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THE CASH CYCLE: An Industry Perspective

Graham Levinsohn
Regional President,
Group4 Securicor
Director of ESTA

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Agenda



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SESSION I:

The Cash Cycle

- 09:20-09:40 Chair : Mr. G. Levinsohn on the CIT industry views
- 09:40-10:00 Mr. G. Lepecq (MD AGIS) on the 2008 report on the future of cash
- 10:00-10:20 Mr. K. Broadhouse (MD Armaguard) on the Australian Cash Cycle
- 10:20-10:40 Mr. T. Ferguson (Former Director of the US Bureau of Engraving and Printing, Consultant) on the US cash cycle.
- 10:40-11:00 Questions &Answers
- 11:00-11:30 Coffee Break in the Salon “Le Carré”

Agenda



SESSION I:

The Cash Cycle

- 11:30-11:50 Mr. G. McKay (Executive Director ATMIA) on the future generation of ATMs
- 11:50-12:10 Mr. W. Seidemann (Vice President Giesecke & Devrient GmbH) on “Frameworks and Roadmaps to optimize the cash highway”
- 12:10-12:30 Mr. M. Vanvooren (Head of Cash BNB) on an improved cash cycle in the Eurozone case study
- 12:30-12:45 Questions & Answers
- 12:45-14:00 Lunch at the Salons “Riviera I and II”.



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THE CASH CYCLE: An Industry Perspective

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Cash Remains the most widely used payment instrument

- 8 out of 10 transactions in Eurozone
- 6 out of 10 transactions in UK
- 6 out of 10 transactions in USA
- 7 out of 10 transactions in Australia
- 7 out of 10 transactions in South Africa

ITS NOT DYING.....

ITS NOT EXPENSIVE...

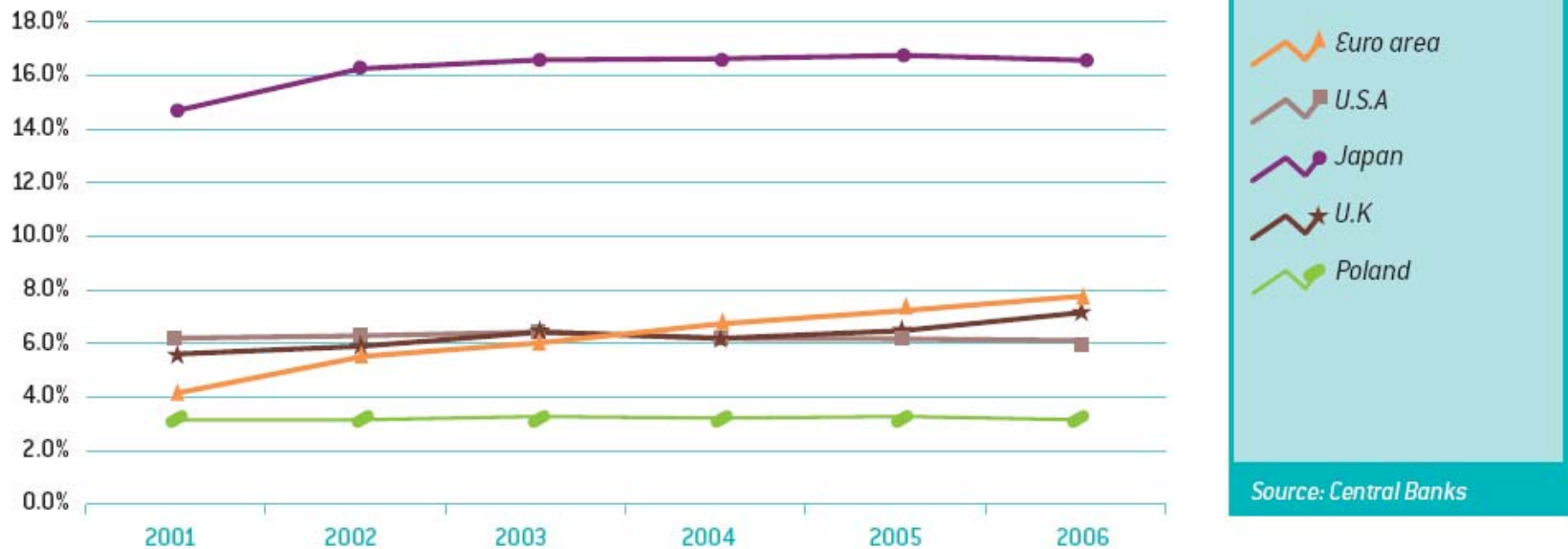
ITS NOT UNSAFE....



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And cash's role in economy remarkably stable despite new technologies:

FIGURE 3. CASH / GDP RATIO



Source: Agis Consulting "The Future of Cash 2008"

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In fact cash can be a refuge for Safety & Control

RBS chief under pressure on £12bn capital plan

JPMorgan Acts to Buy Ailing Bear Stearns at Huge Discount

By ANDREW ROSS SORKIN and LONDON THOMAS Jr.
Published March 16, 2008

BusinessWeek

THE ASSOCIATED PRESS April 21, 2008, 1:26PM ET



(Andrew Ross/ATV/Getty)



UBS blames subprime loss on excessive risk-taking

ZURICH, SWITZERLAND

From Times Online
August 8, 2007

Sub-prime hit German bank ousts finance chief

Germany's IKB has ousted its finance director and appointed a 'crisis' team to head off the impact of America's mortgage problems



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Tough Times Prompt Cash Comeback



BRC Survey covers 17000 retailers with total sales of £131 Bn

This is over half of all UK retail sales

- **Cash share of Transaction volume increased**
- **Cash share of overall value of transactions increased**

| | 2006 | 2007 |
|----------------------|------|------|
| TRANSACTION VOLUME | 54% | 60% |
| VALUE OF TRANSACTION | 32% | 34% |

"Cash is not only alive, it's thriving. Hard up customers are increasingly reluctant to spend money they haven't actually got in their hands. While total retail spending continues to grow, there is a widening gap between the amount spent in cash and the amount spent using cards, suggesting customers want to keep tight control of their finances."

BRC Director General Stephen Robertson April 2008

FUNDAMENTALLY: State v Private Money



CASH = State Money, GUARANTEED BY STATE
Generates return for State

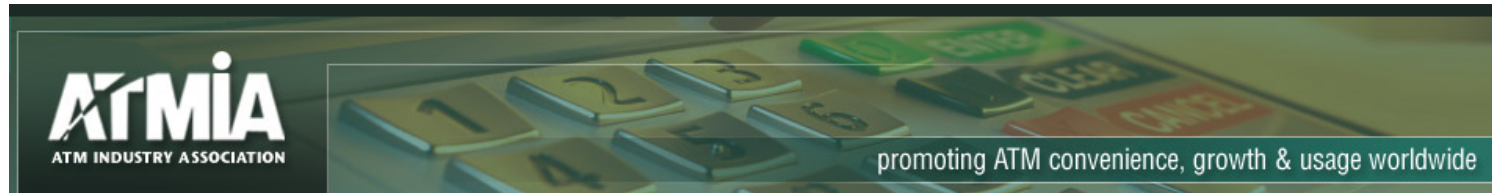
CARDS = Private Money, PRIVATE UNDERPINNING
Generates return for Banks

SUDDENLY STATE GUARANTEES MUCH MORE ATTRACTIVE

***WHILE CRUCIALLY CASH ALSO ENABLES CONSUMERS TO AVOID
INDEBTEDNESS & IMPROVE FINANCIAL CONTROL***

In Fact...

“Another Hundred Years of Cash”



“There is virtually zero chance that cash will be withdrawn from society within the next 25 years. And in all likelihood there could easily be another 100 years of cash”

Source: Mike Lee, “Another 100 Years of Cash? ATMIA 2008

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The Cost of Cash: Latest Central Bank Studies



- Major New Central Bank Societal Cost Study by Reserve Bank of Australia 2007

- Complements NBB & DNB Studies – approaching consensus

| | AUS | NL | BE |
|------------------------|-------|-------|-------|
| Cost of Payments (GDP) | 0.80% | 0.65% | 0.74% |
| Cost of Cash (GDP) | 0.40% | 0.48% | 0.58% |

- Cash Cheapest form of payment in Australia
- Credit Cards most expensive

| | AUS | NL | BE |
|-----------------------------|-------|-------|-------|
| Break Even v Debit Card (€) | 23-53 | 11.63 | 10.24 |

**KEY POINTS: Cash is very cost competitive esp for lower values
Substitution will not bring huge societal savings**

The Cost of Cash: To Retailers



- BRC Survey 2007 covering over half the value of UK retail sales (£131 Bn) found:

CASH CHEAPEST FORM OF PAYMENT FOR RETAILERS

“On average a retailer is charged 2p for processing a cash payment, 34p for a Credit card and 8p for a debit card transaction”



The Cost of Card Fraud

Card industry notoriously secretive: only UK & France publish statistics

- Latest APACS (UK) statistics show “Chip & Pin” has simply displaced crime
 - Overall card crime up 25% in 2007 with losses of £535M
 - Rise due to overseas usage of cloned cards & “card not present” fraud
- Chip & Pin also displaces burden of proof from banks to:
 - Retailers
 - Consumers



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So we won the “War on Cash?”


“the war on cash is popular in Europe”

Professor Leo Van Hove

Chicago Federal Reserve Bank
Payments Conference 2005

CASH
STINKS.

FORGET CASH. PAY FOR ANY PURCHASES IN THIS STATION TODAY WITH YOUR MAESTRO® DEBIT CARD FOR A CHANCE TO WIN AN IPOD NANO. ONE TO BE WON EVERY HOUR.


THE NEW CASH.

NO! From Conventional War to Insurgency

- Open “warfare” was prompted by the opportunity for card / banking industry to deliver a “knock-out” blow via the SEPA regulatory framework
- ESTA has been successful in preventing this – but Commission mind-set still “polluted”
- The stakes are still enormously high for the major card companies that have deep pockets. Now being joined by Telcos. The “open warfare” is now more underground but still very real & dangerous
- We must continue to:
 - Lobby for cash
 - Counter the card / electronic propaganda
 - Lobby Central Banks to create favourable conditions for....
 - Improving the efficiency of the cash cycle
 - Cooperate with like minded bodies

Our Distinguished Speakers

- Mr G Lepecq, Managing Director Agis Consulting
- Mr K Broadhouse, Managing Director, Armaguard
- Mr T Ferguson, Consultant and Former Director US Bureau of Engraving & Printing

- Mr G McKay, Executive Director. ATM Industry Association
- Mr W Seidemann, Group Vice President, Giesecke & Devrient
- Mr M Vanvooren, Head of Cash, Belgian National Bank



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