# Australian Cash Cycle

Keith Broadhouse, Managing Director - Armaguard

CURRENCY MANAGEMENT

# Australian Reserve Bank Changes

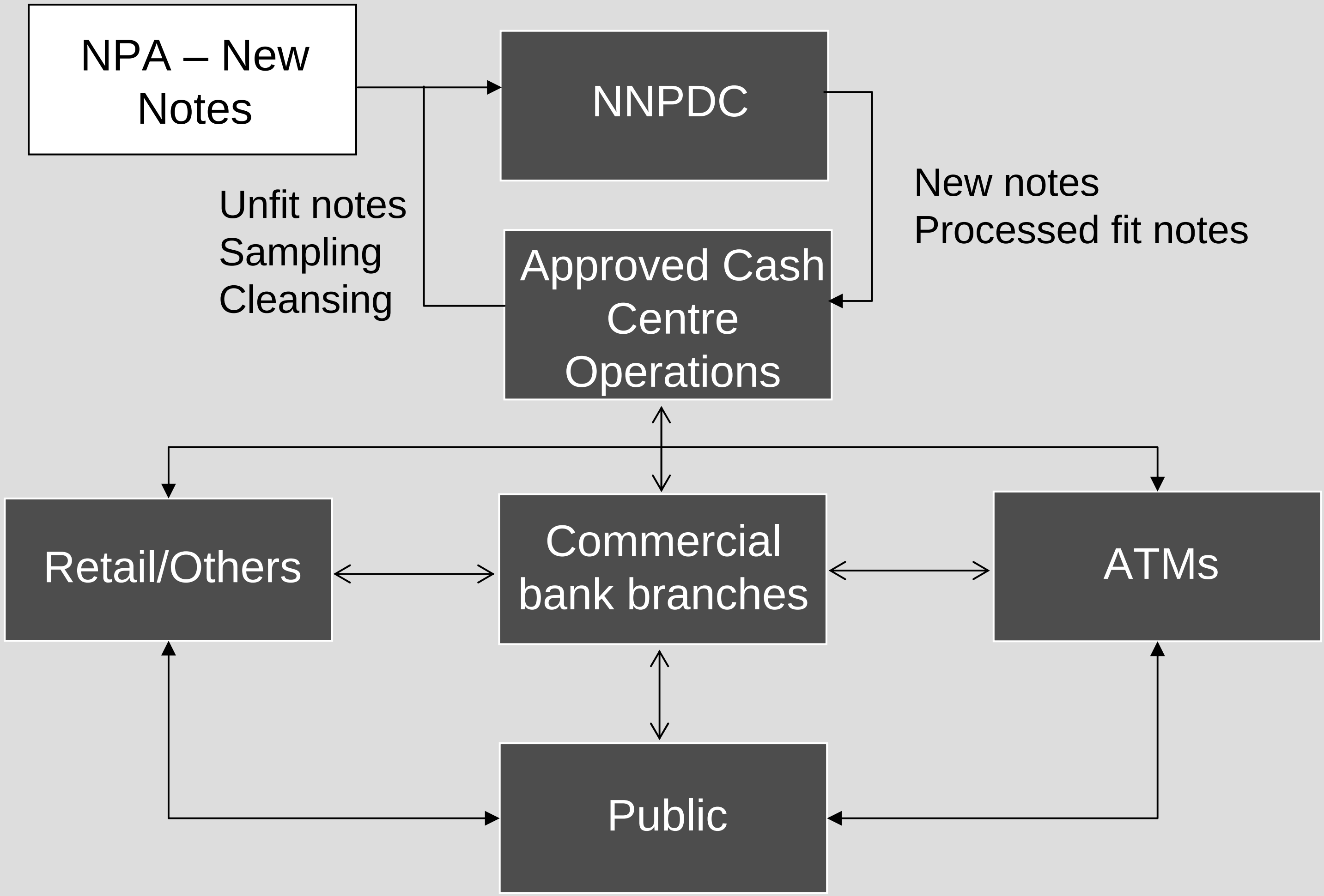
- Move to centralised wholesale cash environment (2002)
- Introduction of capped compensation scheme for cash in circulation (2002)
- Penalty and incentive scheme for note quality (2006)

CURRENCY MANAGEMENT

# Wholesale Cash Environment

- Reserve Bank, one branch, Melbourne VIC
- Cost savings
- Forced trading amongst banks
- Efficiencies
- Reduced risk

# Current Distribution Arrangements




# Current Distribution Arrangements

- RBA closes note distribution network and establishes NNPDC
- Commercial banks assume ownership of surplus “working stocks” in Approved Cash Centres
- RBA pays banks interest forgone on surplus working stocks up to a limit
- Commercial banks must fitness sort

September 2006:

RBA reserves right to cease payment of interest forgone

**2001** **2002** **2003** **2004** **2005** **2006**

- Initially, commercial banks held more stock than required (in excess of limit)
- Little attention given to fitness sorting of bank notes
- RBA continues to conduct cleansing programs

CURRENCY MANAGEMENT

# Compensation Scheme

- Net decrease in RB costs
- Cap-forced efficiencies/trading
- RB maintained control - audits

# Note Quality

- Joint venture with Securency (Polymer notes)
- Issues following regional closures
- Ego

# The NQRS Model

- Penalty/Reward Ratio = 2:1
  - ⇨ Maximum annual penalty = $30m
  - ⇨ Max annual reward = $15m
- Periodical sampling of VCH
- Quality scores based on bottom 15%
- Score mapping onto “Double S” payment curve

# Industry Response

- Banks – resistant/self interest/un-collaborative
- CIT – mixed

# Armaguard

- Paradigm shift
- Cost of cash market philosophy
- Currency management
  - ⇨ Processing centres
  - ⇨ IT investment
  - ⇨ End to end service