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Cash Control

MANAGEMENT OPTIONS CAN HELP CUT COSTS

By: Ann All, editor, ATMmarketplace.com

When it comes to ATMs, everything that happens after money is dispensed seems somewhat anticlimactic.

"With ISOs especially, transactions are their lifeblood. So while they always want to know if their machines are on and dispensing cash, they're not always as concerned with what comes after," said Mark Holland, senior vice president of Palm Desert National Bank (PDNB), a provider of vault cash, ATM cash management, network sponsorship and ACH services, primarily to independent deployers.

For instance, many ISOs use the counters on ATMs themselves to tell them how many bills were dispensed during settlement and balancing of their machines. But that practice is obviously less than perfect, Holland said.

"You might have a case where you had a transaction reversal but the cash ended up getting dispensed anyway," he said.

A number of deployers rely on their transaction processors to sort out these kinds of financial details. But Holland said it makes more sense to entrust cash management to a specialist like PDNB. "We track every dollar," he said. "We pay close attention because, in most cases, it's our money and we want to make sure we know where it is at all times."

It makes sense to track cash closely, because cash-related expenses create one of the single biggest costs in an ATM program. According to an *Accelera Research* report called "Managing ATM Cash: Best Practices," an average of 31 percent of ATM expenses are related to managing cash.

One of the biggest costs is the cash itself, which is tied to the national prime-lending rate. Most deployers pay 1 percent to 2 percent above prime, although fees can vary.

So, for example, if the prime rate is 9 percent and there is $10,000 cash outstanding, the cost of cash is determined by multiplying the prime rate plus one percent (9 + 1 = 10) by $10,000. Since 10 percent of $10,000 is $1,000, that's the annual rate. Divide by 360 to get a daily rate, $2.77 in this example, and multiply by the number of days in the month.

Vault cash providers charge from when the cash leaves the bank until it is deposited or settled back to the bank, which gives deployers an incentive to settle funds as quickly as possible.

In cases where funds are "swapped," with an armored carrier pulling a cash cassette and replacing it with a new one rather than simply adding money to the cassette, it can take "weeks" to credit funds, Holland said. "If you multiply that effect over a large number of machines, it can really get you. You don't want to pay interest on swaps any longer than you have to."

With PDNB's Trakker software, Holland said cash is settled daily at "every point in the cycle," including armored carrier vaults and correspondent bank vaults. "You're going to have a little leakage at every step along the way if cash is not manage tightly," he said.

Cash management for large ISOs can be quite complex, he said. "The larger your portfolio, the more armored carriers you use, and the more processors you use. If you're not careful, you can get pretty tangled up in data." PDNB manages cash for portfolios ranging from a handful of ATMs to in excess of 4,000 machines, he said.

E*Trade Access Director Dale Dentlinger said he is happy to let PDNB coordinate the scheduling of armored carriers, opening of correspondent bank accounts and other logistical details involved with cash management.

"It's a distraction for us, but it's something they are focused on every day," said Dentlinger, noting that PDNB provides services for about 20 percent of E*Trade Access' 15,000 ATMs. "Letting them handle those kinds of operational details allows us to focus more on the sales and marketing side."

ISOs have been quicker to adopt cash management software than financial institutions, said Tom Meurer, president of software provider e-ClassicSystems, largely because of the more diverse nature of their networks. Reconciling cash at retail ATMs tends to be a more complicated process than at bank branch ATMs because of the typically higher number of transaction disputes and reversals, he said.

Meurer said his company's ATMManager Pro software suite features an optional cash management module. A handful of other vendors, including Morphis, Transoft International and Carreker Corporation, sell off-the-shelf cash management software packages. Vault cash providers, including PDNB, Cash Connect and Columbus Data Services, typically use their own proprietary systems. Some transaction processors employ proprietary systems as well.

Some common features of cash management software include automated cash ordering, cash forecasting and cash balancing, settlement and reconciliation.

To minimize their interest expenses, deployers want to keep ATMs filled with just enough cash to avoid running out — which can result in costly emergency armored car runs. A cash reserve of about 15 percent is ideal, Meurer said, yet many deployers maintain much higher reserves for fear of cash outages.
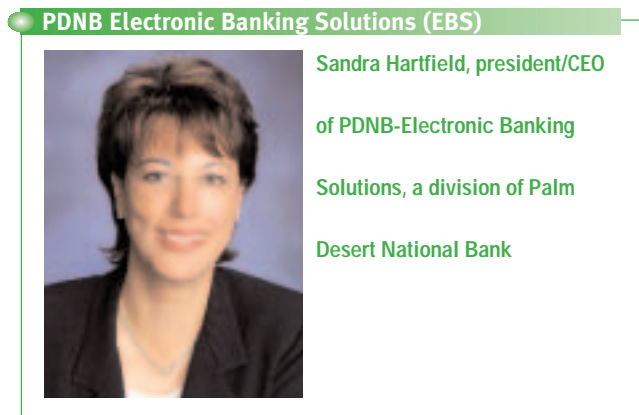
Cash management software uses forecasting algorithms to help deployers predict how much cash they need in ATMs, based on previous transaction history and factoring in holidays and other special events that drive up ATM usage and drain cash from the machine.

> **SOME COMMON FEATURES OF CASH MANAGEMENT SOFTWARE INCLUDE AUTOMATED CASH ORDERING, CASH FORECASTING AND CASH BALANCING, SETTLEMENT AND RECONCILIATION.**

Forecasting tools prove accurate for most — though not all — ATMs, Meurer said. "(Forecasting) covers 95 percent to 98 percent of your terminals, but you're always going to have some that will behave more erratically. The good thing is, software can help users identify the terminals that they need to give special attention."

Some cash management software systems offer the ability to import and export information from customers and, in some cases, armored carriers. So, for example, a customer can submit a cash order in a variety of message formats — including Excel. It is imported into the cash management system and then exported to the appropriate carrier.

Settlement data from the carrier can also be imported into the cash management system, then reconciled and exported back to the customer.

PDNB Electronic Banking Solutions (EBS)

Sandra Hartfield, president/CEO of PDNB-Electronic Banking Solutions, a division of Palm Desert National Bank

Automating the process as much as possible not only reduces the cost of labor — which rises when data is manually re-entered several times — but also reduces opportunities for errors, said Sandra Hartfield, president and chief executive of PDNB's Electronic Banking division.

Automation also helps segregate terminals with exceptions. Hartfield said. "You want to work the terminals that need attention right away; you don't want to spend your time working the ones that automatically balance."

Holland believes effective cash management will become increasingly important as deployers add more complex transactions to their ATM programs — particularly if cash acceptance is involved. Already, PDNB has worked with a deployer that dispensed prepaid cards and utilized cash acceptance at some of its terminals.

"In cases like that — where you've got cash going in, cash going out and purchases being made — you've got to reconcile the whole machine," he said.

As with cash, it's important to maintain tight controls with prepaid cards and other items of value. "If you've got a carrier going out to replenish cards, you want to make sure you know how many should be there," Holland said.

While transactions like this are rare to date — with 7-Eleven's Vcom the most notable example of options such as bill payment and money order sales being offered via ATMs — some in the industry predict that these kinds of transactions will grow.

Don Jarecki, PDNB's senior vice president of business development, said that PDNB is currently involved with three pilot projects that involve multiple settlement activities at ATMs.

"Because it automates the balancing and settlement process, our Trakker software positions us in the forefront of what it will take to support the next wave of ATMs," Jarecki said.

About the Sponsor

PDNB Electronic Banking Solutions

PDNB Electronic Banking Solutions (EBS), a division of Palm Desert National Bank, has been an expert in the ATM industry since 1994, developing customized solutions for Vault Cash, Cash Management, POS/ATM Network Sponsorship and ACH Origination. PDNB-EBS supplies and manages close to $500,000,000 in Vault Cash and Cash Management services to more than 12,000 ATMs and Advance Function Kiosks nationwide.