



**LOWERS
& ASSOCIATES**
International Risk Mitigation Partners

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Valencia

“Managing Risk in a Cash Handling Environment”

Paper delivered by Malcolm Blair

Good afternoon.

It is quite some time since I last addressed an ESTA conference; in fact I had rather imagined that you had heard quite enough from me over the years ! However, with much development and change taking place within our industry, as we have heard this morning, I am more than happy to return and make a contribution to this important session. I have been asked to address the topic of ***“Managing Risk in a Cash Handling Environment”***

In his opening address this morning Ken Niven told us how it was the intention of the European Commission to *“reduce the proportion of cash in society”* and then he went on to say that *“cash remains a firm favourite of the public”*. During the excellent presentation given by Graham Levinson he detailed the battles the industry faces with both the Commission and the Banks and on a number of occasions mentioned the worrying phrase *“Kill the cash.”* It seems to me that we are looking at a two horse race here with one called *“The Future”* and the other called *“The Present”* and my interest lies with the latter whereby today cash most definitely remains a firm favourite of the public and especially so the criminal element of that public and so what I am going to say is underpinned by that premise.

Before being in a position to manage, one first has to establish that there is a risk at all and if so, how and to what extent that risk manifests itself.

So we should spend a little time examining what we mean by *“risk”* ? The prime definition of *“risk”*, as a noun, is *“the possibility of incurring*

misfortune or loss” and in this forum we shall be talking about the transfer of that *misfortune or loss* to your insurers. Unfortunately, in today’s context of cash-in-transit insurance “possibility” more accurately becomes “probability” and indeed its consequences. Insurance is a fundamental and essential part of your business and there is no-one here that can afford to be without it. There are many ways in which the transfer of risk to your insurers can be achieved but that is not my territory to discuss today; I shall leave that to the Lloyd’s Underwriter and Broker from whom you will hear a little later. Suffice it to say that your insurers are the single largest “partner” in your business and if anyone is in any doubt as to what constitutes a partnership it is “*a contractual relationship between two or more persons carrying on a joint business venture*”. In providing the financial support to allay the misfortune of loss, insurers rightfully expect you, their “partner” in the venture, to exercise a duty of care by the application of diligent and responsible management of the risks. Many of you, no doubt, will have a professional Risk Manager responsible for maintaining this critical liaison with your insurers and that person should know that *Risk Management* should be a continuous and developing process running throughout an organisation supporting accountability, performance and reward all based upon efficiency. Having said that, I must admit to a degree of horror recently when I read a definition of risk management in a professional publication as being :- “*The protection of assets, earnings, liabilities and people of an enterprise with maximum efficiency and minimum cost*” In my world the words “*protection*” and “*minimum cost*” do not necessarily go “hand in glove”.

We have this afternoon received Paul Fullicks’ comprehensive report on the industry attack and loss data for 2005 and, in the absence of the Swedish Police, his review of cash-in-transit crime in that country (*I am sure the wide ranging steps taken by the Swedish authorities will at long last be music to the ears of insurers*) which when allied to Paul Forrester’s interesting explanation to how Merseyside have faced and tackled cash-in-transit crime suggests we need not take up too much time debating the fact that the cash-in-transit industry faces real risk at every moment and in every operational discipline of the normal working day. If anyone here needs further evidence as to the scale of the risks we collectively face then let me just add that over the past 13 years the Lloyd’s insurance market alone has paid out in excess of €500,000,000 (that is on average, €51,000,000 every year) in losses generated by the worldwide cash-in-transit industry and that does not

include any potential involvement they may or may not have in some current and highly publicised industry events.

To us risk is not new, after all the Lloyd's insurance market has been responding to risk for the past 318 years, but what has changed, or should I more accurately say has organically developed, is the nature of that risk. If we wind the clock back thirty or forty years losses in the financial sector were generally the result of a team of brave or foolhardy robbers spending three or four days digging their way into the vault of a bank because that is where large sums of money were held at that time whilst the emerging cash-in-transit market was, in the main, restricted to providing the transport between bank to bank secure areas. The pavement risk then was really very small. Of course, anyone who in those days was stupid enough to put their life at risk using a thermal lance to burn their way into a bank vault soon calculated that a safer method of obtaining the cash was desirable. This meant moving away from targeting the banks themselves to targeting their transport providers and so we witnessed in Europe the arrival of the method, subsequently honed to perfection in Italy, whereby an armoured c-i-t truck would be forced off the road and the crew then invited to leave the vehicle either by the use of weapons or the threat of a bomb. Both worked quite satisfactorily! Of course a great deal of the crime, at that time, was politically motivated and practised by urban terrorist groups. At the same time in Germany and in the UK the "drive-away" infidelity loss by the truck driver was experienced.

As we moved through the 1980s and 1990s and into the new millennium we began to see a change within the banking industry and it became apparent that they were looking to be relieved of the burden of holding and distributing large stockpiles of cash and, not surprisingly, they found in the cash-in-transit industry an eager servant willing to take on that burden. Systematically the volumes of cash held on branch premises overnight evolved from the occasional retention of cash whilst in the normal course of its transit to the position we have today whereby prodigious sums are held in what we now call "cash centres" either for the account of a federal bank or a major commercial bank or indeed for the account of the cash-in-transit company themselves effectively rendering them the status of a quasi bank. In short the Banking Industry has outsourced to you the care, custody and control of cash with all the attendant hazards and headaches associated therewith.

Needless to say it was not long before the criminal fraternity turned their attention to targeting these monies and in the UK those who had previously concentrated upon undertaking the occasional armed robbery on a cash-in-transit vehicle now developed the “ram raid” on terminals into an art-form. When, in response, the industry installed additional specific protection to defeat the ram-raid this drove the criminals up onto the roofs and when they were forced down from there they turned their focus full circle back onto the vehicles. To date, thankfully, they have been unsuccessful in breaching a high value trunker vehicle but they have been close to doing so and one fears it is only a matter of time before they succeed. Currently the hostage or “Tiger Kidnap” attack is the preferred option and this has been used highly successfully upon both vehicle crews and terminal staff. I have no doubt that you will all have read plenty on that topic in your national media in the recent months.

Thus far I have only mentioned “risk” from outside one’s own organisation but what of the risk from within ? From time to time I have received somewhat horrified looks from people when I have said that they would do well to structure their business as if every employee was a potential thief. To some that might appear a somewhat jaundiced view on life but bitter experience has taught me that it is far better to start from that cynically extreme position and be loss free than take the opposite more benign view and be disappointed. Some may remember that in the 1997-8 period there were five extremely large thefts from cash-in-transit vaults in the USA, every one of which was carried out by a long serving employee. In fact if I recall correctly the shortest term of employment was of 8 years duration. Every working day sums of money beyond their wildest dreams and their lifetime earning capacity are put in front of employees and to ignore the inherent frailty and weakness of the human being is to provide the golden opportunity for your business to be plundered from within.

I really do not think I need spend any further time establishing in your minds that risk is a real and present danger.

So, how is that risk to be managed ? Of course there is no easy answer to that question and when we are tasked by insurers to undertake a review of a company as a whole or just a branch or terminal in particular, we really must look at each set of circumstances as they present themselves on the ground. So in the limited time available to me today I must deal in general terms.

To me the critical factor is that the very top of the management tree must be totally involved and experienced in the daily business; it just is not satisfactory to be, in effect, an “absentee landlord”. Whilst obviously expertise and responsibility for many aspects of running a business, including matters of operational procedure and security, can be subordinated to a lower level of management it is imperative that the top tier of management, whether that be a President, a Chief Executive or an Owner has a vitality and passion for the business and most importantly is seen to be so committed by everyone in the organisation. A bond of kinship between the person at the very top and those at the very bottom is the first stepping stone to success. Miss out that step and you will most surely stumble. Of course there is a fundamental tenet of insurance, upon which Underwriters may rely, that says “*an Assured must always act as if uninsured*” so for anyone not persuaded by my creed I would merely say “*If you did not have the luxury of insurance would you conduct your business as you do?*”

Let me now share with you some of the key management topics that we look for when reviewing a company on behalf of Underwriters :-

People:

First and foremost we must start with the people, your employees. Without investment in your people, commencing with their vetting and then running into and through extensive and perpetual training, you will not have a quality workforce. Without a quality workforce I would go so far as to say you put at risk your very existence.

Are your hiring and vetting procedures robust enough to ensure that only quality people are taken on? And are you diligently conducting pre-employment checks in accordance with accepted industry standards ?

Once hired, are you fully training all staff not just to comply with local legislation or industry standards but to ensure that they are fully capable of undertaking not only the tasks but also the responsibility that you require of them? Thereafter, is training an ongoing discipline keeping all staff aware of new equipment, new procedures and new challenges?

Do you currently have the right people for the existing jobs? Just because someone has been doing that job for some time does not necessarily mean they are the right person for that job. Assessment and re-assessment for all jobs at all levels should be an ongoing discipline. *(Remember the 5 vault losses. Clearly in each of those cases management had not closely monitored their staff but had just relied upon the fact that they had worked for them for a number of years.)*

Given that security is your business do you have a designated security department staffed by experienced people with the full authority of top management to undertake enquiry and investigation to ensure compliance with the company's security policy? Further, running in parallel with the security department, is there an effective programme of internal audit continually checking controls relating to both security and operational procedures. *(Breaches of security are not a good advertisement for your company!! Sadly in the UK the media will always romanticise the crime and the c-i-t operator in never shown in a good light.)*

Do you have an effective management structure that ensures that the enthusiasm of the person at the top is irrigated down to the person at the very bottom? We do not want to see any filtration of that enthusiasm here but rather a full flowing irrigation. Correspondingly, does that "irrigation system" enable the concerns and aspirations of the people at the bottom of the structure to be heard by those at the top? *(Recently, I spent a couple of days in a country where the dedication and loyalty of the local president, at not inconsiderable cost to his own private family life, was so highly infectious that the same enthusiasm was demonstrated by everyone else in the management structure. Such a loyal following is never achieved "on demand" and only ever by the setting of an example from above)*

Given the current trend towards "hostage" or Tiger Kidnap attacks upon your employees, have you a thoroughly tried and tested crisis management programme developed in conjunction with the Police and for which your managers and employees have been fully trained. *(It is critical that your employees should be totally confident that there is not only a plan in place but that it will work. WILL WORK is the key and that has been proven to be the case in the successful thwarting of such an attack. We have interviewed employees involved in "tiger kidnaps" and I can assure you that those who successfully defeated the attack did so because they had absolute confidence in the crisis management plan.)*

Premises:

Is each and every location suitable not just for the specific purpose but also for the overall logistical demands made upon the business? (*Whilst I am fully cognisant of the capital costs involved, old or unsuitable premises are often used long after their effective “sell by date” and on occasions an over-reliance is placed upon the fact that they might have previously been used by another operator or worse a bank.*)

Have you researched the crime patterns and opportunities for each locality? (*A thorough knowledge of the local criminality and indeed their ease of access to national criminal trends is essential.*)

Have you established a close working liaison with local Police? (*If Police do not know how your activities could impact upon their own resources why should they be expected to respond in any special way ?*)

Have you and do you continue to assess that each location serves both the needs of the customers and provides scope for development of your business? (*Short term expedience may be more costly than longer term planning*)

Have you established who actually needs access to cash both within your own and your customers' premises ? (*Access must be restricted to those employees who have a need to access and not those who would like to access.*)

Have you got adequate control of all outside contractors such as alarm technicians or cleaners that might require access? (*What easier way is there to gain knowledge of your internal layout other than to be an employee ?*)

(*I am not going to insult your intelligence by trying to teach you about physical security but:-*) Having decided upon and selected suitable physical security commensurate with the exposure do you initially and regularly test that equipment to ensure its effectiveness? (*It is not uncommon to find that something believed to work does not actually do so !*)

Have you established and are you maintaining strict physical demarcation of areas within your premises such that control room, cash processing, vault and vehicle loading bay and despatch personnel cannot roam freely from one to the other ? *(The secure areas should be separated and sacrosanct.)*

Are your internal security and audit controls structured so as to continually test the effectiveness of your physical security and operational procedures ? *(A failure to do so by you will almost certainly mean an opportunity for the criminal.)*

If, as I suspect, you are engaged in cash processing or even cash-centre activities have you got the staff with the necessary qualifications and experience and are the accounting protocols in place to enable you to strike a balance at any given moment such as to defend yourself against outside inquisition from a federal or customer bank? *(Remember it was the banks who off-loaded this business on to you, so beware!)*

Vehicles:

Is your current fleet of vehicles of a design and construction commensurate with today's criminal threat ? *(This should not be restricted to just ballistic resistance but also take into account their suitability for the services being provided.)*

Do you have suitable access controls to ensure only those who have a need to are the only people who can access the cargo? *(External doors and all interlocks must be regularly checked to ensure they are in full working order. Again, one is amazed how often this proves not to be the case)*

Have you conducted a pre-risk survey of each and every customer site and service to ensure that as safe a working environment as possible is provided for your crews once they are out of the vehicles ? Have you embraced your customer into sharing this responsibility both practically and contractually ? *(Sensible security should never be sacrificed in the interest of sales)*

Do you have an adequate number of vehicles to fulfil your contractual responsibilities and are you able to handle breakdowns and sudden increased demand. *(Over utilisation of vehicles leads to operating pressures on the*

crews such that they begin to cut corners thereby compromising security which then leads to losses)

Are you utilising “Intelligent Banknote Neutralisation System” equipment and maintaining it in good working condition? Do you have sufficient units to satisfy operational demands ? *(A structured service programme is critical to ensure equipment has every chance of performing to manufacturers’ specification. Of course this applies as much to the host vehicles as well as the IBNS equipment.)*

I could go on but I think I have probably given you enough to think about for the time being so let me draw to a close by saying that so long as you are responsible for the care, custody and control of cash there will always be someone out there equally as committed to relieving you of that highly sought after commodity. You are no longer just the carriers of cash you are the national comptrollers of cash. That is an onerous position which ranges you up against another industry just waiting to exploit any weakness.

In today’s world where external analysts and very possibly investors expect one to variously “macro-manage” or “micro-manage” a business perhaps we are in danger of losing sight of the prime reason for your industry which simply put is “to provide the safe storage and distribution of funds”. The word “manage” has diverse meanings but perhaps the dictionary definition which equally simply would be most apt for this industry is “*to contrive to carry on despite difficulties especially financial ones*”

I wish you all well in that challenging quest.

M.W.B
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