvement of wholesale and retail cash processing is as follows:

- All stakeholders to wholesale cash processing should work towards:
 - Euros being made available to banks on the basis of a similar fee structures applicable throughout the eurozone.
 - Banks being able to recycle cash at Eurosystem outlets at similar rates throughout the eurozone.
 - Banks sourcing and recycling cash from any outlet of the Eurosystem regardless of their country of registration and operation.
- Legal and regulatory barriers that (directly or indirectly) limit or confine the commercial terms on which cash services are provided to users to be gradually dismantled.

National banking communities, national governments, merchants and other key stakeholders should work towards the implementation of common standards and best practice methods to enable the costs of retail cash handling to be substantially reduced.

The EPC will continue to work closely with the Eurosystem to move towards the gradual harmonisation of wholesale cash processing.