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Politics, commercial interests and cross-border CIT regulation

Should a cash-in-transit (CIT) provider from one EU country be allowed to operate freely in other EU countries? This seemingly innocuous question is more complex than it first appears. The European Commission is desperate to facilitate such a move, in which it is supported by both banks and retailers. The CIT industry and national authorities are against such plans, however. The difference in views is partly political and partly commercial.

The European Commission has two principles behind its push for a regulation allowing cross-border provision of cash transportation. The first is free movement of goods across EU borders – this must be set against the irony that despite the progress made on this front in other areas, vehicles filled with euros are mostly restricted. The second is that businesses from one EU country should be free to operate in others. Banks and large retailers support such a regulation for commercial reasons – they believe that in border areas, operating costs can be reduced.

So far, so good, so what is the problem?

Unfortunately, regulation of CIT providers at a national level differs widely from country to country, and national security issues usually fall outside of the European Commission's remit. Rules at a national level do not just relate to CIT provision, but are intertwined with national policies on issues such as policing and sentencing, among others.

Concern that regulation on cross-border CIT will indirectly have an impact on national security issues means that many, if not most, EU countries have serious concerns about the proposed regulation.

CIT providers are worried, partly about the safety of their staff, but also about the threat of cross-border CIT providers undercutting their national operations because they are operating under a less stringent regime.

There is no simple answer to this conundrum, so any solution is going to need significant compromise. The Commission appears determined to introduce a regulation, and can probably persuade member states to come on board. The CIT industry therefore needs to ensure it does not appear too preoccupied with limiting competition, and continue to focus on influencing the regulation to maximise safety of staff and a level playing field for incumbents and new entrants.

Dominic Hirsch, Editor

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ESTA PERSPECTIVE

Cash-in-transit redefined

CIT is not just about secure transport – it is about highly secure and highly efficient supply chains

By Francis Ravez, Secretary General, ESTA

Cash-in-transit. The words seem pretty self-explanatory: cash (banknotes and coin) in transit between two locations. How hard can that be? It is hardly high tech! In the course of this article I hope to change that perception and indeed perhaps fundamentally challenge the view that modern cash-in-transit companies (CITs) are simply transport businesses.

Not a one size fits all business

However, since transport is the most visible aspect of the operation, we will reflect upon that for a few moments. Every day across the world, CITs move billions of euros of cash on behalf of their customers. These customers can range from central banks moving large consignments, to small retailer, and all levels in between. The security techniques employed will be just as varied: the vehicle may be heavily armoured, it may have a police escort, the highly trained crew may be legally permitted to carry firearms, access to the vehicle may be biometrically or remotely controlled, the banknotes may be protected by pyrotechnic dye or smoke systems designed to degrade the notes in the event of an attack. Multiple internal safes may be nested like a Russian doll to critically delay access by an attacker. Even DNA tagging systems may be deployed to contaminate a bandit with a unique and traceable DNA signature.

However, all customers will have one thing in common: the security selected and deployed will be based upon a careful and continuous process of risk assessment – this is not a one size fits all business. And all this must be deployed efficiently in order to minimise cost, as customers are constantly seeking greater value.

CITs as supply chain managers

This leads us to the key point regarding what a CIT is and can be: the business is not just about secure transport – it is about highly secure and highly efficient supply chains.

The CIT companies and customers that embrace the logic of this insight have transformed the traditional role of the CIT in a number of countries. For example, instead of a highly fragmented ATM supply chain spread between a number of potentially conflicting suppliers, there are banks today who have delegated the entire ownership and management of this supply chain to their CIT. From forecasting the requirement for cash, through remote monitoring and total maintenance, the CIT optimises two variables: ATM availability and cost of funding. There is no organisation better placed to do this because transport links, and sometimes limits, the various elements of the chain.

Extending the efficient supply chain ethos further, within an appropriate regulatory framework, large efficiencies and economies of scale can be created by CITs building and managing cash centres operating to central bank-type standards, servicing multiple banks from a common logistical and

The European Security Transport Association – ESTA

Founded in 1975, ESTA is the European association for secure cash logistics (cash-in-transit – CIT). The organisation runs initiatives and programmes to represent the interests of CIT and cash management organisations in Europe, where there is an increasing need for the representation of member interests in European regulatory organisations, including the European Commission, the European Central Bank and the European Payments Council.

Membership:

The organisation comprises 134 members, representing approximately 90% of the market. The national CIT associations of France, Germany, Italy, and Poland are also members. ESTA members:

- employ approximately 100,000 people
- operate with >23,000 dedicated security vehicles
- service >180,000 ATMs
- manage >900 cash centres
- process >392 billion coins and notes
- generate sales in excess of €4 billion

Organisational structure:

The ESTA Board, which meets every 2-3 months, has active representation from all of the major global cash businesses (Prosegur, Loomis, G4S and Brink's), along with delegates from smaller, domestic companies (such as Via Mat in Switzerland, Nokas in Norway and Battistolli in Italy).

ESTA has three main Work Groups which report to the Board – these cover Security, Cash, and European Regulation. Each Work Group has a chairman and membership comprises of management from the European Cash and CIT companies, together with representatives of four national CIT associations.

processing hub. This is the situation in countries such as the UK, Sweden and Spain.

Finally, for most people of course, the reason they want cash is so they can spend it! Here again there is no reason why the cash supply chain cannot be streamlined – beginning inside the retail store. It is for this reason that some CIT companies are working with their retail customers to deploy sophisticated technology and systems to improve the security and efficiency of cash handling before the money leaves the premises.

From cash-in-transit to cash-in-circulation

So perhaps we need a new name to describe what it is that a modern progressive CIT company can offer. Perhaps rather than 'cash-in-transit', a more appropriate term would be 'cash-in-circulation' – because the activities of advanced CIT companies are geared towards accelerating the velocity of cash within the cash-cycle, and that truly is a win-win for all stakeholders. ■

For more information on ESTA visit www.esta-cash.eu

'Cash-in-circulation' may be a more appropriate term than 'cash-in-transit'

CIT IN GERMANY

German CIT firms may profit from PSD implementation

In 2006, Germany's largest cash-in-transit (CIT) company, Heros, folded and its owners were convicted of embezzling over €500 million from around a thousand clients. One legacy of this criminal activity is the market's artificial pricing structure, with levels, which according to the industry association Bundesvereinigung Deutscher Geld- und Wertdienste (BDGW), are 20% too low and which may have resulted in the subsequent exit of G4S and Loomis.

Three years on, Germany's CIT operators have had to come to terms with a somewhat more robust regulatory environment and the need to rebuild trust in the industry.

CIT operators to gain role in cash recycling

Many CIT operators hope to profit from the implementation of the Payment Services Directive (PSD) into German law in November 2009, when they will be able to acquire licences to operate as payment institutions (Zahlungsinstitut) and be allowed to perform services such as re-introducing cash into circulation. According to the BDGW, it is envisioned that CIT companies will play a more important role in the German cash-cycle, as Deutsche Bundesbank, Germany's central bank, hopes to relinquish responsibility for the verification of about 50% of the recycled cash in circulation (around 10 billion banknotes) to professional cash handling companies. During 2007, Bundesbank's 47 branches saw the withdrawal of 15.2 billion banknotes with a face value of €412 billion, and the deposit of 14.4 billion banknotes worth €442 billion.

However, cash handling companies will only be allowed to perform this function if they have obtained permission to operate as a specialised payment institution – and in order to do so they must fulfil the requirements set out by the Zahlungsdiensteaufsichtsgesetz (ZAG). The most critical issue for CIT operators in obtaining this permit is the capital adequacy requirement, which has been deemed unrealistically high even for the top 10 CIT players. In addition, cash will have to be authenticated using banknote verification devices authorized by the ECB/Bundesbank.

Perhaps recognising that CIT operators will need to make significant investments in order to take part in cash recycling, the Bundesbank recently increased by 300% the remuneration it pays to operators for bringing in multi-denomination deposits. Michael Mewes, the chairman of the BDGW, expects that as a consequence of continued pressures on margins and the amount of investment that will be required to participate in cash recycling, further consolidation as well as co-operation in the CIT market will be likely. ■

CIT operators will need to make significant investments in order to take part in cash recycling

CASH-IN-TRANSIT

Cross-border CIT regulation: a point of contention

Regulation on cross-border transportation of cash within the European Union is one of the most contentious issues that the CIT industry has faced for many years

ESTA (the European Security Transport Association) held its annual conference in Rome on 27th and 28th April with 225 delegates representing Europe's cash-in-transit (CIT) providers and other key stakeholders, most notably suppliers of banknote degradation systems.

Cross-border CIT is contentious

The first morning was dedicated to discussion of a proposed European Commission regulation on cross-border transportation of cash within the European Union. This is one of the most contentious issues that the CIT industry has faced for many years (see Editorial) and although only formally addressed for half a day, the subject loomed large over the whole conference.

Thierry Lebaux, formerly of the European Commission, and more recently a consultant in EU public affairs, opened proceedings with an explanation of how the latest drive for a regulation on cross-border CIT has come about. He explained that DG ECFIN, the part of the European Commission responsible for smooth functioning of the euro, considered CIT regulation back in 2002. The issue could have been included in the 2003 draft Services Directive (that was formerly adopted in 2006), but in the end cash transportation was excluded from the Country of Origin rules – which allow providers of services in one EU member state to operate in another member state. This was because security risk is deemed a domestic rather than an EU issue, and because some aspects of CIT operations, such as the carrying of weapons, are outside the Commission's scope.

Given their success in facilitating free movement of people, products and services across Europe, the Commission is frustrated that bulk transport of euros is so restricted

Mr Lebaux went on to discuss the Commission's draft proposal, and some of the issues that still need to be resolved – in particular whether there is a risk that the newly proposed cross-border CIT licence might be used by unscrupulous providers to circumvent domestic rules; the question of whether such a licence could lead to less secure CIT operations; and the problem of which social rules should apply to staff working in cross-border operations.

Moving euros freely across borders a matter of principle for the Commission

Benjamin Angel, Head of Unit at DG ECFIN, spoke next, and given that most of the audience was not in favour of the European Commission's intervention in this issue, should be commended for his participation at the conference and for explaining the need for a regulation and the status of current initiatives.

Given their undoubted success in facilitating free movement of people and a wide range of products and services across Europe, the European Commission is frustrated, almost embarrassed, that bulk transportation of euros is so restricted. The Commission is also under pressure from the ECB and the banking and retail sectors to open up the market for cross-border cash transportation.

The Commission argues that there would be a number of benefits of such a move:

- Commercial banks would be able to use the cash services of the nearest bank/cash centre, even if this is overseas
- Large retailers, vending machine operators and other professional cash handlers could be serviced across borders
- CIT companies carrying out transportation in border regions could optimise their transport routes and have access to a larger market
- The economy would benefit from more efficient cash transportation.

In May 2008, the Commission initiated consultations on how to address cross-border cash transportation. A working group has been set up, chaired by the Commission, and including European organisations/associations of the major stakeholders. Between July and December 2008, the working group held three meetings. A number of options were discussed and the outcome is that the Commission is pushing for a common set of rules to apply to all providers of cross-border CIT services within the European Union.

The proposed rules go into more detail than the Commission would ideally like, but are necessary to address the concerns of key stakeholders. Some of the key elements are:

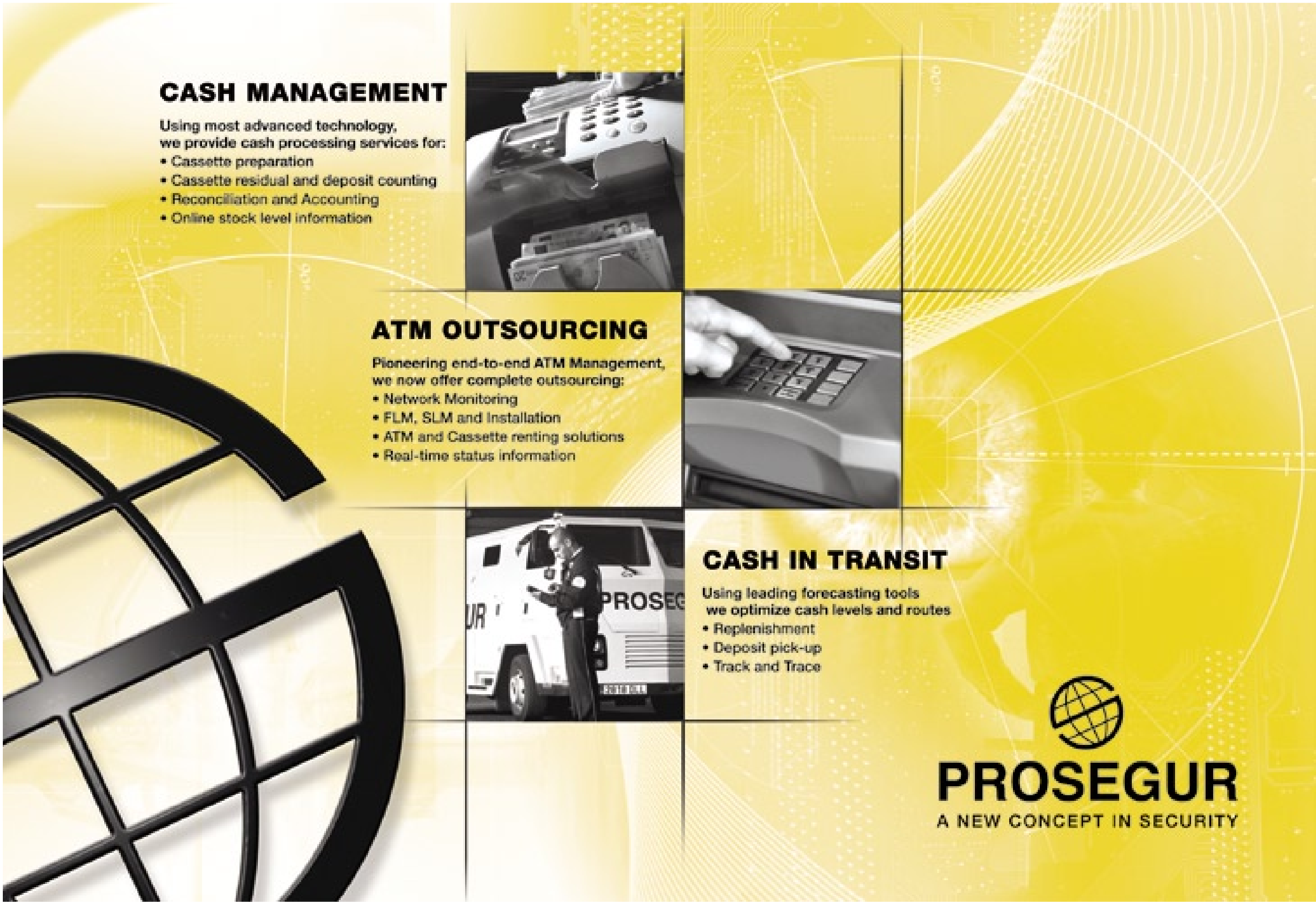
- Daytime (06:00 to 22:00) transport only, unless night-time transport is already allowed in the country where the transport is taking place
- CIT cross-border licence required by providers, obtainable from the member state of origin, granted for three years to organisations meeting specific criteria, including a 12-month track record of providing domestic CIT services
- CIT staff requirements, including a clean criminal record, medical certificate and specified language skills
- Vehicle equipment that includes GPS identification of vehicle location, communication with control centre and in many cases IBNS (Intelligent Banknotes Neutralisation System)
- Adherence to national rules on issues such as notification of national police forces and handling cash outside of vehicles
- Information exchange between CIT providers, member states and the Commission
- Vehicle specifications for transporting different products (notes and/or coins) depending on whether IBNS is installed
- Penalties, including a system for warning providers and suspending or withdrawing licences.

Mr Angel concluded by outlining the next steps in the process, which include expert group discussions with relevant ministries from the member states, discussions with experts and social partners on the EU's social rules, an impact assessment and ultimately a new regulation.

Bank support for cross-border regulation

In the past, Europe's banks have sometimes felt that they are on the wrong end of European regulations. In the case of proposed cross-border CIT regulation however, they support the Commission – in fact, if anything, they feel that it does not go far enough to harmonise across Europe. ▶

The Commission is pushing for a common set of rules to apply to all providers of cross-border CIT services within the European Union



Norbert Bielefeld, representing the World Savings Banks Institute and the European Savings Banks Group, gave a balanced perspective, acknowledging that a cross-border regulation would only benefit a limited number of banks and merchants in border areas, but arguing that it is important nonetheless. He made some of the same arguments as the Commission, with an interesting addition, that cross-border CIT providers could play an important role in addressing isolated events, such as cash shortages, strikes or natural disasters.

Cross-border CIT providers could play an important role in addressing isolated events, such as cash shortages, strikes or natural disasters

Overall, Mr Bielefeld stated that his organisations support the regulation, but still have concerns that the level of harmonisation and service scope are limited, that the requirements for providers are relatively onerous, and that there are therefore questions of how much competition will actually be opened up and how effective the regulation will really be.

EU member states highlight concerns on domestic security

The sensitivity of cross-border CIT operations was highlighted during presentations by government representatives from Belgium, France and Spain. Countries across the European Union have widely varying approaches to security matters, with differing attitudes to issues such as the carrying of guns and police escorts, manning levels for vehicles, marking of such vehicles, transporting cash across pavements, sentencing of criminals and many other aspects. Partly as a result of these different policies, the level of CIT crime also varies by country. Overall, while these and other countries may welcome the benefits that the proposed regulation is trying to achieve, this is outweighed by their national security concerns.

ESTA concerns not fully addressed

There is no doubt that the Commission has listened to the views of ESTA and other industry bodies, and to some extent modified the proposed regulation accordingly. The large CIT providers, represented by ESTA, are still concerned about a number of issues, most notably the lack of controls for awarding a cross-border CIT licence, and the list of acceptable operating models (vehicle/crew combinations) being put forward.

The large CIT providers are still concerned about the lack of controls for awarding a cross-border CIT licence, and the list of acceptable operating models being put forward

Francis Ravez, Secretary General of ESTA, summarised the threats that the organisation feels the new regulations create:

- Increased risk to security of staff, particularly through use of non-uniformed personnel and non-armed vehicles
- Displacement of risk to new or softer targets
- Lowering of CIT standards if cross-border operators are allowed to operate with lower security than is provided by national rules
- Problems with social issues as staff will be operating in multiple countries.

ESTA recognises that some form of regulation is inevitable, so it is urging the Commission to limit the regulation to cross-border operations, and exclude domestic activity in either the country of origin or in the hosted country.

UK remains Europe's CIT attack hot spot

Among other sessions at the conference was the annual update on CIT attacks, as reported by ESTA members. Many of these statistics are restricted outside of the conference, but a few highlights are summarised here.

The overall number of CIT attacks reported fell 7% to 1,307, with the largest number of attacks still in the UK (see article next page). One way of comparing between countries is to look at the number of attacks per country per year, in relation to the number of CIT vehicles in the country. By this measure, the UK remains top with one attack per year, for every three CIT vehicles. By comparison, Germany has only one attack for every 32 vehicles.

It is difficult to pin down the reasons for the wide

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CIT attack hotspots

Number of attacks/number of CIT vehicles, 2008

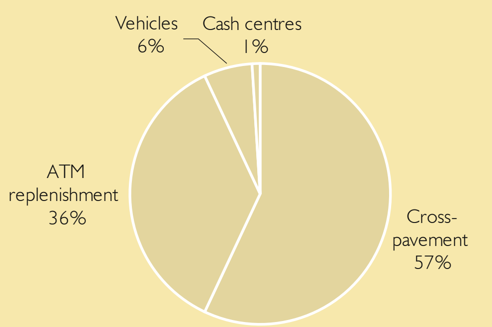
Country	Attacks : Vehicles
UK	1:3
France	1:6
Netherlands	1:8
Sweden	1:8
Greece	1:11
Ireland	1:11
Italy	1:11

Source: ESTA

variation in attack levels across Europe. Part of the explanation is cultural – for example, the extent to which young people get involved in crime, and part is technical, relating to the equipment, vehicles and operating policies of the CIT providers in different countries. ESTA argues that perhaps the most significant factor is political – with the variation explained by policies such as carrying of weapons (countries where CIT crews are armed tend to have fewer attacks), investment in policing and attitudes to sentencing.

CIT attack locations

Share of total number of attacks, 2008



Source: ESTA

It is also interesting to note the split of locations for CIT attacks. Cross-pavement robberies make up over half the total, with attacks during ATM replenishment making up most of the remainder.

The important issues debated during this year's conference, and ongoing issues of common interest, such as reducing attacks on CIT providers, will ensure that the ESTA annual conference is an important date in the CIT calendar for many years to come. ■

UK CIT SECURITY

CIT attacks remain problematic despite cooperative efforts

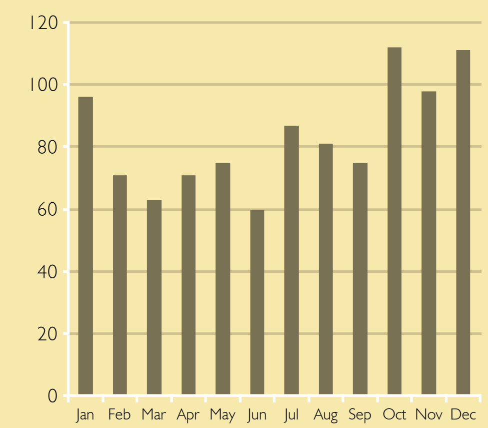
According to statistics recently published by the British Security Industry Association (BSIA), there were 1,000 attacks on cash-in-transit couriers in the UK during 2008. Compared to 2007, the overall number of attacks has decreased by 6%, however, the level of crime remains a serious problem.

The partnership initiative begun in 2007 between the industry, government and police to collaboratively fight CIT crime had shown some initial success, however, the reduced number of attacks in the first half of 2008 were followed by 6 months of increased crime levels, not only with respect to the earlier half of the year, but also compared to the same period in the previous year.

The overall number of CIT attacks reported fell 7% to 1,307 in 2008, with the largest number of attacks in the UK

Number of CIT attacks

UK, 2008



Source: British Security Industry Association

BSIA Chief Executive John Bates said *"Reducing CIT attacks was never going to be an easy task. However two things are certain – more resources than ever before are being invested into preventing CIT attacks; and because of advances in technology and increased intelligence on the crime, the criminals involved stand a significant chance of getting caught and prosecuted."*

BSIA claim that all participants are *"acting with renewed vigour and absolute determination to combat cash-in-transit attacks during 2009"*. ■

Compared to 2007, the overall number of attacks in the UK has decreased by 6%, however, the level of crime remains a serious problem

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