



Reserve Bank
of New Zealand
Te Pūtea Matua

QUICK GUIDE

Future of Money – *Cash system redesign*

Te Moni Anamata – *He whakahou i te pūnaha moni*

An issues paper inviting public feedback
before 7 March 2022

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ISSUES PAPER



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About this quick guide

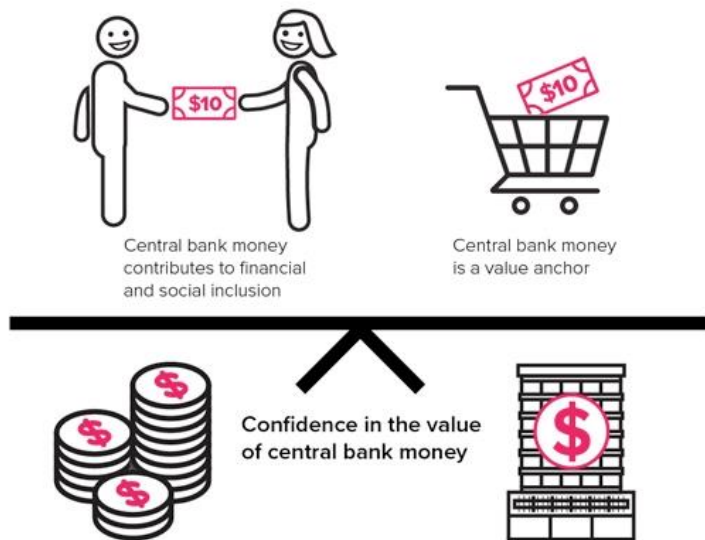
This is a quick guide to the 'issues paper'. The issues paper outlines what is happening in the 'cash system' and suggests high-level policy options for further consideration, rather than making specific, concrete proposals. We hope the paper provokes engagement and suggestions on how to achieve a fit-for-purpose cash system.

The role of cash

(To find out more, refer to Part A in the consultation paper, especially A.2, and Appendices 2 and 3)

Cash is a type of central bank money and, as such, it plays two important roles:

- It acts as a value anchor for private money, meaning it underpins trust and confidence in all the money used in New Zealand.
- It contributes to financial and social inclusion.



The cash system

(To find out more, refer to Part A, especially A.1)

The cash system is everything needed for someone to pay cash for goods and services. The system is a collection of functions, performed by a multitude of players, spread across three sectors (the central bank sector, the wholesale cash sector, and the retail cash sector). The cash system operates as an interconnected network.



The problem

(To find out more, refer to Parts A and B, especially A.3, B.1, and B.2)

We have identified a number of challenges facing the cash system:

- Innovation is increasing the appeal of non-cash payment options.
- Consumers and merchants are increasingly preferring to transact online.
- Banks are becoming primarily-digital service providers, which means there are fewer bank branches, bank branches are open less often, and there are fewer out-of-branch bank ATMs.
- Like other parts of the economy, the cash system will need to reduce its carbon footprint and firms must comply with rules about money laundering.

Whilst each challenge might directly affect one part of the cash system, due to the network nature of the cash system, each challenge is inter-related and the challenges reinforce each other. In our view these challenges, when viewed collectively, are weakening the cash system:

- It's getting harder to find places to withdraw cash, which might reduce people's confidence in private money.
- It's getting harder to find merchants who will accept cash, making it harder for people who use cash to buy goods and services.
- It's becoming less likely that private firms will want to be part of New Zealand's CIT industry.

The Cash System is Under Pressure



The growth in online payments, convenience or rewards for using a bank card, and phone apps, are among the reasons.



Some of the places where people withdraw or deposit cash have been closed or reduced their opening hours, while some retailers prefer not to be paid in cash.



The cost to private companies of providing access to cash when there are ever smaller numbers of individuals and businesses using it might mean that private companies won't want to work in the cash system.

We think there are also three beneficial trends and opportunities facing the cash system:

- The technology that underpins the cash system is improving all the time, making it possible to lower costs and, or, improve service levels.
- The private firms that operate in the cash system have opportunities to reorganise themselves so as to become more efficient.
- The regulatory framework applying to non-cash payments methods is changing.

On balance, we are worried that if we don't act soon, the cash system won't be able to perform the roles required of it. We want to know what you think – do you share our concerns? Should we intervene in the cash system? Should we act with urgency?

The solutions?

(To find out more, refer to Part C, especially C.1)

We have identified 16 policies that we think could be effective in strengthening the cash system, making it fit-for-purpose. We've combined eight of these as a 'starter-for-ten' policy 'bundle', as one possible policy response.¹

We present the starter-for-ten bundle to indicate where our thinking has landed thus far. It is included in order to facilitate engagement and encourage feedback. We are not fixed on this bundle as the direction for policy. We seek feedback on all options, not just our starter-for-ten bundle.

While any given policy will directly affect one part of the system, due to the network nature of the cash system, each policy will indirectly impact the whole system. That means it is preferable to consider the collective impact of different combinations of policies, not to assess policies individually. We present our starter-for-ten policy ideas as a bundle for this reason.

¹ By 'starter-for-ten' we mean the policy bundle reflects our initial thinking and is presented for the purpose of starting a discussion.

Table: Potential policies and the starter-for-ten policy bundle

Theme	Potential policies	Areas of contribution						Starter-for-ten policy bundle	
		Resilience		Efficiency		Inclusion		Innovation	
		Impact on capacity and ownership supports resilience	Contributes to lower carbon emissions	Reduces resource use	Better performing market, market outcomes are replicated where appropriate	Direct impact	Indirect impact due to network effects	Supportive of innovation in the retail cash sector	
Resilience- and efficiency-themed	1. Achieve consolidation within the cash system via the creation of utility entities.	✓	depends on design	✓	depends on design		✓	depends on design	✓
	2. Broaden access to wholesale cash.	✓		✓	✓		✓	✓	✓
	3. Accelerate setting of cash machine standards.		✓	✓		✓	✓	✓	✓
	4. Find efficiencies related to coins.	✓	✓	✓			✓	✓	✓
	5. Outsource core functions performed in the	✗	✗	✓					

Theme	Potential policies	Areas of contribution				Starter-for-ten policy bundle			
		Resilience		Efficiency		Inclusion		Innovation	
		Impact on capacity and ownership supports resilience	Contributes to lower carbon emissions	Reduces resource use	Better performing market, market outcomes are replicated where appropriate	Direct impact	Indirect impact due to network effects	Supportive of innovation in the retail cash sector	
	wholesale cash sector to an offshore supplier.								
Cash acceptance-themed	6. Mandate acceptance of cash by merchants and government entities (requires decisions about scope, thresholds).			✗		✓	✓	✓	✓
	7. Instigate the remuneration of merchants (or other retail cash sector cash service providers) by banks when a cash-out service is performed.				✓	✓	✓	✓	✓
	8. The Reserve Bank remunerates merchants for cash quality checking.						✓	✓	

Theme	Potential policies	Areas of contribution					Starter-for-ten policy bundle				
		Resilience		Efficiency		Inclusion		Innovation			
		Impact on capacity and ownership supports resilience	Contributes to lower carbon emissions	Reduces resource use	Better performing market, market outcomes are replicated where appropriate	Direct impact	Indirect impact due to network effects	Supportive of innovation in the retail cash sector			
Cash access-themed	9. License ATM providers.			✗			✓	✓	✗		
	10. An agency representing taxpayers contracts merchants (or other providers) to provide cash services.			✓			✓	depends on design			
	11. Use moral suasion to impact on banks' cost recovery strategies.			?			?				
	12. Prescribe minimum standards for the services provided by banks.			✗			✓	?	?		
	13. Create new tools that allow the Reserve Bank to direct banks to provide			✗			✓	✓	?		✓

Theme	Potential policies	Areas of contribution				Starter-for-ten policy bundle			
		Resilience		Efficiency		Inclusion		Innovation	
		Impact on capacity and ownership supports resilience	Contributes to lower carbon emissions	Reduces resource use	Better performing market, market outcomes are replicated where appropriate	Direct impact	Indirect impact due to network effects	Supportive of innovation in the retail cash sector	
	cash services, and at low cost to customers.								
Consumer demand-themed	14. Campaign to increase public awareness of cash issues.				✓	✓	✓	✓	✓
	15. Financial incentives to use cash (e.g. a discount).						✓	✓	
	16. Limit use of consumer rewards by payment card issuers.						✓		

What would the starter-for-ten policy bundle mean for...

... Consumers?

(To find out more, refer to Part C, especially C.3, C.4, and C.5)

- We think the likely outcomes from the bundle would be more merchants accepting cash than would otherwise be the case, more merchants providing cash out, and more options for depositing and withdrawing cash (for example, consumer services provided in conjunction with CITs).
- Our research suggests that people care about whether other people have access to cash, even if they themselves don't use cash often. The societal impacts of personal decisions about how to pay are largely invisible, and not widely known. Once people become aware of the societal impacts of their decisions, they may use cash more often and this would strengthen the cash system.

... Merchants?

(To find out more, refer Part C, especially C.3)

- We estimate that around a third of all the cash withdrawals performed in the cash system are performed by merchants. We think that's an important service that underpins cash access and usage. Providing that service comes at some cost to merchants but, by-and-large, they are not remunerated for it. The policy bundle raises the prospect of banks remunerating merchants for the cash services merchants perform.
- Consolidating functions in the wholesale cash sector could mean more merchants find CIT services a cost-effective alternative to visiting a bank branch. Having a lower-cost way to deposit surplus cash would be beneficial for merchants.
- It is becoming increasingly hard for merchants to make sure they have the necessary low-denomination banknotes and coins, needed for giving change, in their tills. The bundle includes policies aimed at making it easier (and therefore cheaper) for merchants to get the banknotes and coins they need.
- Activating the policy lever of setting minimum cash machine standards would enable merchants to dispense the cash they receive without incurring problems with unfit notes, meaning their cash-handling costs would lessen.
- Merchants must weigh up the costs and benefits of investing in cash equipment. We think the policies rebalance the calculation, making it more likely merchants will accept cash.
- We think these policies usefully complement on-going innovation in the cash-related equipment and service options provided to merchants.
- Despite the policy changes, there might still be some merchants who wouldn't want to accept cash. Widespread cash acceptance provides an essential underpinning of the cash system and the roles performed by cash. One way to get assurance that cash will be accepted is to mandate cash acceptance (by merchants and government agencies interacting with the public). We expect this 'insurance' might be largely redundant, with most merchants responding to the policy bundle by becoming more willing to accept cash anyway.

... Banks?

(To find out more, refer to Part C, especially C.3 and C.4)

- We think allowing banks to collaborate in some aspects (for example, collectively providing unbranded bank branches or ATMs) could alter the business-case for cash and improve resilience for the system. We think it could also lead to lower costs and new service models for bank customers. Collaboration would likely require authorisation or collaborative activity clearance from the Commerce Commission.
- As well as aiming to improve the resilience and efficiency of the cash system, the policy bundle aims to address what we think are market failures in the relationship between banks and merchants.
- We think, on balance, banks' costs would increase under this policy bundle. Costs might fall due to consolidation in the wholesale sector but remunerating merchants for cash services performed for bank customers would seem to be a new expense for banks.
- In this bundle, new regulatory tools would apply to banks. The tools would be aimed at preventing unintended, adverse effects on financial inclusion (including higher consumer bank charges and reduced access to bank accounts) arising from increases in banks' costs.

... CITs?

(To find out more, refer Part C, especially C.2)

- We think allowing CITs to collaborate in some functions (for example, storing cash or providing ATMs) could alter the business-case for some firms and improve resilience for the system. We think it could also lead to lower costs and new service models for merchants and their customers.
- Collaboration would likely require authorisation or collaborative activity clearance from the Commerce Commission.

... the Reserve Bank?

(To find out more, refer Part C, especially C.2 and C.4)

- The bundle would mean an increase in the number of financial institutions and firms that could trade cash with the Reserve Bank. We think this would reduce costs across the system as it reduces the double-handling of cash.
- We think the cash system produces benefits that have public good attributes. That means the level of investment in the cash system, if left to private firms, might be less than what is optimal for society as a whole. Hence more active public sector oversight of, and potentially involvement in, the activities carried out in the cash system may be necessary.
- We suggest that it may be necessary for the Reserve Bank to receive further tools to regulate banks. These tools would be used to ensure private money is provided at low-cost to consumers, and that all consumers have the option of having a basic bank account, even if bank costs increase.

Have your say

We welcome your views on the issues and proposed approaches outlined in the issues paper.

We have provided some Feedback Prompts below, but you do not need to follow these, and there may be related cash system topics we have not mentioned that you want to write about.

Feedback closes at 10am on Monday, 7 March 2022.

You can:

- email us at futureofmoney@rbnz.govt.nz
- or upload a document with your feedback or answer directly into our online feedback tool: <https://www.surveymonkey.com/r/Future-of-Money-Cash-System-Redesign>
- or post your feedback to:

Future of Money
Money and Cash Department
Reserve Bank of New Zealand
PO Box 2498
Wellington 6140

- or, if none of the above options are suitable then please phone us on 04 474 8693 between 10am-4pm Monday-Friday (except on and between Friday, 24 December and Monday, 10 January) and we'll arrange a time to call you back to take down your views.

We intend to prepare and publish a summary of responses to the three issues papers we have released in 2021, and an outline of next steps, by 30 April 2022.

Feedback Prompts (and relevant part of the issues paper)

1. Do you agree with our characterisation of the cash system? (A.1)
2. Do you agree with our assumptions about the business strategies being pursued by firms in the cash system? (A.1)
3. Are there significant factors influencing the cash system that we have failed to consider? (A.3)
4. Do you agree that the cash system requires 'redesigning'? (A.2, Part B)
5. How urgent do you think 'redesigning' the cash system is? (Part B)
6. Have we left any potentially valuable policy options out? (Part C)
7. Do you agree with our arguments supporting the 'starter-for-ten' policy bundle? (Part C)
8. Who should pay for the cash system, and why? (C.7)
9. Which policy options should we investigate further? (Part C)
10. What policies would you include in a bundle? In what order of priority? (Part C)
11. Is there anything else you would like to say in response to the issues paper?