



Submission on Statement of Preliminary Issues: Evergreen/ACM

27 May 2024

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Submission to the Commerce Commission

The Reserve Bank of New Zealand (RBNZ) welcomes the opportunity to provide comments on the Statement of Preliminary Issues on Evergreen NZ Holdings proposed acquisition of ACM New Zealand Limited.

Our submission covers the RBNZ's role in cash and interest in cash continuing to be available to the public, our view on the proposal and public benefits to New Zealanders from having a well-functioning cash system. We have structured the submission as follows:

- The Reserve Bank of New Zealand's role in cash
- Our view on the benefits of the proposed merger (including impact on pricing and service quality, and on the resilience of the cash system)
- Public Benefits of having cash available
- Regulatory landscape

We present recent cash use and trends for further information in Appendix 1.

The Reserve Bank of New Zealand's role in cash

Central banks emerged as an institution providing the assets that can be relied on to achieve the final settlement of debts denominated in the currency of the central bank, and the trust needed by all parties to enter transactions. Without trust the assets would not be used for settlement, and without the settlement assets, transacting parties would have need to find alternative ways to establish trust in each other. Modern era central banks currently issue two types of settlement assets – physical cash (banknotes and coins) and central bank reserves through their settlement accounts (in NZ – ESAS accounts). Banks can use either to settle the debts they incur with each other.

The RBNZ is the monopoly issuer of banknotes and coins in New Zealand. Following the commencement of the Reserve Bank of New Zealand Act 2021, we also have a mandate as steward of money. We have been engaged in a Future of Money work programme, covering the cash system, exploration of digital cash and well as monitoring private innovations in cash.

Our money and cash objective is:

New Zealand has reliable and efficient money and payments systems that support innovation and inclusion. To support this the Cash System should be reliable, efficient, and support innovation and inclusion.¹

The RBNZ is committed to ensuring that New Zealanders can continue to access, use, and bank cash as they need or prefer, consistent with our statutory function to meet the needs of the public for banknotes and coins. We have a cash-focused work programme underway which is looking at policy levers to support continued access to and use of cash. The RBNZ is currently undertaking a

¹ *Reliable* captures both 'resilience' (i.e. the ability to avoid or recover from shocks) as well as everyday performance reliability. When money and payments are reliable people have high levels of trust in money and payments in their social, cultural and economic life. *Efficiency* means the system is not wasteful of resources, no re-allocation of resources would make someone better off without making someone else worse off. *Supports Innovation* means the money and payments environment supports innovation in the cash sector. *Supports Inclusion* means people have meaningful choice and can exercise agency when they interact with the money and payments system.

trial of community cash services; recently opening applications to towns wishing to be part of the trials.

As steward, we have an interest in a resilient Cash-in-Transit ('CIT') sector, but we are also a paying customer for several CIT services ourselves.

As the issuer of money we have an interest in ensuring the quality of banknotes in circulation. To support this, and incentivise the return of unfit banknotes, we operate the Same Day Value scheme ('SDV'). The SDV scheme is the RBNZ's key tool for influencing banknote quality outcomes in the Cash System, with the intended outcome being to ensure all notes in circulation meet the RBNZ's note fitness guidelines.²

This scheme gives banks value for unfit notes on the same day the RBNZ is informed that these have been sorted out of the system. The RBNZ also pays for the transport of these notes back to the RBNZ.

We also process repatriated banknotes to check for fitness and authenticity, providing visibility over the quality of banknotes that have been circulating.

Cash-in-Transit firms ('CITs') are a key player in our current quality management approach as they are contracted by the commercial banks to process notes on an RBNZ certified machine which allows for their participation in the SDV scheme.

Our view on a merger (versus the counterfactual)

Research carried out in 2019-20 supporting a vaulting business case highlighted that New Zealand CITs were more deeply integrated into the cash system than in other jurisdictions.

CITs undertake cash logistics and processing for their largest customers, namely the major banks, some large merchants and non-bank ATM owners. These services include transport, counting, and digitally processing cash deposits to convert cash to private money, withdrawing cash on behalf of clients, quality checking of banknotes and coins, cash storage, and administration services. They also may replenish cash held in ATMs and undertake first-line maintenance of the ATMs.

The counterfactual

In our view the most likely scenario in the absence of the merger is [REDACTED]

[REDACTED] We have held this view for some time, as explained below.

As part of our assessment of the cash system, we have looked at the wholesale cash market, and the cash in transit industry.

² The benefits of a bank's participation in the Same Day Value scheme are: a) The amount claimed is electronically credited to the bank's nominated account on the day of their claim; and b) The Reserve Bank pays the costs of collecting all unfit notes from CIT depots throughout NZ, and returning them to Wellington for final verification and destruction.

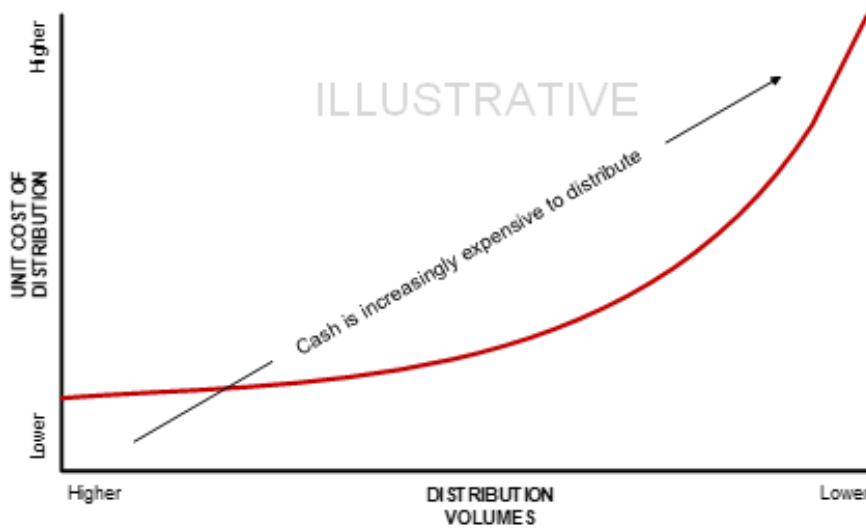
Previous modelling and analysis in 2020 highlights that the CiT sector is facing significant financial viability challenges as a result of the decline of the volume of cash being used.

It is our understanding that the CITs tend to be price takers (from clients) not price makers (to the market). The distribution of market share between the two CITs tends to be skewed and alternate between the two depending on procurement cycles. The current situation has been described as “a race to the bottom” and “winner take all”.

It is our view, that absent a merger, it is not likely that competition between the two large CITs would continue, and instead is likely that there will be an exit from the market. We consider that a merger would be a preferable as a more orderly outcome.

The following graph was developed as part of internal research into the cash system from 2020.

The current economics of cash distribution will not support the ongoing provision of cash



Source: The Reserve Bank of New Zealand

This illustrates that cash distribution benefits from economies of scale. The more cash that is being used lowers the per-unit cost of delivering it to the customer. This is because of the infrastructure needed to distribute cash and the low marginal cost of distributing more cash.

When the volume of cash demanded by the public falls, the per-unit costs of providing that cash increase and the incentives to provide cash to the public are reduced. This is illustrated by the diagram above. As the use of cash continues to decline, the current cash system will become increasingly commercially unsustainable under current structures.

More recently, following on from this earlier work we have seen a further decline in transactional cash use. We refer to recent cash use data and trends in Appendix 1.

The impact of the merger on pricing and service quality

We acknowledge that a merger (or the emergence of one supplier through the exit of the other supplier) will present an opportunity for the remaining firm to find efficiencies (for example, removing unnecessary duplication). Finding efficiencies is invariably a positive outcome as it releases resources for use elsewhere in the economy without requiring any reduction in service levels.

In our view CITs are currently constrained to the extent they can exercise market power to increase prices for a couple of reasons. One is because of the relative market power of their largest customers (commercial banks). Another is that given some banks are looking to reduce their involvement in the cash system (significantly or entirely) one could view the CIT services as discretionary from a bank's perspective, rather than a service banks have to purchase. For example, BNZ has moved to providing cash services via Smart ATMs rather than over-the-counter services in some of its branches,³ other banks have discussed the prospect of going completely cashless in the not too distant future. Given this dynamic, we think there are real limits to the potential for a single CIT provider to exercise market power above and beyond that of the banks.

That said, in the event just one CIT emerged, the balance of power would likely shift to some degree towards the sole provider.

However, there is important context to keep in mind.

Firstly, increased prices for CIT services are not necessarily unwelcome (including from our perspective as a customer of CITs). It is likely that some increase in prices may better reflect the resources needed to provide the required services at safe and sustainable levels, supporting a reliable and viable CIT industry going forward.

Secondly, there is a price point beyond which large customers could reasonably and credibly bring in-house some or all of the services previously sourced from CITs. For example, very large retailers could store more cash in their secure warehouse premises and banks could restore vaulting services at branches. Whilst this would not replicate a competitive market outcome, it does, in our view, limit the harm that could be created by a monopoly CIT.

Thirdly, technological innovation in recent years has reduced the space required by CIT customers to host (and the cost of) cash processing machines. We expect this sort of innovation to continue and this will have the effect of reducing further the effective price 'ceiling' a monopoly CIT operates under.

We have an active work programme aimed at ensuring financial resilience in the CIT sector, even in the event a monopoly provider emerges. In other words, we are anticipating both the emergence of a monopoly supplier (whether from a disorderly exit or a merger) *and* that the remaining firm will still be potentially financially vulnerable bringing risks of a subsequent disruptive exit.

³ Stuff, What you can and can't do at a bank branch, 6 January 2023, <https://www.stuff.co.nz/business/industries/130885598/what-you-can-and-cant-do-at-a-bank-branch>.

The impact of the merger on resilience of the cash system

The experience during Cyclone Gabrielle underscored the lack of resilience in the cash system. The withdrawal of banking services and commercial bank decisions to reduce the amount of cash they accept and hold, meant that the cash system was unable to deal with spikes in demand when the electronic payment system went down in the Tairāwhiti region.

The merger is unlikely to solve this problem by itself. It will lead to the emergence of an entity whose interests are aligned to the success of the cash system and who may be able to generate more sustainable financial returns, which would increase resilience of the entity and the entire system.

The RBNZ's stewardship and policy work is also aiming to develop better crisis preparedness (business contingency planning or 'BCP' arrangements) for the cash system and establish more resilient models for the delivery of cash services to the public. The merger will complement these initiatives.

Public Benefits from having cash available

We comment here on the benefits to the public of having cash available, drawing on prior research. As noted above, we consider that absent a merger, there is a reasonable chance of the CIT industry consolidating to one major firm in a less orderly manner, which may inhibit access to cash during this transition. Such a disorderly transition may also have ongoing impacts on the available cash infrastructure or practices, for example if merchants or banks adapt to respond to a disruption in CIT services.

Our view is that continued access to cash is important to New Zealanders, as it performs a vital role as value anchor (people can withdraw digital balances into banknotes 1:1 giving people confidence in what their money is worth). Further, we've heard through submissions and our own research, that having cash as an option to pay is important to New Zealanders generally, as well as being crucial to some New Zealanders who are in vulnerable circumstances or rely on cash as a regular payment method.

Cash as an available option for all

Research has shown that New Zealanders still value the option and availability of cash even if they don't personally use it for regular payments. In submissions to our 2021 Future of Money issues papers, we heard an overwhelming support for cash from respondents. This is also supported by other research carried out, including deliberative workshops run in 2021; one of the findings was that retaining access to cash for others is an important aspiration for many New Zealanders.⁴

In our most recent Cash Use Survey 49.3% respondents said they felt either very or somewhat concerned about fewer people using cash. In this survey, we also ask whether people store cash (not for immediate use). The survey shows a statistically significant increase in those who have cash stored, being 56.4%, however the average value of cash reported as stored decreased.

⁴ Kantar, 2021 The value of cash Insights report, 29 April 2021, RBNZ

The importance of cash for some groups, particularly in vulnerable circumstances

We discuss some key trends from our Cash Use Survey in Appendix 1. The survey showed that the number of respondents who used cash for everyday purposes declined to 57.2% from 60.4% in 2021. We also ask participants which payment method they mainly use to pay for things: cash has remained stable as the main way to pay for about 10% of those surveyed (10.3% in 2023 and 10.0% in 2021). Cash was also the preferred payment method for 15% of people (compared to 13.6% in 2021).

Cash is important for social and financial inclusion. Data from the 2019 Household Economic Survey showed that households that rely on New Zealand Superannuation or Other Government Benefits, or identify as Pacific people or as Māori, showing a relatively high reliance on cash. Low-income households were also shown as more likely to use cash.

In submissions to our 2021 issues paper, we heard from submitters such as FinCap, CAB, Christians Against Poverty and the National Council of Women comment on the importance of cash access for those who are in vulnerable situations.⁵ Highlighted as particular groups are:

- Those without permanent housing;
- Those using cash for budgeting;
- Those who are digitally excluded (or not confident using digital payments);
- Those experiencing economic or domestic abuse;
- Those who are recent immigrants or have English as a second language.

In addition, recent experience with severe weather events (such as Cyclone Gabrielle), shows that geographical areas can be reliant on cash temporarily in the case of emergencies and power interruptions.

Demographic differences

We discuss some key trends from our Cash Use Survey. Page 6 of the 2024 report summarised key finding on demographics. They relate to Māori/non Māori cash users, age, as well as ability to access cash by urban and rural split. Demographic differences are also shown in the Household Economic Survey data, this is provided in Appendix 5 of the Cash System Redesign Issues Paper.

The Cash System has network externalities

This research generally refers to the benefits of cash to the public generally. We note the cash system has network externalities in that the decisions made by customers and banks around use and availability of cash have an impact on merchant's decisions regarding accepting cash.

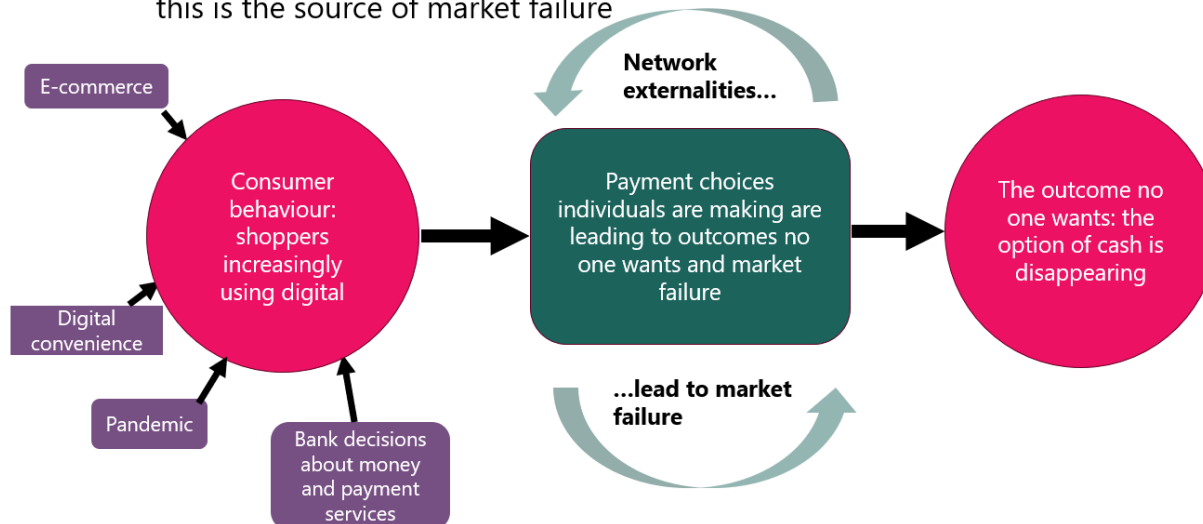
⁵ Submissions to our 2021 Future of Money – Cash System Redesign issues paper are available on the Reserve Bank [website](#).

FinCap - [023-fincap_redacted.pdf \(rbnz.govt.nz\)](#), CAB [027-may-cabnz_redacted.pdf \(rbnz.govt.nz\)](#), CAP [026a-christians-against-poverty-m-gaby_redacted.pdf \(rbnz.govt.nz\)](#) NCW [050a-national-council-of-women- redacted.pdf \(rbnz.govt.nz\)](#)

Diagram 1: Network externalities of the Cash System

The payment method choices individuals are making are leading to outcomes no one wants – market failure

Network externalities exist in relation to cash, this is the source of market failure



Source: The Reserve Bank of New Zealand

The trends of reducing access to bank-provided cash services (bank branches and ATMs) can make it more difficult for merchants to deposit cash takings and replenish their cash float. Some merchants contract directly with CITs for cash management services (such as pick up/ drop-off of cash, or using smart safe technology with supporting CIT services).

Based on feedback on our cash system redesign issues paper from retailers or retail-based organisations, our understanding is the majority of retailers will continue cash as a method of payment in physical stores⁶, as least as long as customers want to use it. We also note some research commissioned by The Commerce Commission to support work on retail payments and carried out by Kantar on merchants experience with the retail payment system.⁷ This includes insights on payment types offered by merchants their attitudes towards these.

Regulatory landscape

The New Zealand CIT industry is not subject to any form of regulation or oversight that are commonly found in other developed economies outside the need to comply with AML

⁶ Submissions to our 2021 Future of Money – Cash System Redesign issues paper are available on the Reserve Bank [website](#).

⁷ The Commerce Commission, Retail Payments: [Commerce Commission - Retail payment system \(comcom.govt.nz\)](#)

[Retail-Payment-System-Merchant-Research-Observations-4-May-2023.pdf \(comcom.govt.nz\)](#)

[Kantar-Public-KantarE28099s-Merchant-Research-Report-November-2022.pdf \(comcom.govt.nz\)](#)

requirements. (later in this submission we discuss some of the regulatory conditions in place overseas).

As mentioned in our opening paragraphs, the RBNZ is currently actively considering policy solutions to ensure the cash system is fit for purpose. This includes looking at the potential for requirements regarding access to cash or acceptance of cash. We are also beginning a trial of community cash services which will test new local ways for people, including retailers, to withdraw and deposit cash. Our work is intended to support greater resilience of the system but in many cases is subject to advice to Government and in any case consolidation in the CIT sector is likely to be necessary to ensure the ongoing viability of the cash system.

We are also continuing to invest in our own cash infrastructure, with a significant project underway to upgrade our cash vaulting and processing infrastructure.

Current legislative powers

Our central bank functions related to cash are: issuing bank notes and coins, monitoring the distribution of bank notes and coins (and if the Bank thinks fit, distributing bank notes and coins), managing the quality of bank notes and coins, monitoring the impact of technological innovation on the needs of the public for bank notes and coins.

We have the legislative power to set machine quality standards for banknotes. We have not yet introduced any machine standards, however if introduced these would set minimum specifications for notes deposited into machines such as ATMs. This power was introduced to support the RBNZ's ability to influence quality management of banknotes once in circulation, particularly given technological changes which increasingly support options such as machine recycling of banknotes (as opposed to deposited banknotes being collected, sorted and restocked by a CIT).

Our stewardship of money mandate and general powers to help us perform our central banks functions, mean we have some information gathering powers in relation to cash in transit firms. However, we don't consider we have the ability to regulate CITs or their cash distribution activities under our current regulatory regimes beyond machine standards for banknote quality as described above.

We expect to seek additional legislative powers in the near to medium term; we are currently considering the range of powers needed and are following closely the developments in overseas jurisdictions.

Overseas jurisdictions

The composition of the wholesale cash system, and the level of involvement by Central Banks does vary by jurisdiction. Our understanding is some central banks may host commercial cash centre type operations. In addition some countries already have a dominant firm operating in the Cash-in-Transit market.⁸

⁸ In the Netherlands the largest CIT controls 90-95% of the market.

Cash Essentials "The Netherlands Seeks to Rescue Cash", 1 April 2024, [The Netherlands: Legislation Seeks to Rescue Cash – Cash Essentials](#)

UNCLASSIFIED

Several jurisdictions have introduced regulation aimed at supporting and maintaining the cash system infrastructure over the past few years. We highlight some of these which include Cash in Transit operators in their coverage, below:

United Kingdom – wholesale cash distribution. Bank of England was recently given new supervisory powers to ensure the wholesale cash distribution market remains effective, resilient and sustainable in the future. The new power allows them to publish principles, codes of practice or give directions in relation to wholesale cash distribution activities.⁹

The Netherlands – introducing legislation to make DNB a supervisor of CIT companies. A new Cash Payments Act covers large banks and CIT companies. It seeks to “organise the set-up and financing of the cash chain in such a way that a socially desirable level of cash services is offered in the longer term, and that cash remains usable as a means of payment”.¹⁰

Republic of Ireland - A bill covering access to cash is currently before the Irish Parliament. The purpose of this legislation is to provide for reasonable access to cash, and support the resilience of the cash system. As part of the resilience component, the bill proposes to bring ATM deployers and Cash in Transit companies within the regulatory perimeter of the Central Bank of Ireland.¹¹

⁹ Information on the United Kingdom’s Wholesale Cash Distribution Market Oversight is available on the Bank of England’s website, [Wholesale cash distribution in the future | Bank of England](#).

¹⁰ Cash Essentials, “The Netherlands: Legislation Seeks to Rescue Cash”, 1 April 2024 [The Netherlands: Legislation Seeks to Rescue Cash – Cash Essentials](#)

¹¹ Oireachtas Library & Research Service, 2024, L&RS General Scheme Briefing Paper: Access to Cash Bill 2024 - [2024-05-01 briefing-paper-access-to-cash-bill_en.pdf \(oireachtas.ie\)](#)

Appendix 1: Recent trends in Cash use

Cash use and trends

As steward of money, we carry out regular monitoring activities and collect information on flows of banknotes and cash use in New Zealand. As noted in our publications, in recent years we have seen:

- Decreased transactional use of cash
- Reducing bank branch and ATM network

These two trends may be interlinked, and together they put pressure on cash being an option for people to use.

Transactional use of cash

One of our monitoring activities is a public cash use survey, to understand public cash use and payment methods, with the results of the most recent survey published earlier this month. This public survey is carried out to understand and measure changes in cash usage and payment methods. The survey collects information on payment uses and preferences, including demographic differences.

The applicants reference data on cash use in our 2021 survey. We highlight some of the key findings from the recently released 2023 survey.¹²

Stats NZ collect payments data as part of their Household Economic Survey (HES), to help inform our 2021 Cash Redesign Issues paper, we commissioned a customised report breaking down the demographics of households and the percentage of household payments made in cash. This data showed that 13% of households payments were made in cash but that this varied demographically. The HES shows that the use of cash in transactions has been on a steady decline since 2007, when payments data was first collected in the survey.¹³

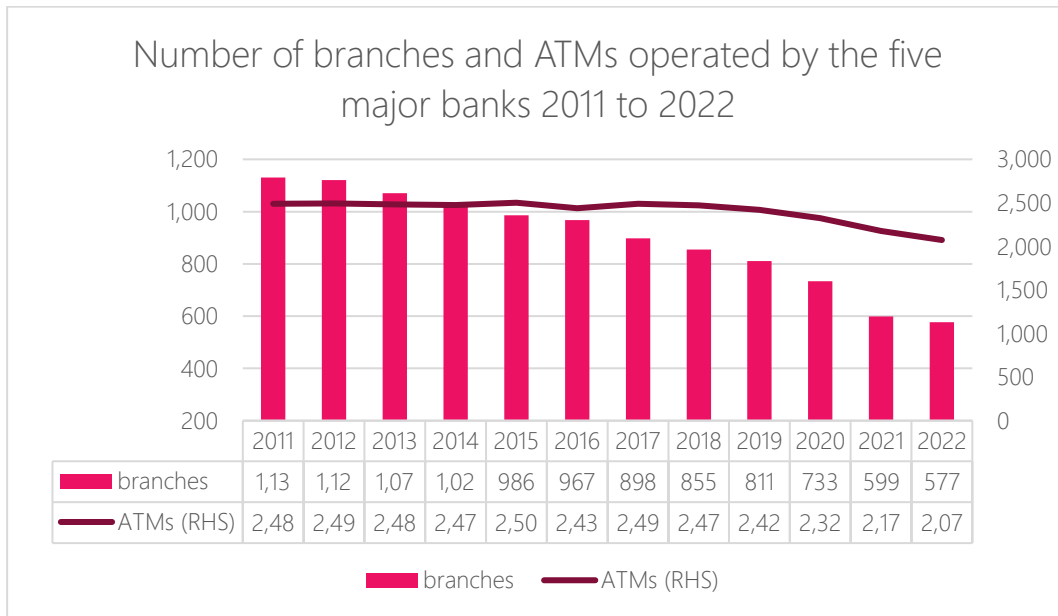
This information is found in Appendix 5 of the issues paper. We have recently commissioned an updated report to show the data for the 2023 year.

¹² Reserve Bank of New Zealand, 2023 Cash Use Survey, 17 May 2024, Reserve Bank of New Zealand, [2023 cash use survey summary report \(rbnz.govt.nz\)](https://www.reservebank.govt.nz/2023-cash-use-survey-summary-report)

¹³ Reserve Bank of New Zealand, Future of Money – Cash system redesign, 2021, Page 23, and Appendix 5 of the Future of Money Cash System Redesign Issues Paper. [Future of Money - Cash system redesign - Issues paper \(rbnz.govt.nz\)](https://www.reservebank.govt.nz/future-of-money-cash-system-redesign-issues-paper)

Bank branches and ATMs

We also collect information on bank branches and ATMs. The following graph shows the trend in the number of bank branches.¹⁴



Comment on ATMs. We also collect information on ATMs, we note that some banks have reduced branded ATMs, instead outsourcing the provision of ATMs to independent ATM deployers¹⁵.

¹⁴ This data is from FIPS up to 2021 as at December, 2022 is supplied by the major five banks to the RBNZ and is as at June 2022.

¹⁵ BNZ ([NCR Atleos | Newsroom | NCR Delivers Services to Run Bank of New Zealand's ATM Network](#)) KiwiBank ([NCR Atleos | Newsroom | NCR to Run Kiwibank's ATM Fleet as Part of Allpoint Network](#))