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Ms Melissa Hope
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By email: cashreview@rba.gov.au

Dear Melissa,

Review of Banknote Distribution Arrangements: Issues Paper

CBA welcomes the opportunity to provide feedback on the Review of Banknote Distribution Arrangements – Issue Paper as per the following response to the questions within the paper.

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 closure of the RBA Sydney Holding Point has significantly increased the costs to BDA participants to move cash around the country. Flights to some areas were cheaper from Sydney whereas this is no longer an option.

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?

CIT's should be allowed to be BDA participants. The 2 main CIT's now have their own significant sized ATM fleets. This change has had impacts on the cash trading between the BDA participants as commercial cash needs has taken away the ability to trade between banks.

By allowing the CIT's to be a BDA participant, this would allow for normal bank trading to resume and banks could also trade with CIT's, reducing the need for additional drawings from the RBA.

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?

Private participants have no obligation to quality sort banknotes. There may be an opportunity for the RBA to increase the rate per million paid to BDA participants who inevitably end up quality sorting these banknotes.

If the CIT's could become BDA participants, this would also allow for them to be paid for the fitness sorting of commercial banknotes which would normally be a current BDA participant cost.

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?

The CIT business is a very manual process involving rising wages, increases in fuel costs and the further impacts of reduction in cash services as people move away from cash. The costs are all uncontrollable and are having significant financial impacts on the CIT's.

The RBA could assist in making adjustments and exceptions to 4am reporting requirements, whereby cash could be moved to another depot before 4am yet still paying interest compensation where applicable, allowing the CIT's to reduce operating costs.

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

Nil response

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?

There is an opportunity for CIT's to reduce operating costs by sharing transport for regional routes. Whilst this would require coordination between banks, CIT's and commercial customers, this could reduce operating costs of CIT's. This would probably need the endorsement of the ACCC, which the RBA could assist in.

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?

With the reduction in cash usage, work volumes have decreased. Whilst there has been some rationalisation of depots, this unfortunately has had knock on effects to customers with services being missed following the removal of COVID restrictions and the reopening of many businesses who were closed during this time.

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?

Covered in response to Q2, Q6 and Q9

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?

Opportunities to improve distribution efficiencies are already being explored by CIT's, yet any significant uplifts to technology would come at a cost to customers, therefore CIT's are exploring ways to make things more economical without having to increase prices such as next day processing and single crew members for lower delivery amounts. Coordination within the system between CIT's would be a great opportunity for cost reductions.

The introduction of a single entity to oversee cash management would only increase costs to customers. Trading as it stands today, works very well and to have somebody overseeing this would provide very little benefit as ultimately it is still the customer's decision as to what the single entity could do with sale and purchase of cash.

With the decline in cash, there appears to be only enough volume for one CIT. Should this occur, the ACCC would need to become heavily involved to ensure that rates being offered to customers were still reasonable.

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?

The RBA could store their own banknotes in CIT depots to reduce the cost impacts to CIT's and BDA participants. The CIT's, BDA participants and the RBA could all become trading partners this way which will significantly reduce the costs associated with banknote distribution.

Segmenting the BDA and allowing a wider range of entities to purchase cash directly would be a great opportunity for the industry, although the fitness sorting would still come back as a cost to current BDA participants unless the other entities had a way to fitness sort and return banknotes at their own cost.

Please do not hesitate to contact me should you have any questions.

Yours sincerely,

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