

Submission to the Reserve Bank of
New Zealand on the Issues Paper

Future of money: Cash system redesign

21 March 2022

**Kiwi
bank.**

Summary

1. Thank you for the opportunity to submit on the Reserve Bank of New Zealand's (RBNZ) issues paper Future of money – Cash system redesign (Issues Paper).
2. Kiwibank supports RBNZ's mandate as steward of the cash system and welcomes this opportunity to provide feedback on policy options which are intended to ensure the cash system is efficient, resilient, and sustainable.
3. We agree that the cash system must be fit-for-purpose so that it can continue to serve the needs of all New Zealanders. In our view, the focus of RBNZ's cash system redesign should be twofold:
 - a. Improving the efficiency of the existing cash system.
 - b. Addressing underlying issues around financial inclusion and capability.
4. Although some of the options discussed in the Issues Paper are geared towards structural inefficiencies that impact on the resilience and sustainability of the cash system, none address the underlying causes of financial exclusion. That, in our experience, is the main driver of customers' reliance on cash. The Anti-Money Laundering and Countering Financing of Terrorism Act 2009 and bankruptcy and insolvency laws, for example, can make it difficult for some people to access a bank account. Some customers use cash as a budgeting tool. Others may prefer cash because of a perception of safety and so that others can't access their savings, for example, where people with intellectual and physical disabilities are reliant on a carer. Although RBNZ can't solve all of these issues alone, we nevertheless consider that its review of the future of money (including any decisions on policy) should focus on initiatives that address the underlying causes of exclusion and low financial capability, rather than trying to encourage greater use of cash.
5. Below, we have responded to the policy options outlined in the paper, with a particular focus on the starter-for-ten bundle. We submit that further detailed consultation, including a cost-benefit analysis, is needed before any of these options are taken forward. RBNZ should be mindful that significant investment in new cash system infrastructure aimed at promoting cash use will have an opportunity cost. Additionally, we consider that any policy response should avoid putting additional burden on other cash system participants, particularly merchants. We are concerned that a number of the policy options under consideration would have implications for merchants in terms of administration, health and safety, and security.
6. Finally, for the reasons explained in this submission, we consider that Kiwibank's service offering – a blend of digital services, branch network,

ATM network (approximately one third of which are smart ATMs), Kiwibank Service Agents (KSA), and digital education – meets RBNZ’s objectives for the cash system, and addresses many of the challenges outlined in the Issues Paper. If RBNZ proceeds with a policy response, we submit that should be applied to Kiwibank in a manner commensurate with our existing positive contribution to cash and regional access issues.

Kiwibank’s face-to-face and digital service offering

7. Kiwibank’s service offering is unique in that it blends new digital channels, a traditional branch network, and basic banking services offered via partnerships with retailers throughout New Zealand. Kiwibank has also invested in building our customers’ digital capability. We consider that combination serves Kiwibank’s customers well and ensures good access to services throughout Aotearoa.
8. Below we provide more information about Kiwibank’s service offering, including the challenges created by reduced demand for face-to-face banking services, and how we’re responding.

Kiwibank Service Agents

9. Kiwibank is the only bank in New Zealand that partners with retailers to provide basic banking services in more locations. Kiwibank’s network of KSAs is chosen based on population exposure and can support gaps in branch coverage, helping to maintain services in isolated communities. Partnerships are with a variety of businesses that our customers frequent, including gift, book, grocery and hardware stores. Kiwibank’s network currently has around 100 sites in a mix of rural, provincial, and urban locations. In 2021 KSAs processed over 250,000 cash transactions with a value of approximately \$ [REDACTED].
10. KSAs provide basic over-the-counter transactions, including cash withdrawals/deposits and other services that cannot currently be self-served digitally (for example, ID verification, issuing and maintenance of cards, and customer onboarding). KSAs also support local businesses by accepting cash deposits and providing float.
11. iPads are currently being rolled out to KSAs to promote access to digital channels and enable customers to self-serve, particularly those who do not have access to a device or the capability to self-serve without assistance. This means that a customer can visit a KSA and use the iPad to begin the onboarding process (noting that KSAs do not sell product or give financial advice). The KSA can then assist the customer

to complete the process, for example by completing ID verification and issuing a card. The benefit of this set up is that it allows customers to complete some tasks quickly which might have otherwise required multiple visits to a branch or KSA.

12. The benefit of the KSA model is that new agents can be stood-up relatively quickly and inexpensively (compared to a branch) where there is a willing and viable host business. Banking services are an adjunct to the host's main business, meaning that they have an additional source of income and are less sensitive to fluctuations in the demand for face-to-face banking services. However, declining Kiwibank customer usage of KSAs (as customer preferences change to other channels) can reduce the benefit to the host business. The remuneration structure for KSAs is demand-based, in other words, they are compensated for the services that they provide.

Regional Banking Hub trial

13. Kiwibank is one of 6 banks participating in NZBA's Regional Banking Hubs trial.
14. This pilot has been a useful test case for the provision of banking services to regional communities through shared facilities. However, we consider that Kiwibank's existing branch, KSA and ATM network provides good coverage of urban and regional communities.

Digital capability building

15. In addition to face-to-face services, Kiwibank is helping New Zealanders to build their digital capability by providing free digital education to communities. While some customers may prefer cash, others use it only because they don't feel confident or capable to use digital channels. We consider that our social licence requires Kiwibank to help its customers build capability, so that they are able to participate in an increasingly digital world.
16. In 2019, Kiwibank partnered with the Digital Inclusion Alliance Aotearoa to provide free digital banking workshops called Stepping UP. The workshops cover the basics of online banking and how to protect yourself online, as well as the signs of online scams and what to do. They are provided through libraries, community groups, and universities throughout the country as well as being available through the DORA (Digital On-Road Access) bus which takes the workshops on the road. Anyone can sign up for the workshops – they aren't limited to Kiwibank customers – and are particularly geared towards older New Zealanders who might be left behind by technology changes. After attending the workshops, 90% of participants reported feeling more confident to try digital banking for tasks such as bill payments, checking balances,

donating to charities, and transferring money. Over 90% felt more confident in identifying a phishing emails or scams.

17. In 2020, Kiwibank also set up a team of Digital Angels to provide phone-based digital banking support to customers.
18. Over 5000 customers and non-customers have received digital education through Kiwibank's programmes since 2019.

Decreasing demand for face-to-face banking services and Kiwibank's response

19. Kiwibank continuously reviews its retail footprint based on customer needs and activity, and with the aim of ensuring our branches are fit for purpose, sustainable, and safe. Every year more customers choose online channels over face-to-face. Those customers value the ease, convenience, and security of digital banking. More than 90% of all transactions are undertaken through Kiwibank's digital channels and the average customer now uses online, mobile or phone banking one to two times a day and visits a branch one to two times a year.
20. We are concerned by the inference in the Issues Paper that the main driver of branch closures and reduced opening hours is cost savings and banks' preference to serve customers digitally. In fact, a lack of demand and change in customer preferences has been the driver for these moves, a long-term trend that has accelerated particularly since the onset of Covid-19.
21. Kiwibank has a responsibility to New Zealand to maintain a sustainable, relevant, and economically viable business. Maintaining a branch network that is under-utilised is not financially sustainable or good for staff productivity and morale, particularly when the extent of customer preference for accessing services via other channels requires reallocation of resources and investment.
22. In 2021 Kiwibank experienced a 21% decline in over-the-counter transactions and a further ~10% decline in customers who only use branches. This is on top of the 30% decline in over-the-counter transactions in 2020. In our experience, once customers are enabled to access services via different channels (either due to tech innovation or increased capability) they often don't return to using the branch.
23. This decline in demand has had consequences for our KSA network too. Since the onset of Covid, some KSAs have ended their relationship with Kiwibank as demand was too low to justify the training, security, and related health and safety requirements of providing basic banking services that include cash services. Many of these businesses (especially those in smaller towns) are also under pressure and as a result of Covid-19 lockdowns. The success of the KSA model depends on the viability of the host business.

24. In response to these changing customer behaviours, in early-2022 we made changes to our branch opening hours. The changes help to free up our team members so that they can help customers contacting us via the contact centre or secure mail, or have more complex banking needs (for example, with respect to lending). It also gives our people an opportunity to develop new skills and experience irrespective of where they work.
25. In 2022 Kiwibank also introduced new functionality which allows customers to set up or change the PIN on their card using the Kiwibank mobile app or through internet banking. Previously, when customers were issued a new Eftpos, Visa Debit or Credit card, they needed to go into a Kiwibank branch or KSA to set a PIN on the card. Digital PIN means our customers can do this online, which is particularly beneficial for those who are not easily able to get to a branch or who are affected by Covid-19 protocols. This is an example of the type of service which customers typically visited the branch for because that was the only option available, not because they preferred to.
26. Complaints, especially those received via social media channels, are a good measure of customer sentiment towards the bank and their attitudes towards changes to our product and service offering. Notably, relatively few complaints were received about the changes to our branch opening hours. Typically, Kiwibank receives many more complaints about digital tools that are not currently offered (for example, Apple Pay) than we do about access to branches and ATMs.

General feedback on Issues Paper

27. Kiwibank aims to balance the needs of customers who prefer to use traditional banking channels against the needs of the vast majority of customers who prefer to engage with their bank via established online channels. Any policies aimed at redesigning the cash system must also strike this balance.
28. As discussed above, we consider that RBNZ's cash system redesign options should be geared towards efficiency and preservation of the system and improving financial inclusion. However, many of the 'starter-for-ten' policy options in the Issues Paper go further than preserving the system, or RBNZ's objectives for it. Instead, they seem to be aimed at encouraging greater cash use and acceptance. In our view, that is unlikely to succeed as the benefits associated with digital payments – for example, with respect to convenience, speed, functionality, simplicity, security, fraud prevention, and budgeting – cannot be replicated by cash. Customer preferences are deeply ingrained and would be difficult (if not impossible) to shift.

29. These policy options would also come at significant direct and opportunity cost to the banking industry and other cash system participants (merchants in particular), taking into account the high costs of managing cash, and the challenges of distributing cash remotely. Holding and storing cash also creates risk for businesses and individuals.
30. We note that actively encouraging customers and merchants to transact in and accept cash is inconsistent with other government policy and industry led initiatives aimed at making it easier and safer to transact online, including:
 - a. Through the Financial Crime Prevention Network, the New Zealand Police Financial Intelligence Unit (FIU) have engaged banks on their appetite to limit or restrict the amount of cash customers can deposit to stop illicit funds getting into the financial system. The FIU actively encourage banks not to accept cash deposits if they are deemed to be suspicious and are keen to reduce the availability of cash deposit services and the value of cash that can be deposited.
 - b. Other Government agencies' focus on the shadow (hidden) economy which can result from cash income transactions not being taxed or other illegal activity.
 - c. The Digital Identity Services Trust Framework Bill, which will establish a framework for the provision of digital identity services and will facilitate digital on-boarding for bank customers.
 - d. The development of a consumer data right, which will enable the secure sharing of personal data (including banking data) to third parties for the consumer's benefit. It is intended to facilitate competition, encourage innovation and help to build the digital economy.
 - e. The development of real time payments, which will support individuals and small businesses to make and receive real time payments 24/7 (rather than only during business hours).
 - f. The Retail Payment Systems Bill, which aims to make contactless payments cheaper for merchants.
 - g. Steps to improve digital access, including greater access to smart devices and better network reliability and coverage.
31. Additionally, many of the policy options described in the issues paper lack sufficient detail for us to respond constructively and meaningfully. We suggest that another detailed round of consultation, followed by a cost-benefit analysis, is necessary before any policy options are progressed further.
32. As the cash system redesign process progresses and policy options are developed, we encourage RBNZ to carefully assess whether all industry participants should be required to contribute equally to any resulting

policy, or whether a tailored, proportionate policy response would be more appropriate in the circumstances. Relative to its market share, we consider that Kiwibank makes an outsize contribution to issues around cash access and regional banking through our combined service offering. We submit that this should be taken into account when RBNZ develops its cash system policy bundle.

Specific feedback on starter-for-ten policy bundle

33. Kiwibank’s feedback on the policy options in the ‘starter-for-ten’ bundle follows.

Policy options to address resilience and efficiency	
Consolidate the cash system via the creation of utility entities	<p>We agree that there is opportunity for greater efficiency in the cash system, particularly in relation to banks’ ATM fleets. We would therefore support further consideration of policy options aimed at promoting efficiency.</p> <p>The nature of that policy intervention (including whether a utility entity is the appropriate vehicle for it, and who should be involved in the formation and operation of that entity) requires very careful consideration and further detailed consultation, especially with regard to competition law.</p> <p>Special attention should also be paid to those remote locations where access is particularly challenging (making them less commercially viable). It may be that bespoke arrangements are needed for those locations.</p>
Expand the number of firms that are wholesale cash customers of RBNZ	<p>We would welcome more information on what this option would entail before providing feedback.</p>
Set minimum standards for cash machines	<p>We understand the setting of minimum standards for cash machines to mean prescribing lower standards for bank note quality and authenticity to enable ATMs to recycle cash that is deposited into them. RBNZ considers this would improve the efficiency of the cash system as it would mean that cash</p>

	<p>deposited into ATMs does not need to be transported back to a CIT for quality and authenticity checks as frequently.¹</p> <p>While we are broadly supportive of this policy option, banks are limited by ATM functionality in respect of cash recycling. At present, damaged notes create a risk of error in ATMs. Most banks' fleets are not able to recycle notes that have been deposited.</p> <p>If this option were to be pursued, banks and ATM providers would need time to develop and test functional enhancements to ATMs which would enable them to recycle cash without undermining the quality of cash in the system, increasing the risk of counterfeits, and increasing the likelihood of ATM faults (eg jams caused by damaged notes, feed roller failure, multiple notes being dispatched, and ATM downtime). The costs and benefits of this option would need to be carefully considered in respect of remote ATMs – in these locations the benefit of ATM cash recycling may be outweighed by the risks of faults requiring onsite intervention (as technicians may be unable to respond quickly).</p> <p>Similar considerations would apply to merchants undertaking recycling functions (for example, if an ATM was to be located in a remote merchant premises, the merchant could recycle and replenish from what is deposited). The risk of fraud, robberies and declining cash quality would need to be carefully managed.</p> <p>We would also welcome a cost-benefit analysis to ensure that such an investment in ATM functionality would deliver tangible benefits to the efficiency of the cash system.</p>
<p>Efficiencies relating to coins</p>	<p>As this policy option is not defined, we are unable to take a view on whether it should be pursued in the 'starter-for-ten' bundle. However, it's not clear to us that there is currently unmet demand for coins. Kiwibank's KSAs provide coin services to local merchants. If a merchant requires more coins, our KSAs are able to place an order to meet the merchant's needs. Cash and coins are delivered to KSAs regularly, however, they report demand for coins is low.</p> <p>As above, any upgrades to ATM functionality in respect of coins would need to be carefully considered in the context of the technology currently available and the likelihood of inefficiency resulting from more frequent ATM faults.</p>

¹ <https://www.rbnz.govt.nz/-/media/ReserveBank/Files/Publications/Information-releases/2020/28-Jul-20-Proactive-release-RBNZ-Bill-cash-Cab-Docs.pdf>

Policy options to address cash acceptance

Mandate acceptance of cash by merchants and government entities (requires decisions about scope, thresholds).

Focusing only on supply-side regulation of the cash system would create significant opportunity cost. We therefore agree that some acceptance-focused intervention may be appropriate, and we support requiring the acceptance of cash by government agencies.

However, we think wider consultation and a cost-benefit analysis should be undertaken before the proposal to mandate merchants' acceptance of cash is pursued.

Mandating cash acceptance places additional burden on merchants in terms of cost and responsibility for fraud, security, and health and safety. In recent years, there has been a general trend towards digital payments. This trend has accelerated significantly since the onset of Covid-19 – annual debit, credit and Eftpos spend has increased substantially since 2019.

Given that trend, and the significant cost pressures merchants are currently experiencing (as a result of Covid-19, supply chain issues, recent increases to the minimum wage, etc), we consider that it is very unlikely that there is a sound justification for imposing additional cost on merchants in the form of a mandate to accept cash.

If this option is adopted, we agree that it must be carefully calibrated and that small merchants should be out of scope. Instead, any mandate should be limited to those merchants providing essential goods and services, for example supermarkets, pharmacies and petrol stations (which already have the and security and health and safety infrastructure for such responsibility).

Finally, as discussed above, we consider that this option (as it relates to merchants) is inconsistent with the direction of payments in New Zealand more broadly – particularly, initiatives aimed at making acceptance of contactless payments cheaper for merchants, open banking/consumer data right, and the creation of digital ID.

Instigate the remuneration of merchants (or other retail-cash-sector cash-service providers) by banks when a

Kiwibank is supportive in principle of the remuneration of merchants for banking services provided, which is conceptually very similar to the KSA model.

However, we do not support this option as it is unlikely that simple cash out services are performed frequently enough to justify the cost of developing and implementing this infrastructure industry-wide. If it were to be pursued, we submit

<p>cash-out service out is performed.</p>	<p>that Kiwibank should be exempted on the basis we are already effectively performing this service through our KSA network.</p> <p>We also do not agree that merchants are acting as a substitute for services that would have been otherwise be provided by branches and ATMs. In our view, the industry’s ATM network, which has very good geographic spread, is a far more secure and efficient way of meeting customers’ cash out needs.</p> <p>The Issues Paper focuses on the benefits to merchants of providing cash out services – in particular, the desire to reduce surplus cash. However, a policy of this nature may create a sense of obligation to provide cash out services where many merchants prefer not to. Our business customers, especially those in hospitality and operating convenience stores, frequently report security and related health and safety concerns around holding large amounts of cash.</p> <p>We also note that remunerating merchants for the limited number of cash-out transactions that they process would be unlikely to off-set the cost of mandating cash acceptance by merchants, or the administrative burden and health and safety concerns around holding cash, including:</p> <ul style="list-style-type: none"> • Increased risk of staff fraud • Increased risk of burglary • Increased risk of robbery • Increased costs of cash deliveries. <p>The cost of mandating cash acceptance would be significant, and we expect that many merchants would be reluctant to offer this service (particularly in light of low and declining cash use).</p>
<p>Policy options to address cash access</p>	
<p>Create new tools that allow the Reserve Bank to direct banks to provide cash services, and at low cost to customers.</p>	<p>There is not enough information in the Issues Paper for us to respond meaningfully to this proposed policy. However, it is likely that a policy option of this nature would be costly and have a significant operational impact. We encourage RBNZ to carefully consider the design, calibration, and likely impact of this policy, including the likelihood of opportunity cost and risk of unintended consequences. Also, we recommend that RBNZ consider the extent to which this option might overlap with areas that usually fall within the Commerce Commission’s domain (particularly, Part 4 of the Commerce Act 1986). We would welcome further consultation regarding the details of what is being proposed, followed by a robust cost-benefit analysis.</p> <p>As discussed above, we consider that Kiwibank makes a significant positive contribution to issues around cash access through our network of KSAs (and access to banking services</p>

	more broadly). We therefore also encourage RBNZ to consider whether a policy of this nature could be applied proportionately.
Policy options to address consumer demand for cash	
Campaign to increase public awareness of cash issues.	Kiwibank does not support this option. As discussed above, we consider that a public awareness campaign would be very unlikely to change behaviour in respect of cash which is deeply ingrained and based on convenience, functionality and security.

Feedback on other policy options

34. Additionally, we have the following comments on the policy options not contained in the starter-for-ten bundle.

Policy options to address resilience and efficiency	
- Outsource core functions performed in the wholesale cash sector to an offshore supplier	We agree that this option should not be pursued for the reasons outlined at page 36 of the Issues Paper.
Policy options to address cash acceptance	
- RBNZ remunerates merchants for cash quality checking	We agree that this option should not be taken forward as it puts additional burden on merchants and could also undermine the quality of cash in the system.
Policy options to address cash access	
- License ATM providers - An agency representing taxpayers contracts merchants (or other providers) to provide cash services - Use moral suasion to impact on banks' cash recovery strategies - Prescribe minimum standards for the services provided by banks	There is not enough detail in the Issues Paper for us to assess whether these options should be included in the starter-for-ten bundle. However, as noted above, we consider that Kiwibank's combined service offering largely addresses the policy problem that these options seem to be geared towards. Kiwibank's branch and KSA network and ATM fleet ensures that our customers around the country have good access to cash.

Policy options to address consumer demand for cash

- Financial incentives to use cash
- Limit use of consumer rewards by payment card issuers

We do not consider that these options should be pursued as they would be unlikely to be effective. Financial incentives and limiting rewards offered by card issuers would not drive customers back to cash as they have become used to the functionality, benefits and user experience that other payment methods offer – including, fraud protection, online payments and digital wallets.

The contactless debit user experience is much quicker than transacting with cash and does not require consumers to physically interact with the point-of-sale terminal. It has also been a significant advantage from a public health perspective during the Covid-19 pandemic.

Next steps

35. We are happy to discuss any aspect of this submission further. Please contact:

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