

# Provisional Credit

Fast track to your cash



White Paper  
[arca.com](https://arca.com)

# Executive Summary

Despite the popular opinion that cash usage is on the decline, the European Central Bank and the U.S. Federal Reserve report that cash continues to dominate retail payments. For retailers, cash is expensive and time-consuming to manage and it may take as many as 10 days for cash to be credited to their bank account.

Provisional credit, however, allows retailers to have faster access to cash revenue while addressing many of the challenges cash presents. In this white paper, you'll learn what provisional credit is, how it works and what it means for retailers.

# Cash and the Consumer

The most recent report on consumer habits published by the European Central Bank (ECB) disclosed that the number of euro in circulation is increasing at a rate of approximately 9% per year. The United States Federal Reserve reported that dollars in circulation increased more than 6% in 2018, underlining the fact that total U.S. currency in circulation has more than tripled in the last two decades. Despite efforts from government and financial institutions of a cashless society, cash usage continues to flourish worldwide.

Cash dominates retail payments in Europe, according to ECB reports. The most recent Diary of Consumer Payment Choice, which reports the state of cash usage in the United States, found that cash is preferred for small value transactions and continues to be the most frequently used consumer payment instrument.

Retail payment habits in Europe and the US confirm these trends. With that in mind, retailers should give particular attention to the fact that cash is the most popular payment instrument in six of nine merchant categories including:

-  gifts
-  auto/vehicle
-  food/personal care
-  government/nonprofit
-  entertainment/transportation
-  medical/personal services

# Cash and the Retailer

For retailers, cash processing cycles are not only needlessly complex, but they're also time-consuming, error-prone, expensive and high risk. Cash handling requires substantial labor to issue starting floats, conduct till sweeps and swaps, balance registers, and prepare bank deposits. Cash processes have remained the same for decades and even when augmented by currency counting equipment and computers, they still require multiple custodial exchanges and substantial physical work.

As it is in banking, cash handling is a significant operating expense for retailers. But banks and retailers experience cash differently. Banks can access the full value of cash as soon as it is received but cash inventory is different for retailers. Of course, cash payments are assets for retail businesses, but until cash is credited to the retailer's bank account, it's a non-performing asset and a liability. Having cash inventory on hand is useful for daily activities like issuing till start funds and making change as well as cash back transactions and refunds. But cash isn't useful as working capital for business expenses. On-site cash is also vulnerable to theft or other losses.

In some markets, after cash is picked up by CIT, it might be several working days before it is credited to the retailer's bank account. Assuming that the pick-ups happen every other day, it might take as long as five business days before a retailer has account access to the money they've earned. That's where provisional credit benefits retailers. The faster a business can deposit cash earnings to a bank account, the faster the cash is a working asset.

# How Provisional Credit Works

Provisional credit, in this instance, describes credit granted for a cash deposit before the cash has been physically verified and deposited to a bank. It can be granted by an entity such as a Cash in Transit company (CIT) or a financial institution.

Most retailers use CIT services to transport and process their cash deposits. During this holding period, cash is both a non-performing asset and a security risk. Businesses can't really use cash to pay creditors or make capital improvements and cash is exposed to shrinkage and theft.

But provisional credit gives a business access to its cash earnings much faster by crediting them to a bank account before they are actually deposited. Provisional credit requires equipment, technology, and third-party institutions to provide the solutions to ensure a retailer qualifies for the temporary credit.

In a system that meets the requirements for provisional credit, deposit funds must be transferred to a secure deposit safe that is connected to a network and no longer accessible to store personnel. The device sends the deposit data electronically to the retailer's bank. The funds become the property of the financial institution which grants provisional credit for the funds to the retailer.

Cash automation devices transmit deposit data daily so CIT pickups are significantly reduced. This way, deposit values are guaranteed, and provisional credit is available either the same day or the next day. The system closes security loopholes in storage, loading and unloading with secure transactions that generate a detailed audit trail per transaction and user to create accountability.

Not all banks and CITs are currently equipped to offer provisional credit service to their commercial customers; however, many do. How? They partner with cash automation providers and software platform vendors in third-party agreements to provide the additional requirements. Because the institution issuing provisional credit needs to validate deposit funds in order to insure them, several elements must be in place to qualify for provisional credit:

- ✓ Cash deposits must be stored in a smart device, like a cash recycler, that has restricted access and captures the deposit data in an electronic file.
- ✓ The cash device must also be connected to a reporting platform to electronically transmit its deposit data to a financial service provider.
- ✓ Cash transport must be managed by a secure CIT service which insures the cash during pickup.
- ✓ The cash device must provide an audit trail for cash transactions which verify and validate the funds deposited to the device.

# What Provisional Credit Means for Retailers

Traditionally, a business might have to wait anywhere from 3 to 10 days for cash earnings to reach a bank account. That's the time it takes to reconcile cash deposit totals with deposit verification from the bank. Some retailers make their own deposits to the bank but typically not on a daily basis.

When cash funds are credited to a bank account through provisional credit, those funds are available for business needs like paying an invoice or capital expenses. The coordinated products and services established to receive provisional credit give retailers visibility and control for a more accurate picture of their business' performance. Cash automation systems allow retailers to make use of cash inventory to fund tills and other store cash needs which reduces the frequency and expense of CIT services.

## A Model in Operation

Let's examine the business model for a mid-size drugstore in both Europe and the United States. Generally speaking, this type of store operates anywhere from 1 to 5 tills and is classified in the "specialty" category, which represents the bigger share of retail stores after mass market both in the U.S. and Italy. Including pharmacies, plus other commercial activities this segment comprises, it owns 7.6% of the Italian market and the 15.1% of the U.S. market.

## Pre-automation process

### TRANSPORTATION

## 3 CIT pickups per week

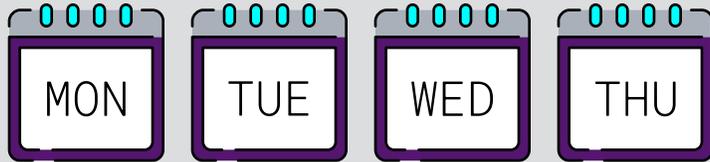
Costs and security risks increase every time cash is transported out of the business.



### CREDIT

## 4 working days or more

Bank account credit and funds are not immediately available for use.



### PREPARATION

## 30 minutes per day

Manual counting and deposit preparation is time consuming and prone to error.



**Provisional Credit** Fast track to your cash

**After automation with provisional credit**

**TRANSPORTATION**

**1 CIT pickup per week**

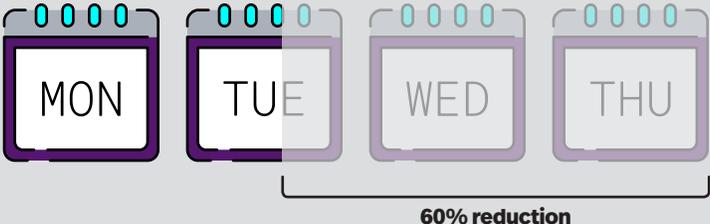
Reducing CIT frequency dramatically reduces costs and risk.



**CREDIT**

**2 working days or less**

Bank account credit and funds are available for use much faster.



**PREPARATION**

**6 minutes per day**

Automated counting and deposit preparation saves hours per week and reduces errors.



# Additional Benefits of Cash Automation

The cash automation technology that enables provisional credit also has numerous additional benefits.

It gives retailers greater control over the entire cash cycle by streamlining low-value manual processes, introducing accountability and security and providing cash data.



## Visibility

Cash automation hardware creates a digital record of every transaction for each user and software generates transaction reports to help identify cumulative trends. Too often retailers use store safes as “mini-banks,” stocking them with rolled coin and low denomination banknotes. Revenue reports, including cash receipts, can help businesses more accurately predict their needs. With visibility into its cash, a business can resolve cash-flow problems such as shortages and bank overdrafts.



## Security

Provisional credit offers immediate and significant security ROI by eliminating cash transport liability and reducing opportunities for mishandling during fund exchanges and deposit preparation. When a secured CIT service manages deposits and transport, retailers save labor and reduce the risk of fraud and theft. Cash transferred to the deposit safe is electronically credited to retailer-specified accounts and no longer accessible to store personnel. The deposited funds are guaranteed and become bank cash to be collected at the bank’s discretion. Receiving provisional credit for cash reduces CIT pickups which lower operational costs for the retailer.



### Accountability

The lack of an electronic audit trail has long been a problem with cash. By requiring the use of 'smart' devices that generate a digital record of every transaction, provisional credit builds accountability into cash handling. Cash automation systems eliminate discrepancies by allowing cashiers to automatically count cash into the secure deposit safe. And they streamline balancing activities and help resolve discrepancies while discouraging fraud.



### Cash Inventory

Cash automation allows retailers to securely retain the cash they need to fund store operations. Using rules and predictive models to assure adequate levels of cash, the systems reduce idle cash by lowering cash-on-hand requirements. Any cash not needed for tills is automatically transferred to a separate secure deposit safe and electronically deposited. If a change order is required to replenish change funds, bank partners can be alerted well in advance.

### Average time spent dealing with cash



**30 mins.**

Per day for an average cashier



**20 hrs.**

Per week for an average store manager

### Cash recyclers drive benefits



**90%**

Reduction of cash exposure



**98%**

Reduction of cash handling errors

## Final Thoughts

With the volume of cash in circulation remaining steady, cash payments are likely to remain popular with consumers and represent a significant share of retail transactions for many years to come.

Provisional credit through cash recyclers gives retailers much faster access to their cash revenues while addressing many retail cash challenges. Having funds credited faster is a considerable advantage and improves a retailer's financial position while reducing risk.



Since 1998, ARCA has been committed to helping people control and streamline cash operations in bank branches, retail stores and self-service kiosks. By focusing on technology and services, ARCA delivers thoughtful solutions to make transactions simpler, more efficient and more secure.

We are reimagining everyday transactions, freeing people to focus on what matters most.

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