

FISERV PERSPECTIVE

FNB of South Africa: A cash management success story

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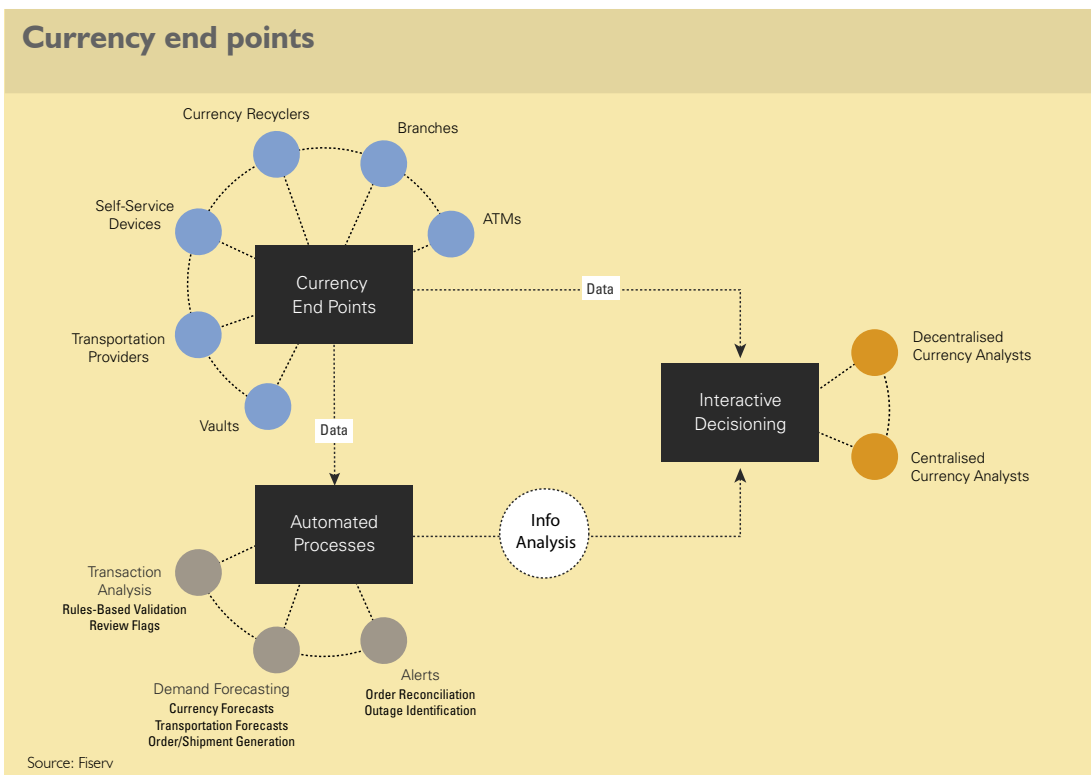
More than 3 million people descended on South Africa for the month-long FIFA World Cup in 2010, one of the largest sporting events in history. As fans filled nine stadiums in ten cities, they had one thing in common. They all carried cash.

How does a financial institution forecast the currency needs created by such an extraordinary event? When First National Bank of South Africa (FNB) sponsored the World Cup, it knew its cash management system would be tested in a big way. With more than 6,000 ATMs and 734 branches throughout the country, determining how much cash was needed – both when and where – was no easy task. Using automatic cash forecasting technology and a solid cash management strategy, the bank was able to achieve an impressive 99.5% cash availability level during the event.

Accurately forecasting currency demands during a large-scale event like the World Cup was an exceptional feat, but it can often be nearly as difficult for a financial institution to predict daily cash requirements. Although consumers spend little time wondering about the cash that pops out of their ATM, financial institutions must constantly monitor and predict the amount of cash needed at the ATM, branch and vault.

To help, financial institutions like FNB are increasingly turning to cash forecasting technology which automatically analyses the interwoven relationship between the amount of deposits and withdrawals, current events and point-in-time demand. The consequences of cash mismanagement go beyond avoiding dreaded outages and can lead to inefficiencies and costs caused by too-frequent cash orders and excess currency inventories.

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Why did First National Bank of South Africa need a cash management strategy?

Accurately forecasting the cash requirements for its branches used to be time-consuming and error-prone for the \$698 billion bank. Without an accurate method for ensuring cash availability, branch managers made frequent orders to avoid shortages – a practice that drove up transportation costs and risk.

Cash outages and emergency fax orders from the bank's branches were commonplace. Forecasting was based on educated guesswork, according to Stephen Brake, head of Cash Management and Logistics at FNB. The result was often too much cash in one branch and not enough in another. What's more, the bank realised its cash management woes were affecting its bottom line; area banks with forecasting technology and a centralised cash management function were outperforming FNB.

When it came to cash management, the organisation was siloed, with no one person or department looking at enterprise-wide currency demands. Cash overstocks were becoming routine.

How was cash management optimised?

First National Bank of South Africa is known for its transformative approach to issues, evidenced by its recent ranking as South Africa's most innovative bank by the Innovative Agency/Systemic Logic in their *2013 Banking Innovation Study*. Solving the cash management puzzle was tackled with the bank's characteristic acumen and out-of-the-box thinking.

The solution began with an upgrade to the latest version of Integrated Currency Manager™ from Fiserv – the web-based software that combines the bank's historical utilisation trends and known local events to determine the optimal cash holdings for each location and cash point. The bank worked closely with branch managers to educate them about the value of cash forecasting technology.

By centralising its cash management strategy, FNB was able to clearly define goals, roles and processes for its entire organisation. The process required cooperation and buy-in from nearly every corner of the enterprise.

Is cost reduction a part of the cash management equation?

The cash forecasting technology created a centralised view of currency activity and determined

the amount of cash needed in each branch at any given time. This allowed FNB to save costs by optimising cash-in-transit routes and services – it reduced the number of branch deliveries from 7,500 to fewer than 4,500 a month. With central banks shifting cash processing costs to financial institutions, reducing transportation costs has become even more critical to safeguarding profitability.

Using the updated technology, FNB was able to improve cash ordering for branch ATMs, which reduced ATM cash holdings by about 18%. The bank was also able to control customer service costs; the number of average monthly incoming client calls related to cash was reduced by 40%, and the number of outgoing calls has been cut in half. Most importantly, customer satisfaction has improved due to minimised service-related issues.

What impact does cash management have on profitability?

Reducing the amount of stockpiled cash frees up capital for greater leverage and impacts a bank's overall profitability. Cash stored in holdings is a non-earning asset, and the impact of trimming even small amounts of excess currency can be significant. FNB was able to reduce excess branch holdings by 90% and enterprise-wide cash totals by 25%.

Using Integrated Currency Manager™ has also provided a potential new revenue stream for the bank. The solution's currency management, communication and reporting tools enable the bank to offer fee-based currency supply chain management services to respondent banks, partners and corporate customers.

In an increasingly cashless society, is cash management still relevant?

Although the use of cash is declining in the face of emerging digital payments, the total number of cash withdrawals from ATMs globally is expected to rise at an average of 8% per year, as documented in the RBR report *Global ATM Market and Forecasts to 2017*. Financial institutions will always be in the business of managing and dispensing cash, and organisations like First National Bank of South Africa that develop a strong cash management strategy – and their customers – will be the clear winners. ■

For more information go to www.fiserv.com/currency or email bob.partridge@fiserv.com.



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