



RESERVE BANK OF AUSTRALIA

Speech

Opening Statement to the Senate Economics Legislation Committee on Currency (Restrictions on the Use of Cash) Bill 2019

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Senate Economics Legislation Committee on Currency (Restrictions on the Use of Cash) Bill 2019

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Thank you for the opportunity to appear before the Committee.

Let me begin by stating that the Reserve Bank is supportive of policy measures to combat the black economy. We do not have particular expertise in the area of tax policy enforcement and the black economy, but as background for the Committee, we thought it may be useful to begin with a brief opening statement on the role of cash in Australia's payments system.

The Reserve Bank has four roles in the payments system: as policy maker or regulator of the payments system, as issuer of Australia's banknotes, as operator of Australia's real-time gross settlement system, and as a provider of banking services to the Government. We will be happy to answer any questions regarding the Bank's payments policy and note issuing roles.

The Bank has powers under the Reserve Bank Act and the Payment Systems (Regulation) Act which are to be directed towards controlling risk in the financial system, promoting the efficiency of the payments system and promoting competition in the market for payment services, consistent with the overall stability of the financial system.

In addition, the Reserve Bank Act tasks the Bank with issuing and redeeming Australia's banknotes. In this role, the Bank issues cash as it is demanded by financial institutions, which are in turn responding to demand from their customers.

In the Bank's role as regulator of the payments system, it seeks to promote a payments system that meets the needs of end users – that is, households, businesses and government entities – in terms of being convenient, low-cost, and safe and reliable.

While there is always room for improvement – and the Governor made a speech on Tuesday that noted some areas – I think we can say with some justification that Australia's payments system ranks pretty well by international standards. This is certainly true with the launch early last year of the New Payments Platform, which allows consumers and businesses to make real-time, 24/7 payments with richer data and simple addressing using PayIDs. In addition, I note that by international standards Australia has a fairly low-cost payments system, whether that is measured in terms of the overall resource costs of household payments or the average merchant service fees paid by Australian businesses to accept payment cards.

Over the past decade or so, there has been a significant shift from cash to electronic payments in everyday transactions. We see evidence of this in the data for the value of cash withdrawals from ATMs which peaked in 2009 and have been falling gradually since then.

We also have information about the use of cash from a survey of household payment patterns that we undertake every three years. We contract a survey firm to ask at least 1000 Australians to record all the payments for goods and services they make for a week. Participation is voluntary, but we ensure we match population benchmarks and the aggregate results generally match other aggregate information on payment patterns. Our first survey of consumer payments in 2007 showed that around two-thirds of household payments were made in cash at that time. Our most recent survey suggests this had fallen to around a quarter of all household payments in 2019. This reflects a range of factors relating to household preferences and advances in technology and it indicates that many households are increasingly finding that electronic payments are better meeting their needs for many type of transactions.

Our surveys show that cash is primarily used in low-value transactions, with cash used in around two-thirds of payments under \$10 in 2016. The average size of all cash transactions was \$28. Our surveys also show that cash is still a very important payment method for a significant proportion of the population, especially for older and lower-income households, those living in regional and remote areas, and those with disabilities.

We should also note that the value of Australian banknotes outstanding continues to grow, despite their falling use in day-to-day transactions. This appears to reflect growing use of banknotes as a store of value. Reserve Bank research published late last year suggests that only around one-quarter of outstanding banknotes by value are used to buy and sell things, while around two-thirds are held as a safe store of wealth by residents and foreigners. Indeed, our surveys also confirm that many households hold cash as a store of value and for precautionary purposes. We estimate that the remaining 10 per cent or so of issued banknotes are split roughly evenly between banknotes that are lost, and banknotes that are used for shadow-economy activities.

As long as physical currency continues to play an important role in the payments system and the broader economy, including as a back-up for when electronic payment systems are down, the

Reserve Bank will ensure that our banknotes are high quality and secure from counterfeiting. The current banknote series upgrade reflects this commitment.

Finally, and relevant for today's hearing, we can provide a little information on the use of cash in high-value transactions by households.

When we look across the five household surveys undertaken since 2007, we have a total of about 82,000 consumer payments by 5,700 individuals. Among those 82,000 payments, there were 20 transactions reported for more than \$10,000. None of these used cash. To get a slightly bigger sample of large transactions, we might look instead at transactions between \$5000 and \$10,000. Altogether, there were 61 transactions over \$5000. One of these was in cash. Nearly half of these transactions used bank transfers, while other payment methods included cheques, credit cards, BPAY, debit cards and PayPal, in that order. So while we cannot rule out some reporting bias, including because some people may be reluctant to report all their spending for privacy reasons, our survey suggests that very large transactions by households are very infrequent, and when they occur they typically use electronic payment methods or occasionally cheques.

We would now be happy to answer the Committee's questions.

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The Reserve Bank of Australia acknowledges the Aboriginal and Torres Strait Islander Peoples of Australia as the Traditional Custodians of this land, and recognises their continuing connection to Country. We pay our respects to their Elders, past, present and emerging.