

Experiences from the Norwegian Depot System

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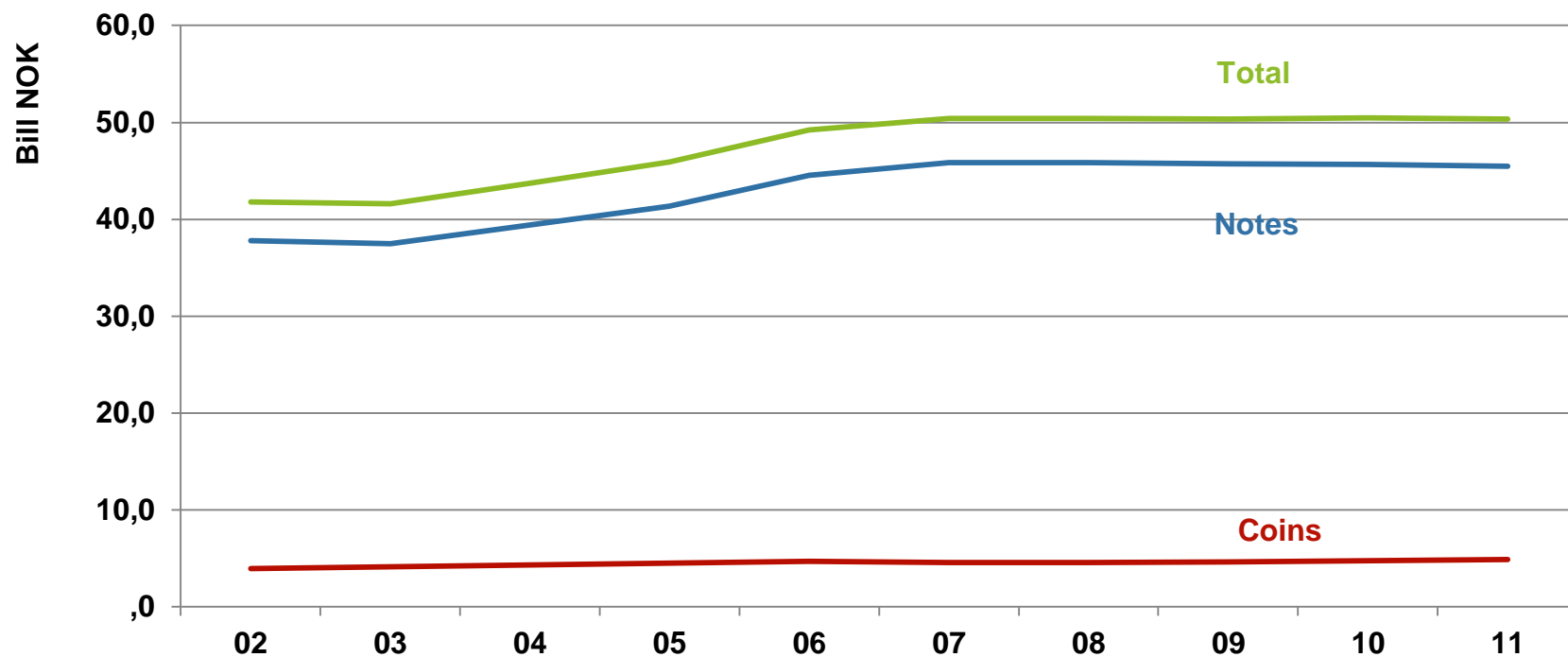
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- Brief description of the depot system
- Reasons for establishing the system
- How the system was established
- Experiences/effects

A few facts

- Population: 5 million people
- 385 180 km²
- Payments: High and increasing use of cards
 - 2010: 280 card payments per inhabitant
 - High and increasing number of point-of-sale terminals
 - Cash in circulation 6.2% of M1
- Banknotes:
 - 5 denominations
 - 120 million pieces in circulation
- Coins
 - 4 denominations (reduced from 5 in May 2012)
 - 1 800 million pieces in circulation

Notes and coins in circulation



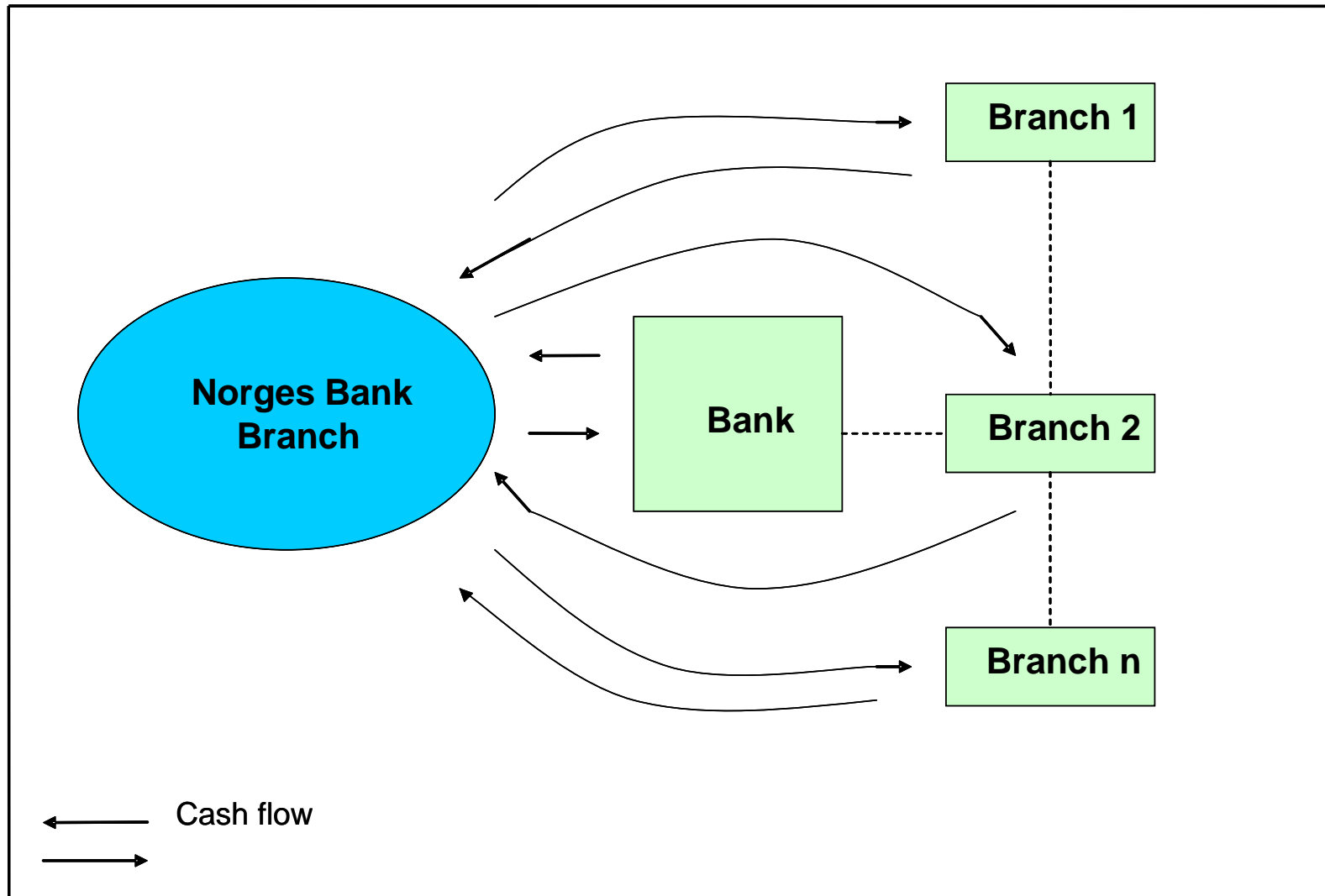
Brief description of the depot system

- Central Bank: 5 depots
 - Notes must be sorted fit/unfit and sealed in standard packages before deposits
 - No processing in the Central Bank, except destruction
- Commercial banks: 13 depots, operated by NOKAS and Loomis
 - Serve all banks
 - Banks decide on conditions
 - Interest compensation from the Central Bank, if notes are sorted fit/unfit
- No restrictions in the number of deposits and withdrawals at the Central Bank
- Central Bank services outsourced to a large degree
 - 16 employees in the cash area in the Central Bank

Reasons for establishing the system: Situation for Norges Bank year 2000

- 14 branches, approx. 390 employees
- In house printing work and mint, 110 employees
- Branches offered services on commercial terms
 - Checking and counting of night safe deposits
 - Packing of notes for the various bank branches and ATMs
- Activities at the regional branches were of an increasingly commercial nature, with services that in principle were performed in competition with other operators

Redistribution of cash



Problems raised by this situation

- The boundaries between central bank tasks and services for others became unclear
- Uncertainty as to whether the use of the resources on the various services was appropriate
- Risk of subsidising services that were exposed to competition
- Inefficient handling and distribution of cash

↳ A need for changes!

A need for changes in the

- Central Bank's role and responsibilities
- organization of the services resulting from the responsibilities

to

- improve efficiency in
 - the cash system
 - the total payment system
 - the Central Bank operations

Norges Bank's responsibilities

- Promote an efficient overall payment system
- Issue banknotes and coins
 - As issuer:
 - Supply notes and coins
 - Renew notes and coins
 - Redeem notes and coins
 - Receive deposits from banks

Elements that promote efficiency

- Clear division of responsibility: the best qualified party should be responsible for the task. Norges Bank contributes where it has a comparative advantage
- Those with responsibility should also cover the costs
- Responsibility for costs provides an incentive to arrive at optimal solutions
- Cost visibility/distribution of costs to end-users provides an incentive to adjust the consumption of the service
- Unfit banknotes should be sorted out as close as possible to the end of the distribution chain

Norges Bank's role and responsibilities

- Wholesaler
- Responsible for the core functions
 - Make available sufficient quantities of banknotes and coins to banks
 - Receive deposits of fit notes when there is a surplus
 - Sealed packages ready for redistribution
 - Receive unfit notes for destruction
 - Withdrawals when deficit of cash, and to replace unfit notes
 - No central bank processing except destruction of unfit notes
- Make cash available in regions (comparative advantages)

Responsibility of private banks

- Distribution within a region and cover the costs associated with this
 - Processing (counting, authenticity verification, quality control, packing), storage and transport related to distribution within each region
 - Any processing, storage and transport prior to the deposit to Norges Bank, and after it has been withdrawn from Norges Bank's depots
 - Services in connection with deposits to and withdrawals of notes and coins at Norges Bank

How Norges Bank's new role was established

- All commercial services for others discontinued (2001)
 - Establishing NOKAS ensured the availability of services for banks
- New rules for deposits and withdrawals at Norges Bank (2005)
 - Increased sizes of "standard units"
 - Notes sorted fit/unfit before deposits
 - Deposits in sealed and marked packages
 - No checking/processing of coins and fit notes in Norges Bank
 - Fees for deposits and withdrawals
 - Covering transaction costs
 - Unfit notes free of charge
- Reduction in the number of central bank depots (2005)
 - 5 depots, each depot "serves" a region
- Interest compensation for holdings at private depots (2005)

Private depots - Introduction of interest compensation

- Banks need depots for interim storage and redistribution of cash
- Interest earned on deposits in the Central Bank influences the banks' decisions – risk of not optimal decisions
- To eliminate this: Introduction of compensation for loss of interest on banks' holdings of cash in private depots

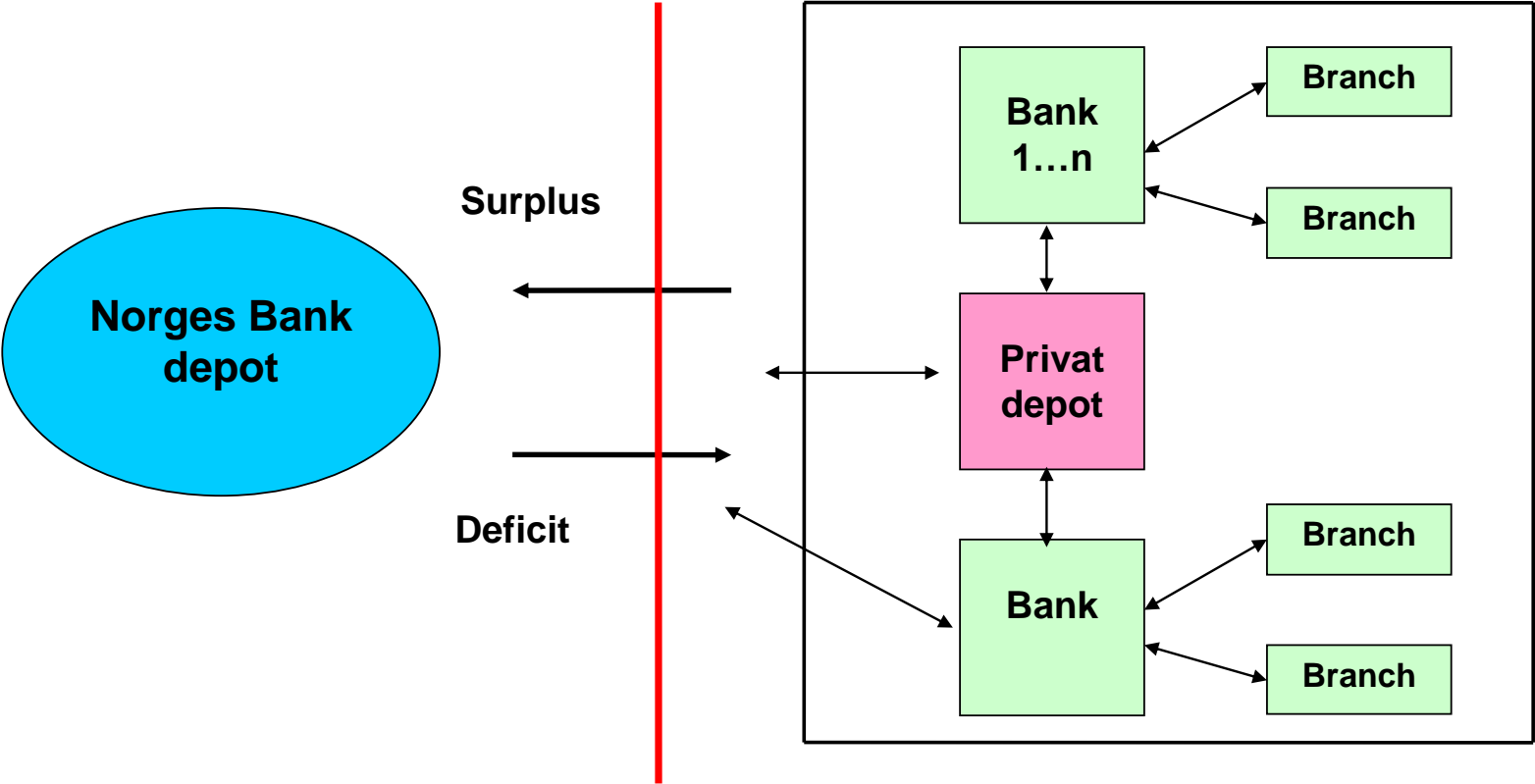
Conditions for interest compensation in private depots.

- Banks determine location, they own the cash in the depots and carry the risk
- Each depot is required to be involved in a considerable part of the redistribution in the region
- Banks decide on the terms for using the depot, but all banks must be allowed to use the depot services on equal terms
- Notes must be sorted into fit and unfit. (Up to 20 % might be unsorted)
- Unfit notes must not be redistributed from the depot

Conditions, cont.

- The banks must appoint an administrator responsible for:
 - Operating the depot
 - Reporting to Norges Bank on a daily basis the amount that fulfil the conditions for interest compensation
 - Receiving the interest compensation from Norges Bank and distributing this to each bank that owns money in the depot

Division of responsibility after 1.11.2005:

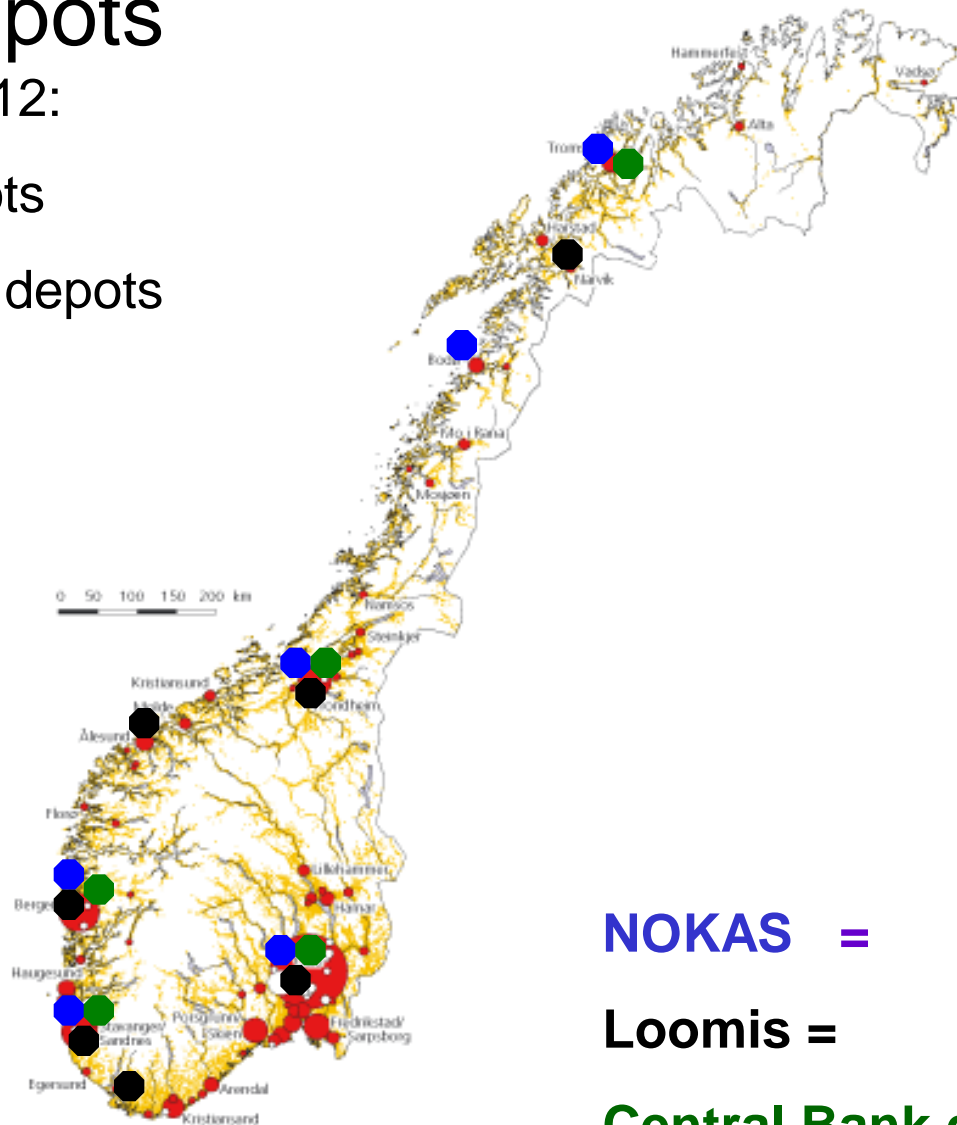


Private depots


Status, June 2012:

-13 private depots

-5 Central Bank depots



NOKAS = 

Loomis = 

Central Bank depots = 

Important experiences/effects of the new system

- Clearer division of responsibility
- Extension of the private banks' responsibility (incl. costs) for distribution of cash
 - Transport, storage, processing within the regions
- Solutions based on the private banks' cost/benefit assessments
 - Locations, requirements, volumes of different activities, ...
- Interest compensation proven to be a strong incentive
- Banks cooperate to a larger extent
- CIT companies start to relocate notes and coins between themselves

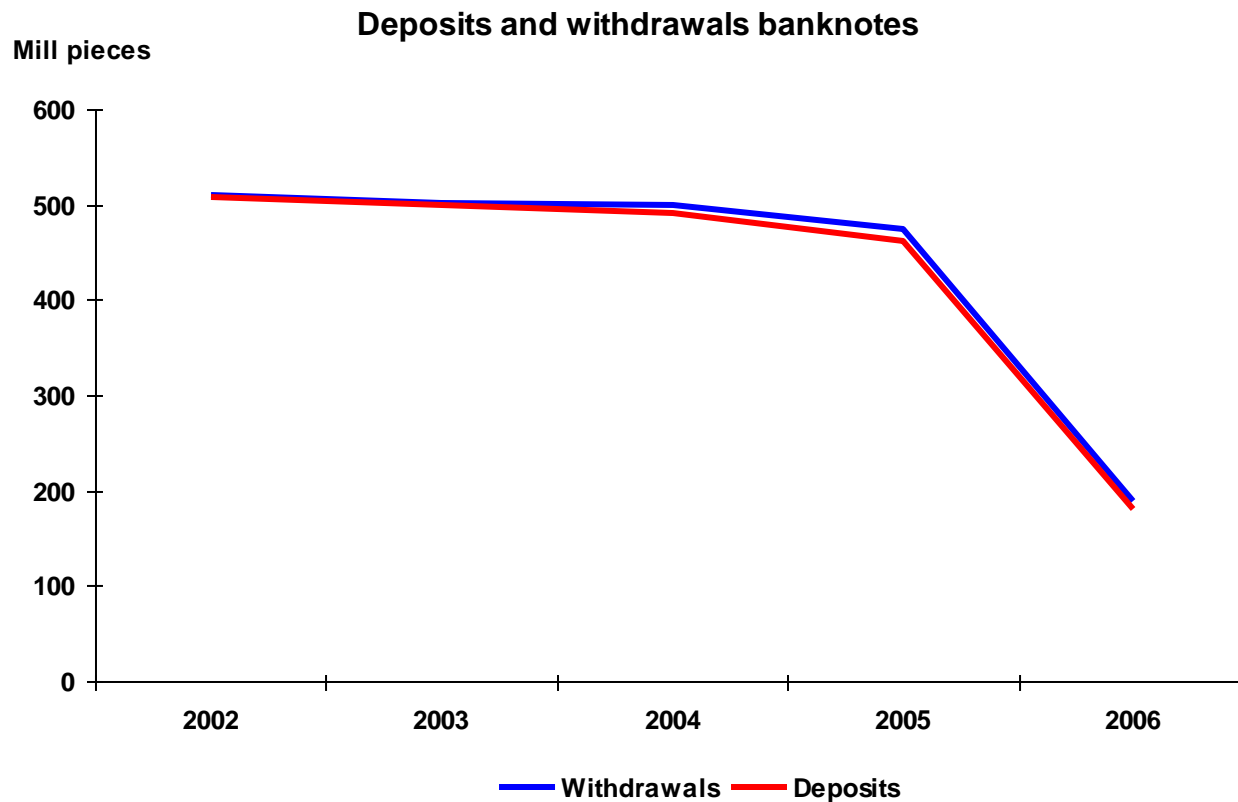
Important experiences/effects of the new system

- The holdings in private depots constitute only a minor part of the increase in the value of cash in circulation
- Increase in the total number of depots
 - From 11 to 18
 - Indicates that total costs are lower than in the previous system
- Cash circulates more closely to the end users
- Fit/unfit sorting of banknotes takes place closer to the end of the distribution chain

Effects for the Central Bank operations

- Reduction in the number of deposits and withdrawals at Central Bank depots
- Increase in the average size of each deposit/withdrawal
- Reduction in the processing activities (only production and destruction remains)

Reduction in deposits and withdrawals at Central Bank depots



Main conclusion

- The new system has increased the efficiency in the supply of cash in Norway, and promotes efficiency in the total payment system