



# THE ROLE OF CASH WHEN OTHER PAYMENT SYSTEMS ARE NOT AVAILABLE

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# - NORGES BANK'S VIEW

# IN WHAT WAYS IS CASH IMPORTANT?

# Efficient payment system – principles (1)

- Payments can be carried out quickly, safe and at low costs for the society
- Different means and instruments of payment, adapted to different needs, are available - and the users know their characteristics
- Real competition between different payment solutions and their suppliers contribute to efficient use of resources



## Efficient payment system - principles (2)

- Users face prices that reflect the costs of providing the solution
- Backup solutions that work efficient in contingency situations are available
- Legal tender (in Norway: cash) that handles situations where payer and recipient do not agree on what means of payment shall be used



# Norges Bank's basic view on cash

- Basically two means of payment
  1. «Account money» or «Deposit money»
    - Claims on commercial banks
    - Commercial banks have monopoly on receiving deposits from the public
  2. Cash
    - Claims on The Central Bank
- Cash should be available for the public, out of consideration for the overall efficiency
- The users should
  - Face prices that reflect the costs
  - Decide how much cash is used



# How does cash promote overall efficiency? (1)

- Cash has qualities / characteristics that «account money» don't have
  - Final and instant settlement
  - Not depending on technology
  - Claim on a Central Bank – no credit risk
  - Legal tender, the buyer can demand to pay with cash and the seller has to accept it
  - Anonymity
- Contributes to confidence in the banking sector
  - The holdings are not locked up



## How does cash promote overall efficiency? (2)

- Cash promotes competition as alternative to other means of payment, avoid players gaining monopoly profit
- Cash is - and will be - a «fall back» alternative until another means of payment gets the role as legal tender





# How does cash promote overall efficiency? (3)

- Contingency solution
    - If electronic systems fail
    - If the customers lose confidence in commercial banks
  - All together: the 4C' promote overall efficiency
    - characteristics, confidence, competition and contingency
- ➔ Cash can play an important role even if the daily use is low  
Both for being an alternative (central bank money) and when not relying on electronic systems



# CASH AS A CONTINGENCY SOLUTION

NORGES BANK'S VIEW

# Contingency scenarios - examples

- Different types of scenarios
  - Earth quake, flood, hurricane
  - Pandemic
  - Terrorism, big robberies
  - Cyber attacks (www)
  - Loss in confidence in private banks
  - Electricity not in function
  - Electronic payment systems not in function
  - Fear of payment systems not working
  - Strike (or notice of a strike)



# Effects from the scenarios – cash area

- Two main effects from the scenarios - will depend on the extent of time and geographical
    - Fear of bank deposits not safe, want to switch to central bank money (cash)
    - Fear of bank deposits not available, want to switch to money that will be available for use (cash)
- ➔ Increased demand for cash

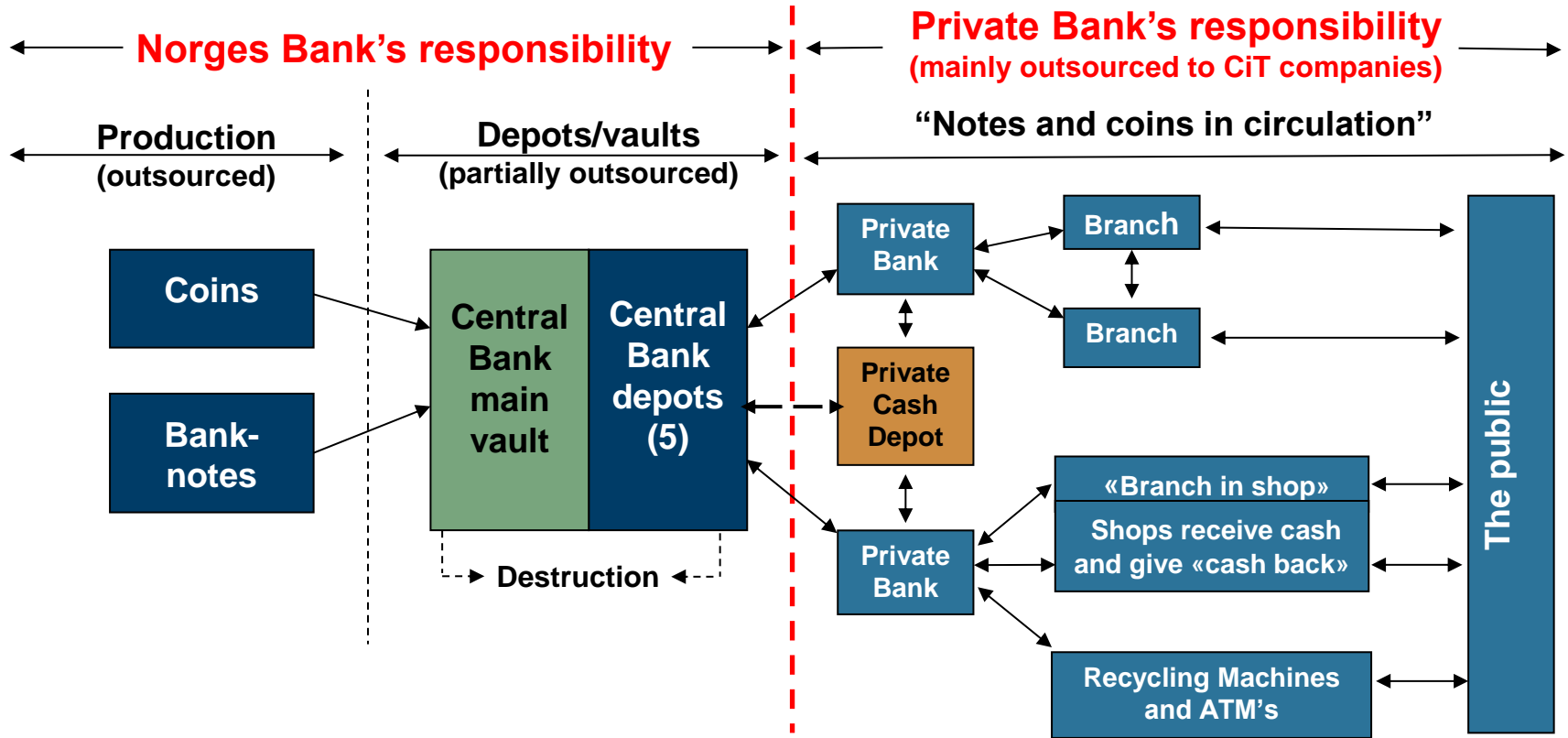


# Responsibilities on the cash area

- When increased demand for cash in crisis – or in normal situations - important preconditions are:
  - It must be clear to all parties: who is responsible for what
    - The best qualified party is responsible for the different tasks
      - The Central Bank contributes where it has comparative advantages
    - Those with responsibility cover the costs
      - Gives incentives to find optimal solutions
    - Cost visibility / distribution of costs to end-users
  - All parties must have contingency plans and solutions for how to solve the tasks they are responsible for



# Cash supply in Norway - responsibilities



# Responsibilities - cash area

- Who is responsible on the cash area?
  - Every party is responsible towards their own customers – in normal situations and in crisis
    - Central Bank → private banks
    - Private banks → the public
- What are the banks' responsibilities?
  - Make it possible for the public
    - To do payments
    - To switch from account money to central bank money (cash)
  - Cash must be available – both at the Central Bank and at the banks



# Responsibilities – an example

- People receive their salary on a bank account
- People pay most of their expenses from a bank account
- ➔ The public must have access to their account money – and may choose to switch to cash if they want
  - Private banks are obliged to ensure cash deposits and withdrawals to their customers by law (Financial Undertakings and Financial Groups)
    - Work in progress to clarify the responsibility in crisis
  - Norges Bank is obliged to fulfil the demand for cash from the private banks by law – both in normal situations and in crisis





# Challenges in crisis – cash area

- Are these responsibilities known and executed by the “owners”?
- Are there contingency plans in place for handling the responsibility f ex regarding
  - Storing cash?
  - Transportation?
  - How to handle “the accounts” and withdrawals or deposits in different situations, f ex when there is no electricity or when payment systems do not work?
- Are the contingency plans / solutions tested?



# The Norwegian way – and how to make it work

- Norges Bank's responsibilities are defined by law
- Norges Bank has a contingency plan on the cash area, f ex:
  - How much cash to have in vaults to be prepared for different crisis / scenarios
  - How to accept orders from private banks when Norges Bank's electronic ordering system is not functioning
- Private banks' responsibility on the cash area are defined by law
  - Regarding crisis - still a need for additional regulations



# The Norwegian way – need for adjustments?

- Are there alternatives to Norges Bank's view on how to solve contingency situations?
  - Change division of responsibility?
    - Withdrawals and deposits of cash by the users are conversions between «account money»/ «deposit money» and cash
      - Who is the best qualified party for being responsible for this?
        - ➔ Private banks
  - Contribution from Norges Bank to cover costs?
    - Permanently or only in contingency situations
      - Would mean subsidising or a direct support to the banks
        - ➔ No
- No need for adjustments



# The Norwegian way – the future

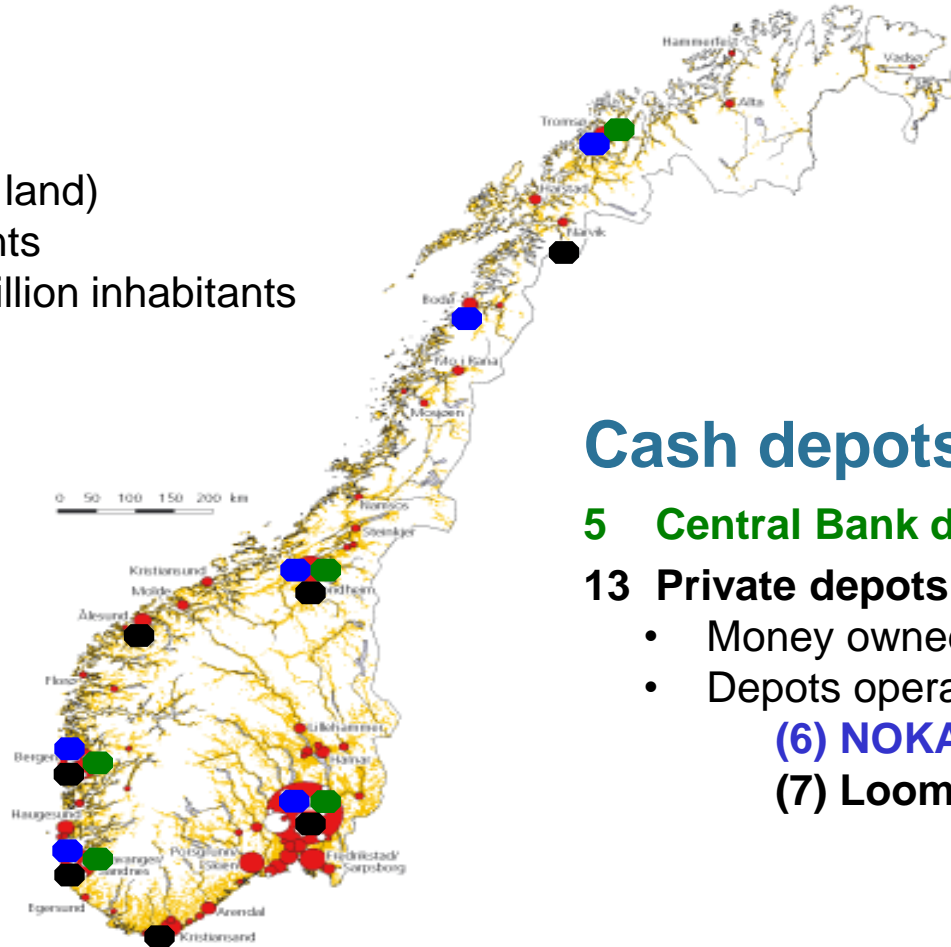
- What is important now:
  - Follow up how private banks will fulfil their responsibility on how they can make cash available to the public in different contingency scenarios, f ex when other payment systems are not available
  - Develop and improve - and test - our own contingency plans



**THANK YOU FOR YOUR ATTENTION!**

# Norway

- 324.000 km<sup>2</sup> (main land)
- 5,3 million inhabitants
- Capitol: Oslo – 1 million inhabitants



## Cash depots

**5 Central Bank depots** ●

**13 Private depots:**

- Money owned by private banks
- Depots operated by CiT-companies

**(6) NOKAS** ●

**(7) Loomis** ●