Consultation Paper

The future of the cash system – Te pūnaha moni anamata

2 October 2019
Submissions close 6 November 2019
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Responses invited

The Reserve Bank of New Zealand – Te Pūtea Matua (Reserve Bank) welcomes your feedback on the issues raised and legislative changes proposed in this paper.

Submissions close on Wednesday 6 November 2019.

We would appreciate responses being made through the online version of the questionnaire included in Section 8 available at www.rbnz.govt.nz/futureofcash. You do not need to answer every question, there is the opportunity to give free text answers, and you may attach documents if you wish.

Or you can email or post responses to:

futureofcash@rbnz.govt.nz

The Future of Cash – Te Moni Anamata
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The Reserve Bank intends to publish a summary of responses on its website in early 2020, where more information about The Future of Cash – Te Moni Anamata programme can be found.

www.rbnz.govt.nz/futureofcash

Please read the important note on the following page.
Important Note

All information in submissions will be made public unless you indicate you would like all or part of your submission to remain confidential.

Respondents who would like part of their submissions to remain confidential should provide both confidential and public versions of their submissions and submit both of these by email, rather than use the online form. Apart from redactions of the information to be withheld (i.e. blacking out of text) the two versions should be identical. Respondents should ensure that redacted information is not able to be recovered electronically from the documents (the redacted versions will be published as received).

Respondents who request that all or part of their submissions be treated as confidential should provide reasons why this information should be withheld if a request is made for it under the Official Information Act 1982 (OIA). These reasons should refer to section 105 of the Reserve Bank of New Zealand Act 1989, section 54 of the Non-bank Deposit Takers Act 2013 or section 135 of the Insurance (Prudential Supervision) Act 2010 (as applicable) or the grounds for withholding information under the OIA.

If an OIA request for redacted information is made, the Reserve Bank will make its own assessment of what must be released, taking into account the respondent’s views.

The Reserve Bank may also publish an anonymised summary of the responses received in respect of this Consultation Paper.
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Executive summary

The Future of Cash – Te Moni Anamata is an ongoing, multi-stream Reserve Bank of New Zealand initiative to think more broadly about how we can make sure that cash continues to meet the needs of the public now and in the future, to support the prosperity and wellbeing of Aotearoa.

As part of Te Moni Anamata, the Reserve Bank recently consulted on the implications of a contracting cash network in our Issues Paper ‘The future of cash use – Te whakamahinga moni anamata’. Respondents came back with a clear message: cash has an important role in our society. Although cash use is declining, some New Zealanders are still heavily reliant on cash, and many want to maintain the option to use cash alongside other means of payment.

Now, the Reserve Bank is consulting on a proposed set of legislative changes. The Reserve Bank of New Zealand Act 1989 (Reserve Bank Act) is currently under review, providing an opportunity to consider whether any legislative change is necessary to enable us to promote a resilient and future-focused cash system. This paper proposes that the Reserve Bank take on a more active monitoring and coordination role in the cash system, and be given appropriate information-gathering powers to support this role.

In addition, the Reserve Bank is exploring whether it is practical and sensible to have some powers to ensure that the public has access to reliable, high-quality cash for as long as it is needed. This paper proposes two tools that, although not currently required, may be needed in the future to respond flexibly to changes in the cash industry and the evolving needs of the public.

- First, we propose that the Reserve Bank be given the power to set standards for machines that process and dispense cash, such as banknote authentication machines in bank branches, ATMs (automated teller machines), and automated self-check-out machines.

- Second, we propose that the Reserve Bank Act set out regulation-making powers that enable the Government and the Reserve Bank to act quickly to require banks to provide access to cash deposits and withdrawals, for as long as those services are needed, in order to protect those who rely on cash most heavily.

The Reserve Bank is encouraging Cash Conversations – He Kōrero Moni about the future of cash in New Zealand. These proposed changes will have significant consequences for all participants in the cash system. Banks, cash-in-transit providers, independent ATM operators, and the broader retail sector are particularly likely to be affected.

We invite your feedback on the issues raised and legislative changes proposed in this paper. Feedback received in this consultation will be used to inform any further policy developments in this area. The Reserve Bank will then provide advice to the Minister of Finance in late 2019 on issues relating to legislation around cash.
Background

The Future of Cash – Te Moni Anamata is an ongoing, multi-stream Reserve Bank of New Zealand initiative to think more broadly about how we can make sure that cash continues to meet the needs of the public now and in the future, in order to support the prosperity and wellbeing of Aotearoa.

The Reserve Bank has been actively engaged with key stakeholders in the cash industry to better understand and identify emerging challenges in the cash system. In addition, we recently consulted on a range of issues relating to the use and availability of cash in New Zealand, which were outlined in our Issues Paper ‘The future of cash use – Te whakamahinga moni anamata’. Nearly 2,400 submitters provided their views on the role of cash in our society, and the role of the Reserve Bank and various other groups in supporting cash. An analysis of these submissions is underway and we plan to provide a summary of submissions in the coming months.

The purpose of this consultation is to seek feedback on a proposed set of changes to the Reserve Bank’s role and responsibilities in relation to cash. Sections 1 and 2 provide motivation and context, describing the role of cash in society and the supply of cash to the public, respectively. Section 3 proposes a set of objectives for the cash system. Sections 4-7 describe a proposed set of changes to Reserve Bank legislation to improve the resilience, efficiency, and effectiveness of the cash system. Section 8 provides feedback options.
1. The role of cash in society

Cash, in the form of banknotes and coins, plays a unique role in society. This section explores the role of cash in society and how it is changing, with a focus on the likely consequences of a society using less cash.

1.1 Cash use is declining

Cash use for transactional purposes is declining in New Zealand. While the amount of cash in circulation continues to rise, it seems that less of this cash is being actively used for payments. In discussions with the Reserve Bank, a number of large retailers have reported a declining proportion of payments made using cash over recent years.

The most likely driver of this reduction in cash use has been an increase in the availability and usability of digital alternatives such as contactless cards and mobile payments. As digital payment options become more popular, cash use is likely to decline further over time. In submissions made during the first phase of consultation, several of New Zealand’s major banks acknowledged this trend. While some banks anticipated that the decline would be gradual, others noted that a significant digital disruption, such as the widespread adoption of a person-to-person payment app, could accelerate the decline.

1.2 Cash plays a unique role in society

Cash has a number of features that make it different from digital money. In our recent public consultation, we heard from a range of groups about the benefits of cash.

Cash is sometimes more convenient than digital money because it can be used without access to equipment, the internet or electricity. School fundraisers and farmers’ markets are examples of occasions when it is likely to be more convenient to transact in cash. Many people also value cash as a personal back-up means of payment in the event that other payment technology fails or is lost. The ‘bearer-pays’ aspect of cash makes it useful for small person-to-person gifts and payments. For example, parents can entrust their children with small amounts of cash for small purchases, or a person can give a friend or acquaintance cash to purchase something on their behalf.

Cash provides people with freedom, autonomy, and privacy. People may desire these for a number of reasons. For example, some people may fear discrimination, or are in controlling or abusive circumstances. More broadly, some people simply value the option of keeping their

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1 The Reserve Bank is currently investigating the cash use and its drivers. See Issues Paper: The future of cash use – Te whakamahinga moni anamata (2019) for a summary of existing information on recent trends in cash in circulation.

2 In this context, ‘digital money’ refers to conventional digital currency denominated in New Zealand dollars, such as bank account balances and deposit-taking mobile wallets like PayPal and Google Wallet. For a broader definition of what constitutes digital money, see Wadsworth (2018).
financial information private from banks and card providers. Unlike digital payments, there is no electronic record of spending.

Cash also provides people with the freedom to separate their money from the formal banking sector. Digital New Zealand dollars are generally held in bank accounts, but this money can be separated from the banking sector if it is withdrawn as cash. In addition to the privacy considerations raised earlier, people may want to remove their money from the banking sector to avoid account fees, or to avoid the risk of system outages, cyber-crime, or bank failure. However, the risks associated with holding physical cash are generally much higher than the risks associated with holding it in a bank account. These risks include loss of, damage to, or theft of the cash, as well as the risks to people and property associated with burglary and robbery. Some submitters in our recent consultation demonstrated low trust in the banking sector generally, which may explain a desire to keep cash outside the banking sector, despite these risks.

Our discussions also revealed another key benefit of cash – its role in promoting social connections and developing wellbeing. Cash helps to bring people together, whether providing an opportunity for an elderly and isolated person to talk and have physical contact with others, pooling money for Friday night fish and chips in a group home for intellectually disabled adults, or collecting and giving money for koha. While it is possible to pool and share money electronically, people talked about the benefits of interacting kanohi ki te kanohi (face to face) when collecting or passing cash. This not only makes people feel more included and connected to each other, it also opens up opportunities to talk with friends and whānau about their financial situations.

1.3 Cash is particularly important for some groups

Perhaps most importantly, cash provides payment and savings options for people with limited access to digital money. People who are financially or digitally excluded may be partially or entirely reliant on cash, because digital alternatives are not available or accessible to them. These people represent small but diverse and vulnerable groups of people who are heavily reliant on cash. Rural communities, the homeless, disabled people, people with convictions, and the elderly represent just a few of the groups who are less likely than others to have access to digital money.

The Pacific islands of Tokelau, Niue, and the Cook Islands (which all have constitutional links with New Zealand), as well as the Pitcairn Islands all use New-Zealand-dollar cash, and are another group that may be significantly affected if cash becomes harder to get and use. Many regions lack the infrastructure for reliable digital payments. Furthermore, these Pacific communities are heavily reliant on remittances. Due to the costs and limitations of digital remittances, some remittances are made by individuals physically transporting cash.

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3 The anonymity and untraceability of cash can also be used to support illegal activity, such as money laundering and tax evasion. The Reserve Bank is committed to minimising the illegitimate uses of cash, and does not believe that the proposals in this paper to support cash accessibility would have a significant impact on illegal activity.

4 There is currently no system-wide depositor-protection scheme in New Zealand. However, an in-principle decision has been made to introduce depositor protection as part of the review of the Reserve Bank of New Zealand Act 1989.

5 Access to Cash Review [see the references section] (2019).

2. The supply of cash in New Zealand

The ‘cash system’ is the network of businesses that supply, circulate and store cash. The cash system is constantly evolving and this is expected to continue in the coming years. This section describes the cash system and some of the key risks associated with possible future developments in the system.

2.1 The cash system: How it works

The key participants in the cash system in New Zealand are banks, the Reserve Bank, cash-in-transit operators (specialist cash transport and management services), and non-bank ATM operators. Figure 1 describes how cash issued by the Reserve Bank makes its way into the hands of the public.

Figure 1
The supply of cash to the New Zealand public

The Reserve Bank is responsible for designing and manufacturing banknotes and coins. The Reserve Bank determines the design, security features, and denominations of the notes and coins, and ensures that enough cash is printed to meet public demand. This cash is stored in an underground vault in Wellington. Banks that hold ESAS (Exchange Settlement Account System) accounts can purchase these notes at face value, in exchange for digital balances they hold in accounts with the Reserve Bank. This cash can then be on-sold to smaller banks, retailers, and cash-in-transit operators, or is transported to bank branches and ATMs across the country. Cash can circulate between banks, retailers, and the public for some time. Banks and large retailers then send their excess stores of cash back to cash-in-transit operators, who store and
process the notes, checking for damaged notes and counterfeits. Excess and dirty or damaged notes are returned to the Reserve Bank, where they are processed again. Dirty and damaged notes are destroyed and recycled, while good-quality notes are put back into circulation as required.

The Reserve Bank helps ensure that damaged and dirty notes are taken out of circulation by paying for their transport back to the Reserve Bank for destruction. While banks and cash-in-transit operators must pay the transport costs to return fit notes, they are reimbursed for the costs of unfit returns to encourage the return of any suspicious or low-quality notes. Coins, once issued, generally stay in circulation and very few are returned to the Reserve Bank for destruction.

2.2 The costs of the cash system

The cash system is costly to run. It requires costly infrastructure in the form of vaults and depots, armoured trucks, ATMs, and cash-processing machinery. It also incurs high running costs, such as those of fuel, drivers, bank branch staff, and insurance and security. It also contributes to greenhouse gas emissions.

The costs of running the cash system are shared by the main players: banks, the Reserve Bank, cash-in-transit operators, and independent ATM operators. Cash-in-transit operators and independent ATM operators are commercial entities that deal in cash for profit, so their costs are passed on directly to users. Cash-in-transit operators recover their costs by charging commercial banks and retailers for their services, while independent ATM operators recover their costs by charging people directly to use their machines. The Reserve Bank’s costs are recovered when the banks purchase the notes at face value. The income the Reserve Bank makes from selling banknotes and coins is called seigniorage, and provides a significant proportion of the Reserve Bank’s funding. 7

The consequence of the current cash system structure is that most of the costs of the supply of cash to the public are borne by the banking sector. The extent to which these costs are passed on to the end users is uncertain. Many cash services are currently provided by banks for free, particularly for individual customers. However, banks may recover some of their costs indirectly from customers by charging for other services.

2.3 Changes to the cash system

Cash distribution benefits from economies of scale: the more cash that is being used, the lower the per-note cost of delivering it to the customer. This is because of the costly infrastructure needed to distribute cash, and the low marginal cost of distributing more cash. This means that when the volume of cash demanded by the public falls, the per-unit costs of providing that cash increase and the incentives to deliver cash are reduced. If public cash use were to decline significantly, the current cash system could become unsustainable.

The cash system is already changing in response to declining cash use. Between 2010 and 2017, the number of ATMs operated by the five major banks in New Zealand declined by 8.1 percent. Meanwhile, independent ATM providers are becoming an increasingly important component of the cash access network, particularly in high-needs locations such as rural

7 Details of the Reserve Bank’s funding can be found in its latest Annual Report.
communities. These businesses charge fees for the use of their ATMs, and have also found innovative cost-saving opportunities that may not be as suitable for large banks. This enables them to operate profitably in places where large banks cannot. However, because this business model relies on charging customers for transactions, the rise in the non-bank provision of ATMs is likely to result in higher costs for cash access for consumers, particularly in rural areas.

We expect to see even greater changes in the cash system over time. If the demand for cash for transactional purposes continues to decline, the extent to which these businesses can continue to supply cash to the public profitably is uncertain. Some other countries, such as Australia, have observed a sustained decline in cash access points in recent years. There is a risk that if the industry cannot collectively address the problems arising from rising costs, cash access in New Zealand could be reduced.

If the current level of cash access is to be sustained then considerable innovation and efficiency improvements will likely be required within the industry. There is a host of international examples where cash system participants have found different solutions to fit their unique economies. In the United Kingdom, for example, rather than banks investing heavily in their own machinery, more than 60 percent of ATMs are operated by independent operators. In the Netherlands the three major banks are combining forces to share the costs of running ATMs, enabling them to provide better coverage with fewer machines. Closer to home, with support from the Government and New Zealand Bankers Association, a number of New Zealand banks have agreed to trial shared regional banking hubs in four rural communities from 2020. These types of developments could potentially improve the supply of cash in New Zealand in the future.

Further changes to the cash system may stem from the Reserve Bank itself, as we look to modernise our own vaulting and distribution systems. Our bank vaults in Wellington are ageing and we think the current arrangement is sub-optimal, with the Reserve Bank holding a large proportion of the country’s banknotes and coins in Wellington. The Reserve Bank is currently exploring a range of cash vaulting and distribution options with the banking industry and key stakeholders, and these options imply varying levels of innovation and system change. We will continue to work closely with stakeholders in the coming 12 to 18 months to reach a decision and to develop a plan to update and upgrade the current Reserve Bank vaulting system and associated commercial arrangements.

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9 Robertson (2019). Participating banks are Kiwibank, BNZ, TSB, ANZ, ASB and Westpac.
3. Objectives for the cash system

Section 1 highlighted the many benefits that cash provides for New Zealanders, while Section 2 acknowledged that supplying cash to the public comes at a cost. Below, we have developed a set of objectives that aim to balance these two features and define what an effective cash system should deliver:

1) The New Zealand public have reasonable access to cash in accordance with their needs. This means that people who want to obtain cash for payment purposes or as a moderate store of value can do so at reasonable cost and convenience. This is particularly important for those with the highest cash needs, that is, those who are most heavily reliant on cash because a suitable substitute is not available.

2) People who use New-Zealand-dollar cash in New Zealand are confident that their notes and coins are genuine and of high quality.

3) Subject to (1) and (2) being met, cash is delivered to the public as efficiently as possible.

4) Barriers to cash access are identified, and reduced or removed where this can be done at reasonable cost.

These objectives can only be reached through a coordinated effort on the part of the Reserve Bank, the wider government sector, and the broader cash industry. However, the changes proposed in this paper would better enable the Reserve Bank to promote the delivery of these outcomes.
4. Stewardship of the cash system

The primary purpose of the Reserve Bank is to promote the prosperity and wellbeing of New Zealanders, and contribute to a sustainable and productive economy. The Reserve Bank could do this by extending our current functions around cash to take a more active leadership role across the whole system. This section proposes that the Reserve Bank take a stewardship role in the cash system, and describes how that role might look.

4.1 Lack of oversight of the cash system

Currently the Reserve Bank has very limited oversight of the system that supplies cash to the public, and no influence over the quantity of cash in circulation. We simply sell and buy back cash to and from our wholesale customers on request. The number of banknotes and coins that enter circulation, the distribution of cash throughout the country, and the number of places where people can access cash are determined by public demand and the response of private businesses to commercial incentives.

No single organisation has system-wide oversight of the cash system or a formal role to support it. In addition, while the banks and other cash system participants have been willingly and actively engaging with The Future of Cash – Te Moni Anamata, there is no formal mechanism to promote cooperation and coordination across the cash industry.

4.2 A cash objective for the Reserve Bank

The Reserve Bank of New Zealand Act 1989 (the Reserve Bank Act) is currently under review. As part of that review, the Government and the Reserve Bank will be considering what the Reserve Bank’s objectives should be. We propose that, alongside the existing objectives around monetary policy and financial stability, the Reserve Bank be given the formal mandate to support the wider cash system for as long as is required. We suggest that one of our objectives be:

‘to promote an effective cash system’.

An objective like this would extend our current obligation under the Reserve Bank Act – to issue banknotes and coins to meet the needs of the public – to apply more broadly to looking for ways to improve and support the network that delivers cash to the public. It would confer on us a responsibility to act as a steward of the cash system, providing oversight and guidance to help the key players in the system find solutions to emerging problems, for the benefit of all New Zealanders.

We believe that, with proper guidance and support, private businesses can continue to provide a high level of service and contribute to an effective and efficient cash system. Within that system, we propose that the Reserve Bank’s role be to:

- Issue banknotes and coins in accordance with public demand;
- Ensure the quality of New Zealand’s banknotes and coins;
- Monitor the cash distribution network, and highlight key risks;
Facilitate coordination and promote efficiency in the cash system; and
Enact regulation to ensure that reasonable access to cash is maintained, if required.

4.3 Cash acceptance

The stewardship role outlined in this paper focuses on promoting cash access, not cash acceptance. There is currently no law in New Zealand that says retailers must accept cash payments. Banknotes and coins are legal tender in New Zealand. This means that cash cannot be refused as settlement for a debt. However, a seller is under no legal obligation to enter into an exchange with a buyer who only offers cash as payment.\(^\text{10}\)

Many of the respondents to our recent consultation suggested that the Government legislate to require retailers to accept cash. However, the stewardship role that we are proposing for the Reserve Bank would not extend to deciding whether retailers should be required to accept cash payments. Our role as steward of the cash system would be to ensure that the cash system operates as intended, and delivers banknotes and coins to the people who require them. Given the broad social implications of legislating around cash acceptance, we think any regulation on the acceptance of cash, if it were ever needed, should be considered by other parts of government.

5. Oversight and monitoring

To be an effective steward, the Reserve Bank will need the ability to observe developments in the cash system. This section proposes that the Reserve Bank be given powers to collect information from cash system participants about their activities, in order to promote better system-wide oversight and monitoring.

The Reserve Bank Act currently provides the Reserve Bank with broad information-gathering powers with respect to registered banks and financial institutions. These powers effectively give the Reserve Bank the ability to collect any data it deems necessary to meet its objectives, on the condition that the data does not pertain to a particular customer or individual. Collecting data can be costly and time consuming. That is why, when invoking its existing data-collection powers, the Reserve Bank endeavours to be conscious of the costs that our data requests impose, and be reasonable in our requests.

We propose that those powers be extended to cover all significant participants in the cash system, including cash-in-transit operators and non-bank ATM operators. Without good information the Reserve Bank would be ineffective in monitoring the cash system and identifying key risks, and would not be able to leverage its role as steward effectively to provide system-wide insights. As such, it is necessary that the Reserve Bank be given these powers, despite the cost it may place on cash system participants.

\(^\text{10}\) McBride (2015) provides an overview of the meaning of legal tender in New Zealand.
6. Standards for banknote quality

Currently the Reserve Bank processes and quality assures banknotes that are returned to it because they either are no longer fit for use or are excess to requirements. Numerous other, privately owned machines also check notes for damage or counterfeits. This section proposes that the Reserve Bank be given the power to set industry standards for note-processing equipment, for possible future use.

In the current system, cash-in-transit operators use Reserve Bank certified machines to sort and process banknotes, confirming that they are genuine and inspecting them for wear and tear before returning them to the public. If a note is deemed unfit it is returned to the Reserve Bank, where it is processed again before being destroyed.

This is not the only model of banknote quality assurance available. In Norway, for example, all quality assurance, note processing, and destruction is carried out by licensed cash-in-transit operators. This eliminates the need for dual processing, but raises the risk of poor-quality notes re-entering circulation or good notes being destroyed if a cash-in-transit operator’s processes and equipment are not up to standard. Given that the Reserve Bank’s vaulting and distribution model is likely to change in the coming years, we want to have the ability to ensure that our notes are of high quality under a range of models.

Furthermore, as the cash industry continues to innovate to reduce the costs associated with cash, it is likely that we will see more widespread use of machinery that accepts banknotes and then distributes those same notes back to the public. A number of ATMs in New Zealand already have this capability, although it is currently not in use. The benefits of these technologies is that they reduce time and transport costs for note processing. However, one major drawback is that banknotes may stay in circulation longer, and may be processed at cash-in-transit depots less frequently.

Therefore, we are proposing that the Reserve Bank be given the power to set industry standards for banknote quality assurance. These standards might apply to any equipment that checks the quality of banknotes or distributes notes to the public. This could include the note-processing equipment operated by cash-in-transit operators and banks, recycling ATMs, and even self-check-out machines that distribute banknotes.

The Reserve Bank would only choose to implement such requirements under certain conditions. Under the current model, our own processing, along with the unregulated processing of notes by cash-in-transit operators, is sufficient to ensure banknote quality. However, under a more distributed cash system model, banknotes might stay in circulation for much longer, and greater reliance might be placed on machinery and equipment that are not currently quality assured by the Reserve Bank. Having the ability to set standards for cash-dispensing equipment would enable a range of alternative distribution models, while ensuring that damaged, dirty, or counterfeit notes were not being actively circulated and dispensed to customers.
7. Ensuring ongoing access to cash

In most circumstances, a coordinated industry response, under the guidance of the Reserve Bank, would promote an effective cash system that meets the needs of the public. However, the future of cash is uncertain, and any legislation written now should prepare us for a broad range of possible outcomes. Therefore, the Reserve Bank is exploring whether it is practical and sensible to have some powers in reserve to help prepare for the risk of a significant reduction in access to cash across the country that prevents the public’s needs being met. This section proposes that the Reserve Bank and the Government be given regulation-making powers with respect to the provision of cash services by banks.

7.1 Purpose of powers

This paper proposes that the Reserve Bank Act include a provision for regulations to be made in the future requiring banks to provide access to cash deposits and withdrawals, such that there is reasonable access to cash throughout the country. The purpose of any powers described in this section would be to ensure that the cash system supports an appropriate level of access to cash deposits and withdrawals, for as long as those services are needed, in order to protect those who rely on cash most heavily.

If such powers were included in the Reserve Bank Act, we would not intend to use them in the near future, or indeed at all, unless we observed a significant failing in the ability of the system to meet the needs of the public. In Sweden, authorities have proposed that banks be required by law to provide cash access deposits and withdrawals, and that this rule come into effect as soon as is practical. However, conditions in New Zealand do not warrant this type of action at this time, primarily because there is no clear evidence that cash access is declining or that the needs of the public cannot continue to be met by a coordinated industry effort – however we believe it sensible that legislation provide for intervention if required.

7.2 Scope of powers

We propose that, in the event that the public’s cash needs are not being met, banks be given primary responsibility to provide ongoing cash access. Although cash-in-transit operators and independent ATM operators play an important role in the cash system, they do so primarily as service providers. Banks, on the other hand, hold a unique and privileged position in the economy, having access to central bank settlement accounts (ESAS) accounts, the ability to purchase cash directly from the Reserve Bank, and the ability to create digital money. Furthermore, banks have historically been the primary providers of cash services.

The responsibility to provide access to cash should only sit with banks that would normally be expected to provide cash. Banks and branches that deal primarily in specialised financial services or corporate lending and therefore do not ordinarily deal in cash should be excluded. Other exclusions, such as that of banks below a certain size threshold, will also be explored.

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11 Sweden’s draft legislation proposes that no more than 0.3 percent of the population be more than 25 kilometres from the nearest cash withdrawal facility, and no more than 0.2 percent of the population be more than 25 kilometres from a cash deposit facility, and that these standards be reviewed every two years. Access to Cash Review [See the references section] (2019).
7.3 Form of powers

Because the Reserve Bank Act Review is still underway, the exact form of these powers is uncertain. Any regulation-making powers with respect to cash would need to be appropriate given the wider context of the review. It is unlikely that these powers would sit solely with the Reserve Bank. Instead, regulations would be made by the Governor-General on advice from the Minister of Finance, and parliamentary oversight would be provided by the Regulations Review Committee. The role of the Reserve Bank in this case would be to design the proposed regulation and to provide recommendations and advice to the Minister of Finance. Some additional form of parliamentary oversight might also be appropriate.

The exercise of regulation-making powers in relation to cash would be subject to all of the normal processes and requirements that apply to other Reserve Bank regulations. In addition to any specific conditions set out in the Reserve Bank Act in relation to these powers, the Bank would be expected to consult those most affected by the proposed regulations before making a recommendation to the Government. As a normal part of regulation-making, the Bank would also be required to produce a regulatory impact assessment – an analysis and evaluation of the likely costs and benefits of implementing the regulation.

The main benefit of incorporating regulation-making powers with respect to cash in the Reserve Bank Act is that future regulations can be flexible enough to cover a broad range of possible conditions, while enabling the Reserve Bank and the Government to respond quickly to developments and emerging risks in the cash system. While we continue to explore different regulatory options, the Reserve Bank is in favour of adding regulation-making powers to its policy toolkit for promoting an effective cash system.

7.4 Penalties and enforcement

In order to be enforceable, any regulation would require monitoring for compliance, and would likely need to be accompanied by enforcement powers and associated sanctions for non-compliance. The Reserve Bank Act defines the maximum penalties for offences against it, such as failing to comply with prudential regulation, failing to supply information, and failing to comply with a Reserve Bank direction. In the case of an offence by a body corporate, such as a bank, the penalties that can be imposed are fines. Accordingly, the Reserve Bank considers that fines would likely be the most appropriate sanctions for non-compliance with a regulation around cash provision. The possibility of seeking fines gives the Reserve Bank some power to ensure compliance with any future regulation around providing access to cash.

How accountability would be defined under such regulation, and therefore how sanctions could be applied, warrants further consideration. Banks could be held collectively accountable for the provision of cash services, meaning that banks would share the responsibility for providing access to cash, and all banks within scope would face sanctions for each case of non-compliance. This would be a novel regulatory structure in New Zealand, but might be practically workable and might encourage greater cooperation among banks. Alternatively, each bank could be individually accountable for the provision of certain services in certain areas. However, this presents challenges around how accountability is allocated. Both options present considerable practical challenges, which will need to be investigated in consultation with relevant parties if any policy is developed.
8. Seeking your views

We welcome your feedback on the issues raised and legislative changes proposed in this paper. The following questions are provided in our online survey, and invite you to respond to each of the key proposals individually.

To go to the survey: click on the link below or copy it into your browser; or scan the QR code with your smartphone:

https://www.surveymonkey.com/r/CashSystemConsultation

1. What are your views on the following statement?
The proposed objectives for the cash system are appropriate
Strongly Agree / Agree / Neither agree nor disagree – Don’t know / Disagree / Strongly Disagree
(Optional) Please provide any comments in support of your answer, or on Section 3 of the consultation paper.

2. What are your views on the following statements?
The Reserve Bank should have a statutory objective to support the cash system beyond issuing notes and coins
The statutory objective should be for the Reserve Bank ‘to promote an effective cash system’
Strongly Agree / Agree / Neither agree nor disagree – Don’t know / Disagree / Strongly Disagree
(Optional) Please provide any comments in support of your answers, or on Section 4 of the consultation paper

3. What are your views on the following statements?
The cash system needs oversight, monitoring, and formal coordination
The Reserve Bank should provide this oversight, monitoring, and formal coordination
The Reserve Bank’s information-gathering powers should be extended to cover all significant participants in the cash system
Strongly Agree / Agree / Neither agree nor disagree – Don’t know / Disagree / Strongly Disagree
(Optional) Please provide any comments in support of your answers, or on Section 5 of the consultation paper
4. What is your view on the following statement?
The Reserve Bank should have the authority to set industry standards for banknote-processing machines
*Strongly Agree / Agree / Neither agree nor disagree – Don’t know / Disagree / Strongly Disagree*
(Optional) Please provide any comments in support of your answer, or on Section 6 of the consultation paper.

5. What are your views on the following statements?
Legislation is required to support ongoing public access to cash
Legislation should allow for banks to be required to provide cash (deposit and withdrawal) services to the public
Fines would be the most appropriate sanctions for noncompliance with a requirement to provide cash services
*Strongly Agree / Agree / Neither agree nor disagree – Don’t know / Disagree / Strongly Disagree*
(Optional) Please provide any comments in support of your answers, or on Section 7 of the consultation paper.

6. If banks were required to provide cash services, which type(s) of banks should be subject to that requirement?
   - Only large retail banks
   - Only banks that ordinarily provide cash services
   - All banks
   - Other (please specify)

7. If banks were required to provide cash services, who should make the final decision?
   - Reserve Bank
   - Government
   - Other (please specify)

8. (Optional) Please make any further comments you wish including on the possible consequences of, or alternative options to, the proposals made in the consultation paper.

9. (Optional) Please give us any feedback on these questions or submissions process.

10. (Optional) Please attach any expansion on your answers, or written submission (see our website for a template), or additional information in .doc .docx or .pdf format (16MB max file size).
11. This response is made on behalf of an... (tick)

- individual or family/whanau local/regional member-based community or welfare focused organisation
- national member-based community or welfare focused organisation
- local/regional member-based business organisation
- national member-based business organisation
- sole trader / small retailer or business
- medium sized retailer or business
- large retailer or business banks, non-bank deposit takers, or their service/equipment providers
- independent ATM provider (or host premises)
- local government entity
- state sector agency
- Other (please specify)

12. I/we read the consultation paper before giving my/our response... Yes/No

13. Please enter your details. You can leave the organisation field blank if you are answering for you or your family/whanau. If you enter an organisation name then you are confirming you have the authority to make a response on its behalf.

- Name
- Organisation
- City/Town (nearest)
- Email Address
- Phone Number

14. (Optional) Is there anything you would like to tell us about your (or your organisation's) background or anything else to help us understand the background to your responses?

15. I consent to... (tick)

- Joining The Future of Cash - Te Moni Anamata mailing list (we will email 1-2 updates a month and each email will let you unsubscribe at any time).
- My/our responses being made public linked to my/our name. (Please state why if you do NOT consent to this)
References


