

# REVIEW OF BANKNOTE DISTRIBUTION ARRANGEMENTS: ISSUES PAPER

SUBMISSION TO THE RESERVE BANK OF AUSTRALIA

## INTRODUCTION

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1. ANZ thanks the Reserve Bank of Australia (**RBA**) for providing an opportunity to respond to the *Review of Banknote Distribution Arrangements: Issues Paper* dated November 2021 (**Issues Paper**). ANZ continues to support the RBA in making cash accessible to the Australian community by being an Industry Participant in the cash distribution arrangements. These arrangements have evolved over time and are currently enabled by the Banknote Distribution Arrangement (**BDA**) that has been in effect since 2011.
2. We are encouraged by the release of the Issues Paper where the RBA has observed that meeting the cash needs of community presents challenges in a time of declining cash usage. We believe it is useful that the RBA has sought feedback from the industry to reassess the banknote distribution arrangements to make them more effective, efficient, sustainable, and resilient.
3. We hope the RBA finds ANZ's feedback helpful in identifying any potential changes to the arrangements. We look forward to further engagement with the RBA on this matter.

## RESPONSE TO SPECIFIC QUESTIONS

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**Q1: Are there aspects of the current BDA arrangements that affect the ability of existing BDA participants and approved CITs to manage cash distribution in an environment of declining transactional cash use? If so, please provide details.**

The current Banknote Distribution Arrangements (BDA) enable participating banks to exchange cash with the RBA and service cash needs of the Australian community and businesses by utilising commercial relationships with their Cash In Transit (CIT) suppliers.

The BDA arrangements comprise of cash transportation, storage, and fitness sorting. The cost incurred in managing these aspects is not fully compensated for. As an example, the interest compensation against the cash maintained in depots does not appropriately cover the cost of maintaining cash stock and its storage.

We also note that the BDA obligations need to be continually and proactively reviewed with a view of improving efficiencies. Some examples of possible beneficial reviews include:

1. With the interest compensation arrangement, the governance and reporting obligations in relation to Verified Cash Holdings could be reviewed to reflect the environment, and
2. With work arrangements being impacted by COVID, the communication protocols defined for the interaction between the RBA and banks/their Approved Cash Centre Operators (ACCOs) could be reviewed e.g. requirements for wet signatures.

**Q2: Do the current BDA arrangements prevent additional parties who might otherwise wish to do so from participating in wholesale cash distribution? If so, how?**

The BDA in its current state is a single contract covering responsibilities relating to cash exchange, transportation, storage, ownership, and fitness sorting. Any party that would like to participate in the wholesale cash distribution needs to sign-up for all these responsibilities and ensure a high level of governance and reporting is in place in line with the BDA obligations.

These obligations could prevent additional parties from participating in such arrangements due to their limitation on being able to sign-up to all aspects. Moreover, as CIT companies are not a direct participant to the BDA, their ability to participate may be limited by their ability to engage with BDA participants.

**Q3: What role should private participants in the banknote distribution system have in quality sorting? Are there changes that should be made to the arrangements that the Reserve Bank has in place to support the quality of banknotes in circulation?**

The commercial banks via branches, cash devices (like ATMs) and other CIT arrangements enable the community to withdraw and deposit banknotes. These banknotes are then quality sorted at bank branches and at depots of CIT companies through cash devices developed and maintained by commercial entities e.g. Teller Cash Recyclers at branches, Banknote fitness sorting equipment at CIT depots. Thus, there are several private sector participants who play a role in circulation and quality sorting of banknotes who would be impacted by any changes relating to quality sorting arrangements.

Hence, ANZ feels that private sector participants currently do and will continue to have a role in quality sorting, however with RBA's role in making policy decisions relating to availability of cash (good quality banknotes) to the community, ANZ would recommend the RBA take a lead role in managing quality sorting arrangements for the public good.

We see the RBA leading engagement with private sector participants on challenges relating to quality standards and taking a consultative approach to ensure BDA obligations are reasonably achievable without the industry incurring substantial costs. Also, with the majority of banknote fitness sorting being done at CIT depots, ANZ sees benefit in the RBA managing aspects relating to fitness sorting directly with CIT companies, which may result in reviews of contractual arrangements between banks and CIT companies.

**Q4: How have the cost structures and revenue streams of CIT companies changed as transactional cash use has declined? Are there aspects of cash distribution that have costs that are difficult to reduce as cash use declines, and how significant are these?**

**Q5: Are there factors that prevent CIT companies repricing their services to reflect rising unit costs? If so, what are they?**

ANZ is not in a position to comment on questions about the business models of CIT companies.

We do however note that due to Australia's population distribution, participants incur a high cost in managing cash distribution and any additional costs could adversely impact the viability of cash distribution arrangements.

**Q6: Is there underutilisation in the CIT industry in Australia? If so, how widespread is it (e.g. by region or size of depot)? What is being done, or could be done, to address underutilisation?**

**Q7: How would you describe the business conditions and issues faced by CIT companies? Are there other strategic issues faced by current or potential participants in cash distribution that have not been covered in this paper?**

ANZ is not in a position to comment on questions about the business models of CIT companies. We note that the COVID 19 pandemic has had a significant impact on cash usage in the economy. We understand that this has impacted CIT providers' revenue and created upward pressure on costs.

We feel that the underutilisation and therefore cost problems cannot be solved for unless:

1. The RBA works with the industry to solve for supply chain issues faced in regional and remote areas relating to cash distribution; and
2. There is an availability of additional support from the RBA where necessary.

**Q8: To what extent do the responses described in Section 4.3 assist businesses involved in cash distribution with managing the declining transactional use of cash? What other responses are being, or could be, pursued? Are there barriers to innovation in cash distribution?**

Section 4.3 accurately describes the changing trends in declining cash transactions and increase customer adoption of digital channels and services. In such an environment, ANZ supports some of the responses described in Section 4.3 aimed at improving efficiencies:

1. Enabling cross utilisation of ATM network thereby limiting costs for participants while providing community access to cash.
2. Use of ATM recycling capability to enable the cash dispensing functionality to be auto serviced by cash deposits.
3. CIT companies continuously enhancing their business models and innovating to create new product/service offerings which are cost effective and provide better customer experience.

Cost pressures in current cash distribution arrangements are inhibiting innovation as they divert focus from transformational change to continuous optimisation and cost minimisation initiatives.

**Q9: What are your views on the options presented in this paper – and do you have other suggestions – to make the banknote distribution system more effective, efficient, sustainable and resilient over the medium term as the use of cash for transactions declines? How might your preferred option(s) be implemented by the industry?**

**Q10: What are your views on changes that could be made to the current arrangements to make wholesale banknote distribution more effective, efficient, sustainable and resilient over the medium term as the use of cash for transactions declines?**

ANZ welcomes further discussion about each option presented in Sections 5.1 and 5.2. Some specific feedback on particular options is outlined below.

For options aimed at addressing excess capacity in CIT industry:

ANZ notes that efficiency improvements can be achieved by CIT companies through an update to business processes, some of which are identified by the RBA e.g. CIT companies enabling servicing of cash processing needs by alternative depots etc. However, ANZ would like to see such improvements supported by appropriate changes to the BDA to ensure that such changes do not adversely impact the participants.

Any potential consolidation or collaboration amongst CIT companies may deliver a higher efficiency improvement however it may pose a concentration risk which may result in reduced competition.

For options focusing on wholesale cash distribution arrangements:

ANZ supports a higher involvement from the RBA. We see the RBA leading industry consultation on issues that are identified with cash distribution arrangements and supporting delivery of solutions. Consultation would also assist with identification of improvement opportunities in the BDA and quality sorting arrangements, thus helping reduce overheads of participants and CIT companies.

We suggest that the following options should be implemented to make the banknote distribution system more effective, efficient, sustainable, and resilient:

1. RBA conducting consultation in relation to possible changes to BDA, including:
  - a) compensation for participating in cash distribution;
  - b) addressing cost pressures of cash distribution in regional and remote areas; and
  - c) reviewing logistics of cash issuance and returns, with a view of reducing transportation costs

2. Creation of an engagement forum led by the RBA and the RAM. The purpose of such forum being to seek input about the current and evolving challenges faced by the industry and to facilitate the identification and implementation of any appropriate policy responses.
3. Putting on hold any obligations which may put additional cost or resources pressures on the industry.

**ENDS**