

Submission

to the

Reserve Bank of New Zealand

on the

Consultation paper: The future of the cash system – Te pūnaha moni anamata

6 November 2019

About NZBA

1. NZBA works on behalf of the New Zealand banking industry in conjunction with its member banks. NZBA develops and promotes policy outcomes that contribute to a strong and stable banking system that benefits New Zealanders and the New Zealand economy.
2. The following seventeen registered banks in New Zealand are members of NZBA:
 - ANZ Bank New Zealand Limited
 - ASB Bank Limited
 - Bank of China (NZ) Limited
 - Bank of New Zealand
 - China Construction Bank
 - Citibank, N.A.
 - The Co-operative Bank Limited
 - Heartland Bank Limited
 - The Hongkong and Shanghai Banking Corporation Limited
 - Industrial and Commercial Bank of China (New Zealand) Limited
 - JPMorgan Chase Bank, N.A.
 - Kiwibank Limited
 - MUFG Bank, Ltd
 - Rabobank New Zealand Limited
 - SBS Bank
 - TSB Bank Limited
 - Westpac New Zealand Limited

Background

3. NZBA welcomes the opportunity to provide feedback to the Reserve Bank of New Zealand (**RBNZ**) on the consultation paper: *The future of the cash system – Te pūnaha moni anamata* (**Consultation Paper**) and commends the work that has gone into developing the Consultation Paper.
4. If you would like to discuss any aspect of the submission further, please contact:

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Introduction

5. NZBA congratulates RBNZ on the work that has been undertaken as part of the te pūnaha moni anamata project – building a body of research around the cash system is vital to understanding the cash needs of New Zealanders.
6. This submission focuses on the proposals regarding standards for banknote quality and ensuring ongoing access to cash; we agree that it is appropriate for RBNZ to set minimum standards for note processing machines, however, we do not agree that it is appropriate to introduce regulation-making powers in respect of access to cash deposits and withdrawals.

Standards for banknote quality

7. NZBA agrees that it is appropriate for RBNZ to set minimum standards for note processing machines. We support this proposal and would welcome the opportunity to work with RBNZ on the details of it.
8. We consider that any standards should be technology and supplier neutral, and should be consistent with market consensus on appropriate note quality criteria. They should also have regard to an ‘efficiency’ standard (rather than ‘effectiveness’ alone).

Ensuring ongoing access to cash

9. NZBA agrees that RBNZ should remain responsible for wholesale cash supply and distribution. We also agree that it is appropriate for RBNZ to be able to monitor cash supply. However, we do not agree with the proposal to introduce regulation-making powers that would enable RBNZ to require banks to provide access to cash deposits and withdrawals. That is because:
 - (a) there is no evidence that the market is failing to meet demand for cash now; and
 - (b) it is not clear what social harm this proposed regulation is seeking to address.
10. There is no current evidence that the market is failing, or is likely to fail, to meet demand for cash. Cash demand for point of sale payments is declining, and cash supply arrangements are adjusting to this market trend. Similarly, there is no evidence that this is a material or growing problem (ie that there is a growing demand that is not being met, or why) or as to what the particular accessibility issues may be. In fact, NZBA has recently announced a trial of regional banking hubs demonstrating that the industry is responding to public and government feedback on access to face-to-face banking services in the regions. Additionally, the banks participating in that trial have agreed not to close any regional branches for the duration of the trial.¹
11. We also do not agree that the possibility of a reduction of access to cash at some undefined point in the future is a good justification for introducing this regulation-making power now.

¹ <https://www.nzba.org.nz/2019/09/30/banking-hub-trial-a-new-approach-to-regional-banking/>

12. Given that, we query whether the social harm (or potential social harm) that this proposal is designed to address is around access to cash in emergencies (eg natural disaster). If that is the case we would welcome the opportunity to work with RBNZ on a more appropriate regulatory response, for example, through the review of the crisis management framework currently underway (as part of Phase 2 of the Reserve Bank of New Zealand Act Review).
13. We are also of the view that, if this regulation-making power is to be introduced, it should involve other public sector agencies (eg MBIE) and should address both access to and acceptance of cash. These issues are interconnected – a legislative requirement to provide access to cash without a corresponding obligation on retailers to accept cash will be of limited practical value. By focusing on supply-side regulation only (ie deposit and withdrawal services), there is a risk of unintended consequences. For example, requiring banks to maintain cash distribution infrastructure where there is no material demand for it will have an opportunity cost, additionally there is a risk that cash may be used primarily by groups operating outside the mainstream financial system (eg criminal enterprise and black-market).
14. Additionally, to the extent that any such requirement is introduced, it should extend to any businesses that provide cash deposit and/or withdrawal services (not just banks).
15. With respect to the proposal to introduce a new RBNZ objective around promoting an 'effective' cash system, it is not clear what effective means in that context, or how that would interact with the Minister of Finance's in-principle decision regarding the RBNZ's objectives in the context of Phase 2 of the Reserve Bank of New Zealand Act Review.
16. For those reasons, we do not consider that it is appropriate to introduce the proposed regulation-making power at this time.