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Future of Money  
Money and Cash Department  
Reserve Bank of New Zealand  
Wellington

### **RE: Te Moni Anamata – Cash System Redesign**

Everyone in Aotearoa should have access and agency in the use of their preferred payment methods. Cash is an important tool for access to the monetary system, especially for those that are otherwise excluded.

FinCap welcomes the opportunity to comment on the Reserve Bank of New Zealand's (RBNZ) Te Moni Anamata – Cash system redesign issues paper (Issues Paper). We strongly support the need to redesign the cash system, to ensure that financial and social inclusion are upheld.

We consider the Issues Paper promising and strongly recommend that it lead to work that ensures all in Aotearoa have the right to access and use cash in the manner necessary to support their wellbeing. A functional cash system must be maintained as a safety net to stop absolute exclusion from full social participation but there should also be work to realise a right to essential services and lower chances that whānau are vulnerable to having no choice but using cash in the first place.

We expand on these comments in the submission below.

### **About FinCap**

FinCap (the National Building Financial Capability Charitable Trust) is a registered charity and the umbrella organisation supporting the 200+ local, free financial mentoring services across Aotearoa. These services support more than 70,000 people in financial hardship annually. We lead the sector in the training and development of financial mentors, the collection and analysis of client data and encourage collaboration between services. We advocate on issues affecting whānau to influence system-level change to reduce the causes of financial hardship.

### **Response to Issues Paper questions**

*Q1. Do you agree with our characterization of the cash system?*

Yes, the characterization of the cash system appears to be accurate. However, an urgent issue for the monetary system as a whole, and one worth highlighting from the start, is that of the 'unbanked.' Financial mentors regularly report concerns about financial exclusion and barriers for whānau in accessing banking and payment tools to suit their current and changing needs.

Cases of exclusion from banking services are apparent for those who are currently in or have recently exited prison, have been through insolvency procedures or are homeless. The reasons for declined bank account applications are typically related to issues of identification, address or account history.

Although, at times declined account applications are given with vague or unknown reasoning, according to financial mentors that work with declined bank applicants.

Recent improvements have been made to the availability of bank accounts for released prisoners.<sup>1</sup> While this initiative is appreciated and begins to address the issue, there needs to be widespread and urgent attention given to access for all of this cohort. Actions also need to meet the needs of those already out of prison for some time that do not have bank accounts. Wellbeing for prisoners following release can be impacted by financial exclusion and does not support a healthy re-integration into society.<sup>2</sup>

Currently, a large portion of the gap is being filled by “Total Money Management” programmes at financial mentoring services.<sup>3</sup> These services are providing characteristics of a bank account for those declined by banks, despite that not being the purpose of the programmes. For those that have been declined access to banking services, money management programmes are a practical alternative. However, this places an additional strain on the financial mentoring services providing this and the costs are being transferred to these services to fill the gaps that banks have created.

Ensuring that all in Aotearoa have a right to access essential banking services is crucial. This issue adds additional urgency and importance to improving the inclusivity of the cash system. To avoid absolute exclusion from the monetary system, the cash system needs to be accessible and fit for use. Access and use of money is an essential service, allowing access to goods and services, and is at the forefront of financial inclusion.

Maintaining an effective cash system as a back stop to ensure all whānau have a mechanism for social participation no matter what is vital to preventing serious harm to community. Beyond this access for all to essential services like a bank account should be a right. People should generally not be put in a position of having no option but to use cash. If setting up an accessible way to bank for all in a community is the only way to avoid whānau facing hardship, then it is necessary. This will lower the chances that whānau are vulnerable to having no choice but to use cash in the first place. We recommend the RBNZ work to ensure a right to access for all to essential banking services as a priority.

**Recommendation:** RBNZ prioritise work on overcoming exclusion by proactively reaching out and consulting directly with those who provide Total Money Management.

**Recommendation:** In conjunction with the above, the cash system needs improving to ensure that it is accessible for all and can be used in the manner necessary and conducive to the wellbeing of whānau facing hardship.

*Q2. Do you agree with our assumptions about the business strategies being pursued by firms in the cash system?*

Yes, the closure and elimination of physical banking locations around Aotearoa is an obvious trend. With banks becoming primarily digital service providers, challenges emerge for those that rely on access to cash. FinCap has heard reports of financial mentors and the whānau they work with having

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<sup>1</sup> Corrections New Zealand <https://www.corrections.govt.nz> and

<https://www.corrections.govt.nz/news/2022/bank-account-on-release-is-one-less-challenge>

<sup>2</sup> New Start Accounts - [Freed Prisoners Get 'New Start' Bank Accounts to Reduce Reoffending | Newsroom](#)

<sup>3</sup> A list of all services offering financial mentoring in Aotearoa with contact details and a flag for those that do or previously did offer Total Money Management is available at <https://www.moneytalks.co.nz/find-help-now/>

to travel great distances to acquire cash and other banking services. These business strategies of banks are becoming increasingly detrimental to financial inclusion.

Similarly, the assumed business strategies of merchants in the retail cash sector are impacting on those that rely on or wish to use cash. There are evident costs associated with the acceptance of cash for merchants. Costs such as the loss of interest when surplus cash is stored on site rather than converted into private money and the costs of collection service are undoubtedly challenges for merchants.<sup>4</sup> As a result, some merchants have stopped accepting cash which has the potential to create seriously difficult situations for some whānau. The repercussions and effects of declining cash for purchase is further explored under Q4.

While technological innovations aimed at tackling cash costs for merchants potentially improve efficiency and resilience in the cash system, they fall short in addressing social and financial inclusion. The technological advances mentioned in this paper, such as SOCASH, appear to address some of the above-mentioned costs for merchants.<sup>5</sup> However, a challenge that occurs with such innovation is the impact on the cohort that are not digitally included.<sup>6</sup>

The benefits of physical cash for many are its simplicity and physicality, with no need to acquire personal equipment for its use. Some cannot access basic banking services because of exclusionary habits of the monetary system, let alone mobile phones which would be required for downloading payment applications. Therefore, these technological innovations would potentially exacerbate exclusion and fail to encourage financial inclusion.

The Central Bank Digital Currency (CBDC) presents similar challenges regarding digital inclusion. There are currently many digital forms of payment available, such as the use of cards, mobile applications and online platforms to check balances and spend digital money. The introduction of CBDC would increase the number of digital options but fail to address the challenges for those that are already excluded from the monetary system because of digital-first strategies.

**Recommendation:** Ensure that digital first options do not take the place of innovation to address cash access and acceptance for those that are currently most excluded from the monetary system.

### *Q3. Are there significant factors influencing the cash system that we have failed to consider?*

The Issues Paper briefly addresses the interaction between the monetary system and those that are in transitional housing on page 62. The challenges with cash access that are experienced for those that are in temporary or without housing are important. For those that receive their income through money management services, their income is received in cash. Therefore, it is crucial that cash is accepted at purchase sites.

Furthermore, cash needs to be accessible for those that cannot travel far when there is a lack in public transport and private vehicles are not available. Money management services should not be the most accessible means of obtaining cash, when this is not the purpose of the service.

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<sup>4</sup> A note that cost-saving strategies can present risks to staff security and safety. For example, in small hospitality venues or retail stores cash is sometimes deposited by staff members rather than by cash-in-transit (CIT) services to save costs. This necessitates staff to carry sometimes large amounts of money through public spaces, which can place them in direct risk. This is an issue that should be resolved and not be seen as a barrier to ensuring whānau have access to cash when it's needed.

<sup>5</sup> SOCASH website - <https://www.socash.io/>

<sup>6</sup> Citizens Advice Bureau – Digital Exclusion Campaign <https://www.cab.org.nz/what-we-do/digital-exclusion-campaign/>

**Recommendation:** Complete further work to address cash needs for those without permanent housing. Look at options for cash availability and use, through the policy option of RBNZ acquiring tools to direct banks to make cash available but at no direct cost to whānau.

*Q4. Do you agree that the cash system needs redesigning? And (Q5) how urgent do you think redesigning the cash system is?*

The current and emerging decline in cash use and acceptance causes vulnerability for whānau. Those that rely on cash need access and use of cash to be easy and cost-free. Without policy intervention, the cash system may continue to decrease in meeting the needs of all in Aotearoa, and especially for those already excluded from the monetary system. It is crucial that financial and social inclusion are centralised in decision-making regarding the cash system.

For social and financial inclusion, people need genuine choice and opportunities when engaging with the monetary system, their community and whānau. The presence of 'cash deserts' is particularly urgent, as these areas are seeing people have to travel long distances and becoming more and more excluded from the cash system.

The below sections outline several of the currently pressing issues facing cash users that have been mentioned by financial mentors. These are related to cash access and acceptance.

#### ***Cash access issues***

Being able to access cash without incurring costs or excessive time is important for social and financial inclusion. With the decline in physical banking and cash withdrawal services, accessing cash for emergency, social or budgeting needs has become more difficult.

The increase of cash withdrawals at the beginning of the COVID-19 pandemic highlights the trust in cash as a payment method. However, some always have this reliance and need to trust that the cash system can meet their everyday needs.

Regarding social inclusion, financial mentors have mentioned that cash is often sought for gifting and koha purposes and this is an important part of community and social life. This highlights the importance of cash availability for all and the need for improvement considering that access is becoming increasingly difficult and costly.

#### ***Cash acceptance issues***

The refusal of cash by merchants can have many implications for whānau. One issue when cash spending is refused for the purchase of items is that there may not be readily available mainstream alternatives for spending that cash. This could potentially result in the accumulation of cash in households or force use of cash at alternative sites. Although not many merchants are refusing cash, there has been feedback to FinCap of several instances where it was refused. This could grow as an issue, and would be damaging, without being specifically addressed. This is a priority for the financial wellbeing of whānau.

Another effect of cash refusal on the wellbeing of whānau is the confusion and uncertainty it creates. Sometimes, whānau will go to a specific merchant to purchase an essential item, such as food or shoes. If they are then told that they cannot use cash for the purchase when this is the only payment method they have with them, a stressful situation and direct costs to time can be created for a whānau.

Furthermore, when cash is not accepted it can add pressure to the budget for a whānau. For example, if a specific amount of cash has been allocated to a particular purchase, and then the cash is declined it can have repercussions on a tight budget. We have heard anecdotal feedback that merchants have declined cash for the purchase of essential items. With it being more challenging to access banking services to transfer cash into private money, it is likely that this money will be spent elsewhere.

**Recommendation:** RBNZ should trial universal cash acceptance in a specific area to understand more about the habits and needs of cash users for everyday purchases.

*Q6. Have we left any potentially valuable policy options out?*

A niche factor in the access and use of cash is the availability of smaller denominations of it. The denominations of cash that are available in ATMs may have an impact on the way that cash is used.<sup>7</sup> With only large bank notes, such as \$20 or higher, available at ATMs, small cash for budgeting and low-cost purchases are not as easily available. By making smaller cash denominations available at ATMs the cash system would be more fit-for-purpose for those that wish to use cash for smaller every-day purchases.

FinCap also hears examples of financial mentors finding that for some they work with, the physical use of cash is the key to planning and spending money and building their financial capability. The physical use of cash is helpful for simple decision making when whānau facing hardship and poverty are overwhelmed by constant challenges from compounding, overlapping and time consuming financial, health and social issues. Cash and the acceptance of cash reduces harm in communities.

Those that use cash for budgeting reasons, may use 'envelope' or 'jar' systems, which mean they allocate cash into specific jars or envelopes according to their budgeted spending in that area for the week. Smaller bank notes at ATM's may support this process. Furthermore, for people wanting to use cash more frequently in everyday spending, large bank notes may not be suitable.

Obvious costs and challenges for efficiency are associated with keeping ATMs stocked with both small and large bank notes. This could be addressed through the cash system consolidation policy or through looking at ATM standards. Furthermore, co-ordinating ATM standards so that surprise fees do not occur would help to create consistency and clarity.

**Recommendation:** Trial access to smaller cash denominations at ATMs, to promote flexibility and easy access and use of cash for the changing needs of all in Aotearoa.

Another policy option is to require merchants to register on a publicly available list if they do not accept cash. This could complement the cash acceptance mandate, especially if the scope for that policy would be narrowed to specific merchants. The list could be provided by IRD and would be an easy way for customers to know where they can use cash. This could also improve monitoring and reporting capabilities for the cash sector and better inform future decision making.

*Q7. Do you agree with our arguments supporting the 'starter-for-ten' policy bundle?*

Yes. Considering the complexity and number of drivers, influences and members of the cash system, a multi-layered policy solution appears appropriate. Similar approaches in other international responses to the decline in cash access and use can be seen. There is no silver bullet for ensuring

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<sup>7</sup> Reutskaja et al (2020). Price-Denomination Effect: Choosing to Pay with Denominations That Are the Same as the Product Prices. <https://doi.org/10.3389/fpsyg.2020.552888>

that the cash system continues to meet the needs of everyone, so a co-ordinated approach is necessary.

*Q8. Who should pay for the cash system, and why?*

This is an essential service, and the cost should be shared by everyone. Funding from general revenue through progressive taxation is an appropriate way to meet only the efficient costs of a service that has characteristics of a public good. The risk of costs being directly transferred to consumers through banks paying for the cash system pose a challenge to whānau compounding a ‘poverty premium’<sup>8</sup> in Aotearoa.

We would support the government picking up some of the costs for a mandate of cash acceptance by merchants and government agencies if this is the best way to ensure financial exclusion issues are avoided in a timely way.

*Q9. Which policy options should we investigate further?*

We recommend that the presence of cash deserts is looked into properly. This is a serious challenge, as costs of cash access are being placed on whānau in particular rural areas. The stories of financial mentors having to take clients long distances to acquire cash services are not tolerable. Although flow-on effects from the consolidation of the cash system may reduce these challenges, there should be further work to ensure that the damage from these cash deserts are minimised.

*Q10. What policies would you include in a bundle? In what order of priority?*

FinCap strongly supports the Reserve Bank creating tools to direct banks to provide cash services, and at low cost to customers. This would address several of the above-mentioned issues of cash access. This policy option would be a priority in the bundle from our perspective.

Achieving consolidation within the cash system through the creation of utility entities would also be high on the list for the bundle. FinCap is open to considering whether we can facilitate connecting financial mentoring services with trials for this policy option.

Mandating cash acceptance by merchants and government entities would also be in the bundle. This approach can be seen in other countries, such as in France where cash acceptance is universally guaranteed.<sup>9</sup> However, there are different trends in cash use in France than in Aotearoa, so exploration of the scope and the implementation would be necessary.

Widespread and guaranteed cash acceptance would address the above-mentioned challenges for whānau when cash is declined. However, considering the costs to merchants that would not otherwise accept cash, the mandate could be scoped down to essential services and agencies where useful. As a general principle FinCap views goods or services as essential where a whānau needs them for health, wellbeing or social participation. The definition of ‘essential’ merchants would need further research, and FinCap is open to supporting work on this.

Accelerating the setting of cash machine standards to reduce costs to consumers and create consistency, would also be a complementary policy option.

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<sup>8</sup> See an explanation in the United Kingdom context [here](#).

<sup>9</sup> Banque De France (2021). [The Banque de France’s Cash Strategy | Banque de France \(banque-france.fr\)](#).

We would recommend that the policy option of mandating minimum standards to services provided by banks, not just cash related services, should be included in the bundle. Please see our comments under Q1, this is critical and should be a high priority.

*Q11. Is there anything else you would like to say in response to the issues paper?*

A comment on the mention of buy-now-pay-later (BNPL) payment options in this Issues Paper. BNPL methods are a form of credit and should not be considered as an alternative payment option or instrument. We strongly recommend that BNPL lending providers are required to comply with the Credit Contracts and Consumer Finance Act.<sup>10</sup>

A final comment, on the use of money for children in Aotearoa. Cash is an important tool for building financial capability for children. Alternative tools for accessing private money are often unsuitable for children. Ensuring that access and use of cash is easy and cost-free for whānau will also support this for children.

Please contact Janeka Rutherford-Busck, policy advisor at FinCap on 027 261 3690 or at [janeka@fincap.org.nz](mailto:janeka@fincap.org.nz) to discuss any aspect of this submission.

Ngā mihi,



Ruth Smithers  
**Chief Executive**  
**FinCap**

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<sup>10</sup> FinCap (2021). [Submission on Buy-Now Pay-Later services.](#)