

Cash Recycling in the Branch

Reshaping the Future of Retail Banking



Re-envisioning the Branch

The rise of the Internet put the future of branch banking in question, but a decade later brick and mortar is back and bigger than ever. Financial institutions are once again turning to retail branches as their primary delivery channel, but now with a more intense focus on improving efficiency and customer accessibility through technology.

A prime example of is the rapid adoption of cash recycling technologies throughout the industry. Proponents of cash recycling machines claim they can make a significant impact on operational efficiency, as well as allowing for new branch designs that are more open and customer-friendly.

This paper will examine the shortcomings of traditional cash-handling methods, and how each problem can be immediately addressed using cash recycling technology. We will also discuss the longer-term potential for cash recyclers to change the way financial institutions design and build their branches.



The Challenges of Handling Cash

Most branch banking operations still handle cash in much the same way as they did 100 years ago. Cash is stored in a secure vault, and, after counting twice through dual control, the cash is distributed to tellers to perform cash transactions with customers. When cash is received from or distributed to customers, tellers count the cash multiple times to ensure accuracy. The cash is counted again, often more than once, when tellers balance and return their cash to the vault. It's not uncommon for one note to be counted by hand at least 6 times on its journey through the branch. Figure 1 shows the typical flow of cash through the branch.

Although cash plays an essential role in any branch operation, handling cash manually through traditional methods presents many challenges for financial institutions, such as:

- *Decreased employee efficiency and increased customer wait times.* With the need to reduce exposed cash in a branch, operational procedures must be in place to control the amount of cash available at any given moment. Tellers are forced to make multiple trips to a central cash supply during the course of a normal day, usually with another teller to maintain dual control of cash for security purposes. This practice decreases customer service levels during busy times, as it ties up employees who could be serving customers rather than manually counting cash to add to their drawers.
- *Increased security costs.* Physical security equipment, such as vaults, secure drawers, alarms, and

camera systems are usually required elements of operational policies designed to prevent both internal and external theft.

- *Inefficient cash management.* Predicting cash inventory stocking levels in the branch can often be a guessing game. Because branches have to

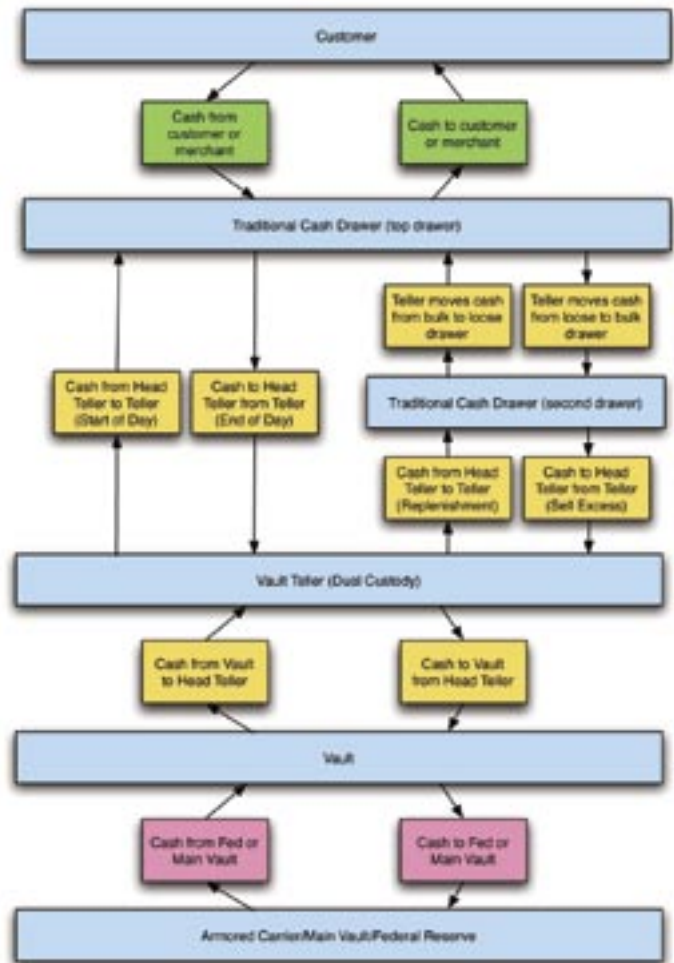
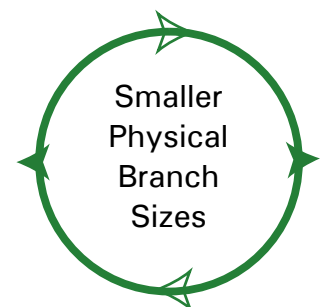
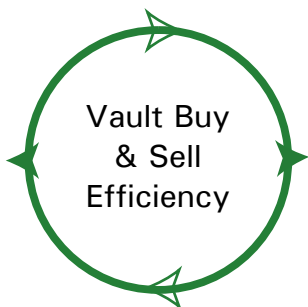


Figure 1. Cash flow through a traditional branch



order enough cash so they are not caught short of customer requirements, they often order more than is actually needed. This uncertainty, coupled with new fees imposed by the Federal Reserve for “cross-shipping” of currency, can unnecessarily increase the cost to stock the branch with cash.

- *High teller turnover rates.* Although tellers are among the lowest paid employees in a financial institution, the expectation for them to handle customer cash transactions and balance their drawer at the end of the day with 100% accuracy can create high levels of stress and a correspondingly high level of employee attrition. Turnover rates for front-line employees can be over 50% for many financial institutions, which in turn increases hiring and training costs for the branch.
- *Decreased opportunity for service excellence and cross-selling.* Since tellers spend a large percentage of their time counting cash during customer transactions, they have less time to interact with and focus on the customer. This can make it difficult to meet the cross-selling initiatives and customer service goals of the branch. In addition, the need to hire employees with previous cash handling experience often means passing up opportunities to hire employees with excellent customer service skills who may lack cash handling experience.

A New Way of Doing Business

With advances such as remote check imaging, signature capture, high-speed networks and total branch automation, financial institutions have implemented

modern technology to improve nearly aspect of the branch operation. The one notable exception has been their continued use of traditional cash handling methods. But with the advent of cash recycling technology, an increasing number of banks and credit unions are overcoming the limitations of manual cash handling.

Cash recycling technology allows financial institutions to handle cash in an entirely new way. With a cash recycler, all cash deposited by customers can be automatically counted, verified for authenticity, and stored in a secure safe right at the location where the transaction occurs. The same cash can later be dispensed for other customers requiring cash withdrawals.

Cash recyclers allow financial institutions to simplify the overall flow of cash through the branch. Because a cash recycler handles all the counting and storage of notes, it can eliminate the need for a traditional teller drawer, which in turn dramatically reduces the burden on a vault teller to create and replenish teller drawers. Compared to Figure 1 on the previous page, Figure 2 illustrates the impact of a cash recycler on branch operations.

Cash recycling technology has the potential to address each of the challenges outlined in the previous section:

- *Faster, more accurate cash transactions and reduced customer wait times.* Replacing the manual counting of cash with an automated, high speed process at the point of the transaction can significantly



reduce overall transaction times and reduce customer lines.

- *Streamlined vault buys and sells.* In addition to speeding up customer transactions, cash recyclers can be used by other employees in the branch to buy

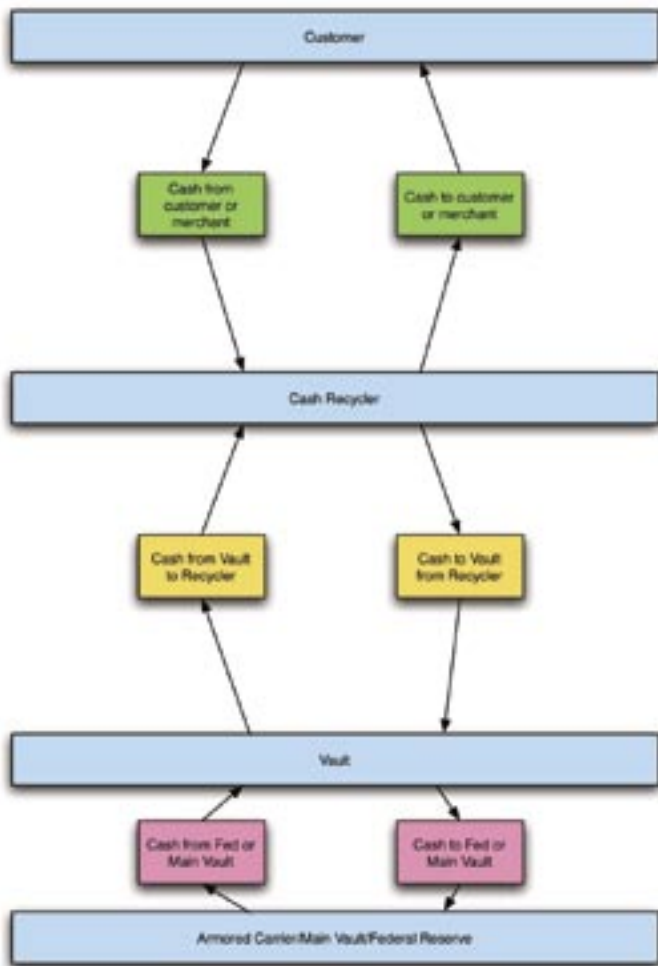


Figure 2. Cash flow with a cash recycler

or sell cash as needed. Because of the programmed security levels and electronic audit trail, tellers can buy and sell cash without dual control, leading to more efficient operations in the branch.

- *Enhanced physical security.* Cash recyclers reduce the need for bandit barriers, large vaults, and other security measures designed around a traditional environment where cash would be exposed. The increased cash security allows for financial institutions to design more open, customer-friendly facilities.
- *Simplified cash management.* Cash recyclers eliminate individual teller cash drawers and improve cash reporting. As a result, branches can more accurately predict their cash needs and reduce the costs of excess currency.
- *Reduced teller balancing time.* At the end of a shift, tellers operating from a cash recycler can balance faster and more accurately. And the elimination of balancing errors means higher productivity and less stress for branch employees (out of balance situations are a major reason tellers either quit or are terminated).
- *Enhanced hiring opportunities.* By automating the cash handling functions at the teller line, financial institutions can hire staff with skill sets geared more toward sales and service than cash handling experience. The introduction of cash automation is often perceived as a benefit by employees and can lead to greater job satisfaction and increased employee retention.



- *Improved customer service.* With the ability to shift their focus away from cash counting, tellers can stay more connected with customers during the transaction. The ability to give more personal attention to each customer can result in a more satisfying experience and a higher perceived level of service.
- *Increased branch volumes at current staffing levels.* With cash recyclers enabling faster and more accurate cash transactions, branches can employ more flexible staffing models and achieve higher volumes without hiring more tellers.

Thinking Outside the Box

In addition to addressing the existing challenges of manual cash handling, cash recycling has the potential to unlock a new world of business opportunities for financial institutions. Some of the concepts enabled by cash recycling include:

Open Branch Designs

Cash recyclers accept currency deposits as well as dispense cash back, taking open cash drawers out of the equation. Without the need for physical separation and security of tellers and their cash drawers, financial institutions can create more inviting environments for their customers. Taking advantage of the open layouts used in the most successful retail stores, banks can enhance their image through marketing and branding efforts that draw customers in a more effective way.

Single-Employee Branches and Remote Branches

The need for dual cash control for tellers also vanishes with the electronic audit trail created by cash recycling devices. This allows for some branches to operate with a single teller, creating opportunities for new locations and extended service hours. For example, in-store branches and traditional branches can operate during evenings and weekends without the need to have a manager present. And financial institutions can also pursue opening branches in office buildings to target specific employer groups.

Private banking offices and loan centers with a goal of becoming more retail-oriented can become “cash-enabled” with the adoption of cash recycling machines, without having to add expensive vaults and cash security measures.

Remote Cash Deposits and the Large Retail Customer

Beyond its in-branch benefits, cash recycling also presents financial institutions with more opportunities to expand their geographic footprint, add customers and grow their fee-based revenue. Banks can attract larger merchant accounts by placing remote branches in the cash rooms of commercial clients. With cash recycling machines on site, merchants can securely deposit cash and still have access to the cash for daily operational needs. Real-time or provisional credit can be given for the cash held inside the recycler.



In much the same way that Check 21 has created a model for faster and more accurate electronic check processing, retailers can realize savings from the automation and storage capabilities of cash recycling.

Analyzing Return on Investment

For the majority of financial institutions, cash recycling can have a positive operational impact that justifies the costs. As such, industry analysts predict that more than 20,000 cash recyclers will be deployed in North America over the next four years.

However, the decision of whether to implement cash recycling in a particular branch must be balanced against the existing cash flow as well as potential cost savings and revenue gains. For some branches, cash recycling will not be a good fit because the ratio of incoming to outgoing cash is not within an acceptable range. If the flow of cash in any one direction is greater than 70% or less than 30%, then other methods of cash automation should be explored. This ratio can vary depending on the day of the week or the time of day, but the overall flow of cash within the branch must be relatively balanced

in order for cash recycling to be most effective.

A unique analysis should be performed for each financial institution, and should attempt to quantify the impact of all of the possible benefits of cash recycling:

- Teller Balancing Time Saving
- Vault Buy & Sell Efficiency
- Enhanced Branch Security
- Smaller Physical Branch Sizes
- Cross Selling Success
- Staffing Model Reductions
- Reduction in Teller Turnover
- Improved Customer Service Levels
- Less Time for Teller Training Required
- Faster, More Accurate Transactions
- Branch Cash Management Improvements
- Ability to Use New Branch Designs

In the right conditions, cash recycling can play a powerful role in revolutionizing branch banking for financial institutions and consumers alike.

Learn more at www.pendum.com, or call Pendum today at 877-692-1500.

About Pendum

Formed through the 2006 merger of two ATM industry pioneers, Pendum, Inc. is the nation's largest independent service company for ATMs and other transaction terminals. Pendum provides financial institutions with a single-source solution for hardware and maintenance of ATMs and teller cash transaction terminals, cash management and armored cash handling, ATM management and value-added branch services.

Pendum is a primary reseller of teller cash dispensing and recycling devices from manufacturer ArcaTech Systems, and also provides comprehensive installation and maintenance services for the equipment.

About ArcaTech Systems

ArcaTech provides automation solutions for financial institutions, specializing in currency recycling and dispensing technology. Strategically headquartered near North Carolina's Research Triangle Park, the company began in 1998 and has offices in Scotland, Russia, Germany and India.



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