

Dnr 2010-258-ADM



Follow-up of the new depot structure for cash management

APRIL 2010

Follow-up of the new depot structure for cash management

APRIL 2010

Contents

1. Summary	4
The Riksbank's considerations and conclusions	4
2. Introduction	5
Purpose of the follow-up	5
Limitations and approaches	5
Definitions	6
Structure of the report	7
3. Changes in cash management	8
Riksbank offices in each county	8
Cash management corporatized	8
One company becomes two	8
The number of offices is reduced further	9
Inquiry on cash management	9
A new depot structure with private players	10
The Riksbank's current regulation of cash management	10
4. The structure at present	13
Location of the depots	14
5. What do the different stakeholders think?	16
Introduction of the depot structure	16
Location of the depots	17
Neutral depots	18
BDB is the central player	19
Interest cost remuneration	21
Cash deposits and withdrawals at the Riksbank	21
Destruction of banknotes	22
Quality of banknotes	23
Management of coins	24
The Riksbank's monitoring of the depots	25
Security at the depots	25
Costs and charges	26
6. The Riksbank's considerations and conclusions	27
Introduction of the depot structure and the location of the depots	27
Neutral depots	27
BDB is the central player	28
Interest cost remuneration	28
Cash deposits and withdrawals at the Riksbank	29
Destruction of banknotes	30
Quality of banknotes	30
Management of coins	31
Security	31
Costs and charges	31
The Riksbank's knowledge and follow-up of cash management can be improved	32

1. Summary

The purpose of the follow-up has been to investigate whether the Riksbank has achieved the desired results with the new depot structure, i.e. whether cash management is now more efficient than it was before the change and whether the demarcation lines between the responsibilities and tasks of the Riksbank and those of the various private players are clear. The study is limited to those depots that receive interest cost remuneration from the Riksbank. The basis for the report consists of interviews with key personnel, statistics and written sources such as previous investigations and annual reports.

The Riksbank's considerations and conclusions

The Riksbank's general conclusion is that the objectives for the new depot structure have been achieved. **It is the Riksbank's assessment that cash management is conducted more efficiently in the new depot structure than previously.** There is nothing to indicate that there are serious faults that need to be corrected. The division of responsibility between the Riksbank and the private players works well and will continue to be applicable in the period ahead.

The market now conducts many aspects of cash management itself without the involvement of the Riksbank. However, the interviewees have highlighted a number of issues that concern the Riksbank and require further attention. These relate, for example, to how the incentives the Riksbank uses to promote more efficient cash management should be designed in the future. **The Riksbank will therefore examine the following issues more closely and discuss them with the depot owners and other relevant stakeholders on the cash market:**

- The extent to which the depots comply with the regulations on free access and neutrality and how trading between the depots works.
- Whether the current deposit periods for seasonal surpluses are reasonable or whether any changes need to be made.
- The imbalances that arise on the cash market due to the fact that the depot owners can freely withdraw cash from the Riksbank and what measures should be taken to address these imbalances.
- Certain conditions governing interest cost remuneration; that is how long cash needs to remain in the depot to qualify for remuneration and the demand that cash should be packaged and sorted.

The Riksbank will also, in good time before the agreement on interest cost remuneration expires in December 2015, initiate a discussion with the banks on an extension of the agreement.

The Riksbank has begun a review of its management of coins. **An overall outline for how the management of coins should be conducted will be finalised in 2010.** The Riksbank will discuss this issue with the depot owners and the coin manufacturer.

The Riksbank is also prepared to discuss external destruction once again if the market players wish to do so.

2. Introduction

The Sveriges Riksbank Act states that the Riksbank shall promote a safe and efficient payment system. **The Act also states that the Riksbank shall be responsible** for providing the country with banknotes and coins.

In the autumn of 2004, the Riksbank decided to introduce a new structure for cash management. The intention was to reduce the number of Riksbank offices for cash management and instead provide incentives to the banks to open their own cash depots. In addition to this, apart from performing its role as a public authority, the Riksbank would only issue banknotes fit for circulation to the banks and destroy unfit banknotes that the banks deposited with the Riksbank.

The aim of this change was to improve the efficiency of cash management by relieving the Riksbank of responsibility for operations that private players could conduct as well or better. **The new structure was also intended to cut out unnecessary** cash transports between the Riksbank and the banks.

As a result of the new arrangement the banks have set up a private depot structure for storing cash. This report presents the results of the follow-up of this depot structure.

Purpose of the follow-up

The purpose of the follow-up has been to investigate whether the Riksbank has achieved the desired results with the new depot structure.

The overriding questions have been whether cash management is more efficient now than it was before the change and whether there are clear demarcation lines between the responsibilities and tasks of the Riksbank and those of the private players. In the follow-up we have studied the various components of the cash management process to see whether there are any faults or shortcomings that need to be corrected.

Important aspects covered in the follow-up include:

- The depot structure with regard to location, accessibility and the division of responsibility etc.
- The Riksbank's regulations, including the monitoring and inspection of the depots.

Limitations and approaches

The follow-up is limited to the players that are directly affected by the new depot structure and the flow of cash between these players. **The banks are obviously** among these as they own the depots, either independently or through a jointly-owned company. Other important players in this context are the cash management companies that carry out a lot of the operational work for the depot owners.

In a broader perspective there are also other players that indirectly or at a later stage are affected by the depot structure, for example the manufacturers of banknotes and coins, local bank branches with ATMs, the retail sector and other cash users. This study does not address aspects relating to these players. There are also depots that are run by cash management companies and that do not receive remuneration for interest costs. This report does not cover such depots either.

The basis for the report mainly consists of interviews with representatives of the banks, the depot owners and the cash management companies (see Appendix 1). The interviews have been in the nature of discussions based on open questions concerning how things worked in connection with the change itself, how things have worked since and any changes that may be needed in the period ahead. In addition, interviews, discussions and various meetings have taken place internally at the Riksbank. Previous studies, annual reports and other written documentation have also been used as background data and material for the report.

Definitions

A number of terms are used in the report that may require explanation. Some of these are defined below.

Depot operator – A company that is operationally responsible for the activities at a depot. The depot operator is usually a cash management company, that is a different company from the depot owner itself.

Depot owner – Only banks or other companies that are participants in the RIX system may own cash in depots that receive interest cost remuneration from the Riksbank. There are also other types of depot on the cash management market. When the word depot is used in this report it refers only to depots that receive interest cost remuneration unless otherwise stated¹.

Cash – Banknotes and coins

Cash that qualifies for destruction – Worn banknotes and coins that have been deemed unfit for circulation.

New cash – Cash that has not yet been put into circulation as a means of payment.

RIX – The Riksbank's system for the settlement of payments.

Interest cost remuneration – Remuneration that the Riksbank pays to companies that on their own or another's behalf have separated and stored banknotes and coins. Remuneration is paid to those that have entered into an agreement on interest cost remuneration with the Riksbank.

Seasonal deposits – The Riksbank accepts the bank's seasonal surplus of cash fit for circulation at several times during the year.

¹ According to Riksbank regulation RBFS 2005:1, a depot owner entitled to interest cost remuneration is one of the following:
A party that has entered into an agreement on interest cost remuneration with the Riksbank and is
a) a banking institution that is a RIX participant,
b) a banking institution that through an agreement with a RIX participant uses RIX for its payments,
c) a company that is wholly-owned by one or more banking institutions and that through its own participation in RIX or through an agreement with a RIX participant uses RIX for its payments.

Cash management company – A company that offers various cash management services, for example cash in transit and cash counting. The three largest companies on the Swedish market are Loomis, G4S and Panaxia. These are the only companies that operate depots that receive interest cost remuneration.

Structure of the report

The report begins with background information on how cash management has changed over the last 25 years and a description of the depot structure today. This is followed by an account of the players' views on how things have worked and what should be done in the period ahead. In chapter 6 the Riksbank presents its conclusions and discusses the action that should be taken.

3. Changes in cash management

Riksbank offices in each county

The Riksbank began to change the cash management structure in the early 1980s. Previously, the Riksbank had offices in each county that conducted both cash management operations and more standard banking operations. Post offices and banks could also deposit their surpluses in their accounts with the Riksbank at these offices. The offices sorted, issued, received and stored cash.

As transportation and management gradually became more efficient, the Riksbank concluded that it was no longer efficient to have so many offices. The banking operations of the Riksbank had also gradually declined and eventually came to an end. The number of offices was therefore reduced during the 1980s and 1990s. Some of the office premises were subsequently taken over by private cash management companies.

Cash management corporatised

A study conducted by the Riksbank in the period 1997-1998 revealed that the efficiency of cash management in Sweden could be improved. Part of the explanation for this the lack of efficiency concerned the behaviour of the Riksbank itself, namely that the Riksbank offered services to the banks without charging in full for them. This meant that the Riksbank helped to preserve an outdated structure on the cash market and an inefficient working method involving, among other things, unnecessary transportation to and from the Riksbank. In this situation, the banks and other players had little reason to change and rationalise their parts of the cash management process.

In 1998, the General Council of the Riksbank decided to corporatize the cash management operations by setting up the company Pengar i Sverige AB (PSAB). The aim was to limit the Riksbank's operations to its duties as an authority and to improve efficiency. The idea was that this company would eventually be privatised and that the Riksbank's role in the cash management process would become more focused. However, the financial performance of PSAB was much weaker than expected. Other market players were also sharply critical of the fact that the company had a competitive advantage on the market.

One company becomes two

The Riksbank therefore divided the company into two parts. Pengar i Sverige AB (PiS) ran the business operations that competed with those of other companies on the market. The other company that was formed, Svensk kontantförsörjning (SKAB), was given tasks more similar to those of an authority, such as issuing cash fit for circulation, destroying cash unfit for circulation and storing cash.

Following these changes, PiS was able to focus completely on the commercial operations. However, the company still had problems with profitability. The intention was to privatise PiS and various attempts were made to sell the

company to banks as well as to domestic and international cash management companies. However, none of these were prepared to acquire PiS and the Riksbank therefore decided to wind up the company. The decision to close down the company was taken in June 2004.

The Riksbank also decided to wind up SKAB and to return the operations of the company to the Riksbank, which was done on 1 October 2004.²

The number of offices is reduced further

By 2004, the Riksbank had reduced the number of offices to four: Tumba, Mölndal, Malmö and Härnösand. Requirements had also been introduced to the effect that banknotes deposited with the Riksbank had to be sorted and checked for authenticity.

Inquiry on cash management

At the end of 2003, the Riksbank concluded that there were sound reasons for evaluating the effects of the previously implemented changes and to see whether there was any further potential for improving the efficiency of cash management at both the Riksbank and in society as a whole. The Riksbank therefore decided to appoint an inquiry.

This inquiry³, which was conducted in 2004, propounded the principle that the Riksbank's responsibility for cash management should be limited to those activities for which it was doubtful whether efficiency could be achieved without the involvement of public authorities. For this reason, the Riksbank decided that the following operations would remain the responsibility of the Riksbank:

- The system for the provision of accounts (the banks' accounts with the Riksbank)
- The design and development of banknotes and coins
- The production of banknotes and coins
- Strategic depot and at least one logistic depot
- Checking authenticity in connection with the destruction of banknotes
- Quality of banknotes
- Redemption of defect and invalid banknotes and coins
- Destruction
- Transport from the printing works to the Riksbank's depots

The Riksbank instead gave private players an incentive to open their own depots by offering remuneration for interest costs. The Riksbank expressed no opinion on how many depots there should be, where they should be located or how much they should contain. These were, and are, issues for the depot owners to determine for themselves. The cash that is stored in the depots or the adjoining money counting centres is the banks' own money. The Riksbank therefore has no reason to exercise control over the depots for security reasons.

² In the Annual Report for 2005, pages 56-60, there is a detailed account of the Riksbank's role in cash management in the period 1998-2005.

³ Barvell and Ericsson, 19 August 2004, reg. no. 2004-197-MOP.

The only requirement that the Riksbank has regarding the premises is that the cash stored in depots should be clearly separated from other cash, for example cash stored in an adjoining money counting centre. This gave the private market the opportunity to improve the efficiency of its cash management without the involvement of the Riksbank.

The Riksbank's decision meant that only banks could receive interest cost remuneration.

A new depot structure with private players

In practice, the Riksbank's decision has led to the establishment of a new structure for cash management. Nowadays, the Riksbank is not involved in the management of the banknotes and coins that are in circulation in society. Private players have instead taken over this role.

The background to the system for providing remuneration for interest costs is as follows. When the banks collect cash from the Riksbank they withdraw banknotes and coins equivalent to the amount they borrow from the Riksbank. Previously, the banks transported some of the cash to the Riksbank and deposited it there overnight to avoid interest costs. The cash was then collected the next day. In order to avoid this unnecessary process the Riksbank introduced remuneration for interest costs. Interest cost remuneration can thus be seen as a "lubricant" and a precondition for the banks' running their own depots. The size of the remuneration is equivalent to the banks' interest costs for loans with the Riksbank and thus entails no net cost to the Riksbank. It can be noted that remuneration for interest costs amounted to almost SEK 119 million in 2008 and to SEK 30 million in 2009.

By introducing interest cost remuneration, the Riksbank also reduced the amount of cash deposited with the Riksbank. Only during a few brief periods of the year, when there is a so-called seasonal surplus, may cash that is fit for circulation be deposited with the Riksbank. On the other hand, it is possible for the banks throughout the year to submit banknotes and coins that are of such poor quality that they should be taken out of circulation and destroyed. The banks can always without restriction collect banknotes and coins from the Riksbank.

It should also be mentioned here that the Riksbank has decided to build a new office outside Arlanda Airport for the management of banknotes. This office will replace the two existing offices at Tumba and Mölndal. The new office will not handle coins. The Riksbank is therefore currently reviewing the future management of coins.

The Riksbank's current regulation of cash management

The Riksbank's regulation is limited to providing the private cash management market with the preconditions for more efficient cash management. The preconditions are mainly set out in the form of instructions. Compliance is currently followed up by inspecting the depots and conducting discussions with the depot owners, depot operators, banks, retail trade and so on.

Instructions and agreements

The conditions governing interest cost remuneration are regulated in the Riksbank's instructions (RBFS 2005:1) on remuneration for interest costs for cash that has been separated and stored under a special arrangement and in a special agreement.

Remuneration is paid to depot owners that on their own or another's behalf have separated and stored banknotes and coins. The instructions include regulations to the effect that:

- Depot owners are obliged to receive from and provide cash to banks to the extent possible given the capacity of the depot. Depot owners must apply the principles of free access and neutrality.
- Interest cost remuneration will be paid for cash stored in the depot between the hours of 21.00 and 23.00. Cash may not leave the depot's premises before 24.00.
- The depot owner shall check the authenticity of the cash in the depot.
- The depot owner shall report the balance in the depot to the Riksbank.
- Interest cost remuneration will be equivalent to the repo rate.
- The Riksbank is entitled to conduct unannounced checks of the balance in the depot.
- The depot owner may employ a third party to manage the values in the depot.

The Riksbank and each of the depot owners have entered into agreements that specify the regulations stipulated in the instructions. These agreements include the conditions relating to the depot owner's entitlement to interest cost remuneration, requirements concerning the reporting of the values at the depot and regulations governing authenticity checks. Appendices to the agreements stipulate how the depot owners should report to the Riksbank. However, the most important item regulated in the agreements is the period that applies for interest cost remuneration. This will end on 31 December 2015. The reason for having such a long period (the first agreement came into force in 2006) is to give the depot owners the chance to plan in the long term.

The Riksbank has also issued instructions (RBFS 2009:3) on cash management. Together with agreements on the provision of cash, these set out the conditions that apply when a depot owner deposits cash with and collects cash from the Riksbank.

Inspection of the depots

The Riksbank is entitled to inspect and conduct an inventory of the balance in the depots, either using its own personnel or external auditors.

The inspectors arrive at the depots unannounced. They conduct an inventory of the balance at the depot and check this against the sums the depot has reported to the Riksbank, i.e. the sums that the banks receive interest cost remuneration for. They also check historical balances against the information submitted to the Riksbank. Banknote sorting machines are also inspected by:

- Checking the setting of the authenticity sensors.
- Conducting a random test of cash from the depot in terms of number and sorting.
- Testing for counterfeit and invalid banknotes.

Faults have been discovered on a few occasions. For example, authenticity sensors have not been connected. Such faults have been immediately corrected and reported to the Riksbank. The Riksbank also follows up the faults at the next inspection.

In 2009, the Riksbank received 13 incident reports from the depots relating to the incorrect reporting of balances and requested the correction of the reported figures. The adjustments required were to both higher and lower figures.

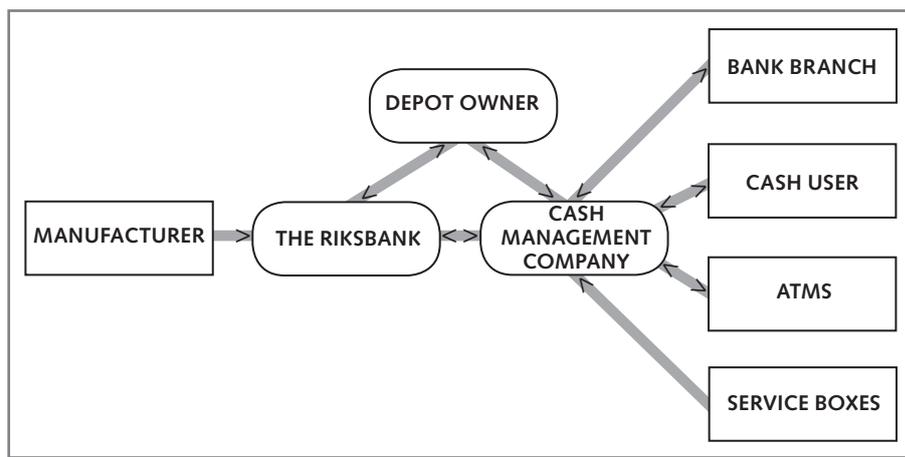
In addition to the Riksbank's inspections, the depot owners must arrange and pay for the unannounced visit of an external auditor at least once per year and report to the Riksbank whether the balance at the depot at the time of the audit corresponded to the figure reported by the depot owner to the Riksbank immediately prior to the audit.

The Riksbank's dialogue with the market players

In connection with the introduction of the new system, the Riksbank set up a Cash Management Advisory Board and a number of working groups. The Board is headed by the Governor of the Riksbank and usually meets twice a year. The Board includes representatives of the banks, depot owners, cash management companies, trade unions and the authorities concerned. The Board has established a number of working groups that meet regularly and also report on their work at the Board's meetings. At the moment there is a group for security issues and one for structural and coin and banknote issues.

4. The structure at present

In the introductory chapter it was mentioned that the follow-up is restricted to the players directly affected by the new depot structure, i.e. the Riksbank, the depot owners and the cash management companies, and the flow of cash between these players. Here we can call these players the inner circle of cash management. In the figure below these players are marked by ovals. The players marked by squares make up the outer circle (bank branches, cash users⁴, ATMs and service boxes). As mentioned above, this follow-up focuses on the inner circle, i.e. the Riksbank, the depot owners and the cash management companies and the flows between these players.



The new depot structure developed gradually in the period 2005-2008. The Riksbank had already closed down 10 of the 14 offices for cash management in 2003 and in 2005 and 2006 a further two offices were closed, i.e. those in Härnösand and Malmö. Today, only two offices remain, those in Tumba and Mölndal. The private players, on the other hand, opened 12 depots in the period 2006-2008.

BDB Bankernas depå AB (BDB) is the largest depot owner with 10 depots around the country. BDB is owned by the five largest banks: Den Danske Bank, Nordea, SEB, Svenska Handelsbanken and Swedbank, each of which have a 20 per cent holding. As customers, the banks place orders for the deposit or provision of cash to and from the depots. The banks have also given BDB other tasks.

In addition there are two depots that are owned by savings banks: Sparbanken 1826 (formerly Kristianstads sparbank) and Swedbank Sjuhärad. Sörmlands Sparbank had a depot but this was transferred to BDB at the end of 2009.

The operational work at the depots is conducted by depot operators, that is the three largest cash management companies in Sweden, G4S, Loomis and Panaxia.⁵ Loomis and G4S are depot operators for BDB's depots with 4 and 5 depots respectively. Panaxia is the operator for the two savings bank depots and for one BDB depot.

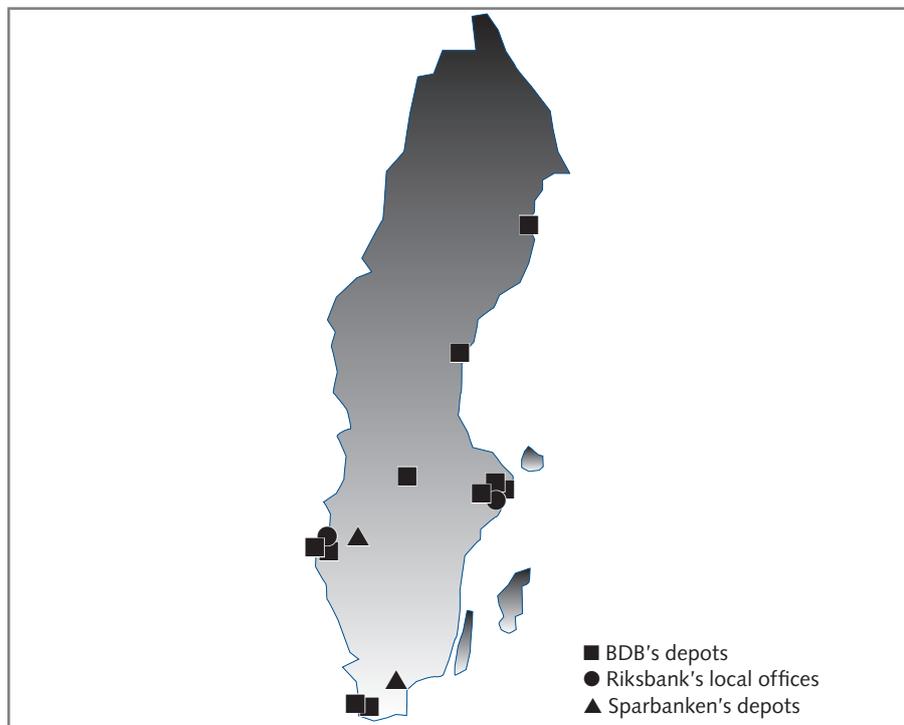
⁴ Cash users: Retail trade, parking companies etc..

⁵ There are a number of smaller cash management companies in addition to the three largest.

Location of the depots

The depots are mainly located in southern Sweden and particularly in the three large metropolitan areas. On the map below, the squares represent BDB's depots while the triangles are the savings bank depots. The two circles are the Riksbank's local offices in Mölndal and Tumba.

Map: Depots that receive interest cost remuneration and the Riksbank's cash management offices



The table below presents data on the 12 depots that are currently in operation. The first of these was opened by Sparbanken 1826 in March 2006. The other 11 depots were opened in 2007 and 2008. The twelfth depot was opened in September 2008, meaning that the current depot structure has now been in place for almost two years.

Depot owner	Depot operator	Depot location	Commissioned
Sparbanken 1826	Panaxia	Kristianstad	March 2006
BDB	Loomis	Akalla	May 2007
BDB	G4S	Malmö	Sept 2007
BDB	Loomis	Mölndal	Nov 2007
BDB	Loomis	Malmö	Dec 2007
BDB	G4S	Göteborg	Dec 2007
BDB	Loomis	Härnösand	Feb 2008
BDB	G4S	Stockholm	Feb 2008
BDB	G4S	Piteå	Feb 2008
BDB	G4S	Karlstad	June 2008
Swedbank Sjuhärad	Panaxia	Borås	March 2008
BDB ⁶	Panaxia	Bromma	Sept 2008

⁶ Taken over by BDB from Sörmlands sparbank in December 2009.

The depots' premises are small and are located adjacent to the counting centres of the cash management companies. Relatively little work is done within the depot premises themselves. It is in the counting centres that most of the work is done in the form of counting, sorting, packaging and so on. The depot owners buy depot services from the cash management companies and thus have none of their own personnel on site. This means that it is the staff at the counting centres that do the work in the depots on behalf of the depot owners. A total of approximately 10 people work at the depot owners' head offices.

5. What do the different stakeholders think?

This chapter presents the views of the various market players. The aim has been to get an overall picture of what the market players think about the new system. Questions raised during the interviews have related to:

- The initial period with the new system
- The location and neutrality of the depots
- BDB's role
- Interest cost remuneration
- Collection, seasonal depositing, destruction of banknotes
- Quality of banknotes
- Management of coins
- Inspection of and security at the depots
- Costs and charges

The interviewees are representatives of the depots, banks, cash management companies and the Swedish Bankers' Association.⁷ This chapter presents only their views and assessments. The Riksbank's assessments and conclusions are presented in Chapter 6.

The anonymity of the interviewees has been guaranteed. It should not be possible to determine who said what from the text. We have therefore chosen to write "Several interviewees believe that..." or similar, or to be even less specific.

Introduction of the depot structure

Slow start

A general impression among the interviewees is that the new depot structure developed more slowly than most people expected. When the Riksbank decided to concentrate on its core tasks and offered the banks remuneration for interest costs for cash in depots the banks initially showed little interest. A widely-held view is that it took time for the banks to decide who should run the depots. The banks had transferred the main responsibility for cash management to the cash management companies several decades ago. This meant that it was the cash management companies that had knowledge about the infrastructure, systems, flows and so on. A central issue for the banks at the beginning of the change process was therefore to determine what they would do themselves and what the cash management companies would do. The banks were also deterred by the Riksbank's previous failure to privatise parts of the cash management process.

⁷ Interviews and meetings have been conducted with representatives of the following companies and organisations: The Swedish Bankers' Association, BDB – the banks' depot company, Danske Bank, G4S, Handelsbanken, Loomis, Nokas/Control Risk, Nordea, Panaxia, SEB, Sparbanken 1826 and Swedbank.

Another major issue for the banks was whether each bank should have its own depots or whether they should have joint depots. Some of the banks ran their own depots for a short time. Eventually, the five largest banks (Danske Bank, Handelsbanken, Nordea, SEB and Swedbank) agreed that a joint company for depot operations would be more appropriate. One of the reasons for this decision was that cash management requires large flows and the centralisation of expertise and know-how to be efficient. Another reason was that a joint company would facilitate cash trading between the banks. Today, all of the banks are satisfied with this solution.

The depots develop

Five banks thus formed Bankernas Depå AB (BDB) which has the tasks of specialising in depot operations, maintaining a balance between cash surpluses and deficits between the banks and reducing the banks' cash management costs. Some of the independent savings banks chose to open their own depots.

BDB's depots and those of the savings banks developed gradually. Several interviewees say that opening depots was initially a slow process for BDB (see also section 3 above).

There was general concern that the new depot structure would not work and that a shortage of cash would arise. However, most of the interviewees now agree that no real shortage occurred. Several of them say that the Riksbank acted flexibly in connection with the transition and was adaptable with regard to solutions for reporting etc. until the new depots established their routines.

Representatives of the banks also say that the criticism of the change that existed in the initial phase has now abated and that they have adapted to the prevailing situation. However, some problems that need to be solved were mentioned during the interviews. These are presented in more detail below.

Location of the depots

Well developed in the metropolitan areas but not in the rural areas

The banks feel that BDB has done a good job in the major cities, where it has opened several depots. Among other things this has reduced transportation to and from the Riksbank. BDB has also successfully pushed for good terms and conditions and has thus created incentives for trading between the depots. However, the situation is not as good in the rural areas. More depots are needed in these areas, but this is a question of cost as the volumes involved are usually small. It can therefore be said that although depot operations have been established and are functioning, the location of the depots is not optimally adapted to the needs.

The counting centres and depots of the cash management companies are established at more locations and are thus more widespread than the BDB/savings bank depots. The cash management companies say that the distance between their own depots and the banks' depots is in many cases so great that it is not meaningful to transport the cash. The banks agree with this.

Transportation over too long distances to the banks' depots has a negative impact on both security and the environment. However, at the same time as all of the players would like to see more depots with interest cost remuneration, most of them realise that it would cost too much to set up many secure depots throughout Sweden.

Nevertheless, it is generally agreed that more depots are needed in several parts of the country and areas mentioned include Småland/Östergötland, Gotland and the inland areas of Norrland. Representatives of the cash management companies point out that they can not influence where the depots are located. The sites are decided on by the depot owners, i.e. BDB and the savings banks.

The banks have central solutions with regard, for example, to ordering cash withdrawals from the depots. The banks order cash for several branches, some of which may be located a long way from the depot from which the cash is collected. This also leads to unnecessarily long transportation. Several interviewees also point out that the trend is towards ordering cash on a regional basis. This means that cash will be collected from a depot that is closer to the final destination.

Small depots

Another viewpoint that has emerged is that the location of the depots is not always logical and rational from an infrastructure perspective. Some of the depots are small and are there only because a small local bank needs a depot in its area. Such depots do not really have sufficient volumes to be economically viable in the long term.

Neutral depots

Neutral depots and regional trading would be more efficient

Although the interviewees are unanimous that there is now a rather good depot structure and that it is working relatively smoothly, several interviewees thus believe that more depots are needed and that both old and new depots should be neutral. A neutral depot is one that accepts cash from and provides cash to all the relevant parties on equal terms.

Most of the interviewees also say that trading between the depots is inadequate. As the cash management companies compete with each other at the same time as they are operationally responsible for the depots, they do not always contribute actively to cash trading between the depots. Instead of promoting trade between the depots they drive past the depots that other cash management companies are operationally responsible for and drive to one of the depots that they themselves operate, which sometimes may be many miles away. One consequence of this is that the depot owners sometimes collect cash from the Riksbank despite the fact that there is a surplus on the market.

Several of the interviewees believe that one way of coming to terms with this problem is to make the depots neutral. Neutral depots could be the catalyst that is required for regional cash markets to become a reality. As far as possible, cash should be bought and sold on a regional market as this reduces the need

for transportation; this in turn improves security, reduces transport costs and mitigates the impact on the environment. It has been pointed out, however, that more counting centres are also required to make this a reality. The interviewees also point out that small cash management companies (which are often regionally based) find it difficult to regulate their deficits and surpluses of banknotes and coins. Neutral depots could solve this problem too.

First neutral depot inaugurated

BDB now has far-reaching plans to create neutral depots. Several of the interviewees feel that this is a good model for the future. Neutral depots will improve the efficiency of cash trading and BDB will gain better control over cash management.

Recently, (December 2009) the first neutral depot was commissioned. Existing depots have agreements that will expire in one or two years time and it is only after this that they can become neutral. BDB plans to procure counting at each respective depot. In connection with this procurement process, BDB will impose the condition that the counting centres must accept cash from all the players and that none of them may be excluded. It has also been proposed that the Riksbank should issue instructions to the effect that no player should be excluded from cash trading.

BDB is the central player

BDB is independent but governed by the banks

BDB owns 10 of the 12 existing depots, which makes BDB the central player in the depot structure. Several of the interviewees say that BDB's most important task is to secure the supply of cash in society. BDB is an independent company but the five largest banks have a decisive influence, partly as owners and partly as customers.

In their roles as customers and owners the banks have the insight and the influence required for BDB to develop in the right direction, according to the bank representatives interviewed. In their role as customers the banks influence BDB's day-to-day cash management, while in their role as owners they govern the overall and structural development of BDB.

BDB has the expertise in the field of cash management – not the banks

Representatives of the cash management companies say that the banks have influence over and insight into BDB, but that this influence is not particularly great. Instead, BDB guides its own development relatively freely as it is BDB that has expertise in the field of cash management. The company thus has a major knowledge advantage over the banks. This also becomes apparent to some extent in the interviews with the bank representatives. The banks' expertise regarding cash management is more or less limited to structural issues.

There is concern about BDB's dominant position

Representatives of the cash management companies say that there is a risk that BDB may behave in an undesirable way. They believe that BDB has major competitive advantages as due to its dominant position the company can control the level of the charges. They also say that BDB has now achieved such a position and is so financially strong that the company may branch out into operations that it was not intended BDB should work with, for example cash counting and other tasks that the cash management companies perform today. There are thus fears that BDB will use its financial strength to enter the cash management companies' market and squeeze prices in order to establish operations there. Representatives of the cash management companies believe that there is a risk that BDB will eventually drive these companies out of business and that a monopoly-like situation will also be created in other cash-management areas. They therefore believe that BDB's role should be clarified.

Concern has been expressed in several quarters that players outside the circle of owners of BDB do not have the same opportunities to deposit cash in BDB's depots and that they therefore can be said to be at a disadvantage in the new system. Previously, the Riksbank acted as the neutral party that the market participants could turn to. Now that the Riksbank is no longer involved, no other organisation has taken over the role of neutral party. BDB primarily defends the interests of its owners. BDB has also clearly indicated that it will not take over the Riksbank's old role of supplying many market participants with cash.

The "good" monopolist

The cash management companies would also like to be able to receive interest cost remuneration for the cash stored in their depots. This is not possible at the moment, however, which prevents the companies from competing with BDB. Some interviewees say that the cash management companies have become less important in the cash management process as a result of the establishment of BDB.

At the same time, it seems to be a widely-held view that the independent savings banks that have their own small depots are about to close these down. This is because these depots are not large enough to bear their own costs. If this is the case, BDB would become the only depot owner.

On the other hand, some interviewees also say that BDB's predominant position is not in itself a problem. The question is rather how BDB and the owners of BDB (i.e. the banks) handle the dominant position that the company has. Some interviewees feel that a "good monopolist" may be positive for the entire cash management chain. By a "good monopolist" they mean a depot owner that gives all the players the possibility to deposit and withdraw cash on the same terms. Most interviewees believe that large volumes are required to run depot operations. Having only one or a few depot owners is therefore a precondition for achieving efficient cash management.

Interest cost remuneration

Most interviewees believe that interest cost remuneration is a prerequisite if the system with private depot owners is to work. It is doubtful whether the depot structure would survive without remuneration for interest costs.

In order to receive remuneration, the cash in question must be in the depot between the hours of 21.00 and 24.00.⁸ Several interviewees question the importance of having the cash “locked down” during this period. The time should instead be adapted to the actual work processes for cash management. The Riksbank should therefore investigate various alternative times during which the cash should remain in the depots.

The cash must also be sorted and packaged. Some of the interviewees feel that this is an unnecessary requirement.

Cash deposits and withdrawals at the Riksbank

Few incentives to deposit surpluses with the Riksbank

Several of the interviewees say that the depot owners do not deposit surplus cash with the Riksbank unnecessarily. This only happens when the need is urgent. Unnecessary transportation is avoided as far as possible as the security risks involved are too high.

The factor that acts as an incentive for depositing cash with the Riksbank is that the depots cannot contain more than it is possible to insure. Otherwise there are no incentives that lead to the system for seasonal deposits being used unnecessarily.

More flexible system for depositing is called for

It is by and large only after Christmas that a large surplus arises and thus the need to deposit cash with the Riksbank. The surplus at this time is too large for the existing premises and is also too large to insure. Several interviewees would like to see the other two periods converted into a more flexible and unrestricted system as the flows are difficult to predict. One option for a flexible system may be to replace the two fixed periods with a number of days per year when there are no restrictions on depositing surpluses.

The Riksbank is inconsistent which leads to imbalance

Another view put forward is that the Riksbank acts inconsistently with regard to the depositing and withdrawal of cash fit for circulation. Cash fit for circulation may only be deposited during the seasonal-surplus periods, while withdrawal is permitted throughout the year. As some depots often have cash surpluses and need to deposit these with the Riksbank, while other depots have deficits and need to withdraw cash, some interviewees believe that the system is in a state of imbalance.

⁸ Between the hours of 21.00 and 23.00 the cash must remain in the depot and between the hours of 23.00 and 24.00 it must be in premises adjoining the depot.

The new office will create logistical difficulties

The Riksbank will construct a new cash management office close to Arlanda Airport and close the two existing offices in Tumba and Mölndal. Some interviewees believe that this will lead to considerable logistical difficulties regarding cash management in southern and western Sweden. The current regulations on, for example, working hours will mean that two days will be needed to transport cash long distances in southern and western Sweden, which in turn will lead to major security problems.

Several interviewees therefore believe that the Riksbank should maintain a store of cash somewhere in southern Sweden. A private store is considered to be impossible due to the high insurance premiums. The long transports that will result from having only one office in the future is an issue that must be discussed, according to several of the interviewees. They call for a detailed impact assessment regarding how the flows of cash will be affected by having only one office for the depositing and withdrawal of cash.

The Riksbank's demand for payment in advance

Some interviewees also comment on the Riksbank's demand for payment in advance in connection with the withdrawal of cash. They believe that this demand makes it difficult to control the transportation of cash. They would like it to be possible to pay in arrears, or at least later the same day. This would enable better and more flexible control of the collection of cash and of transportation.

Destruction of banknotes

Should external players be permitted to destroy banknotes?

Several of the interviewees believe that the destruction of banknotes should be transferred from the Riksbank to external players. The current system entails unnecessary transportation to the Riksbank, which could be avoided with external destruction. Transports of banknotes that qualify for destruction are usually among the longest and most predictable. The entire route from the point of departure to the final destination is known. The general view is that these transports entail a rather high risk of robbery.

At the same time, some of the interviewees see difficulties connected with introducing external destruction. There is great concern about the costs that would arise in connection with the change itself, for example for the purchase of machines. It would also be difficult for such operations to bear their own costs.

It is also pointed out that transportation would not really be reduced overall as it would still be necessary to go to the Riksbank to withdraw the equivalent quantity of banknotes fit for circulation. At present, banknotes that qualify for destruction are taken to the Riksbank and banknotes fit for circulation are taken back on the return journey.

No one is pushing for external destruction at the moment

The question of external destruction was more current a couple of years ago. At present, none of the depot owners, banks or cash management companies are actively pursuing this issue. Some interviewees say that there is no clear interest from the depot owners as they have no incentive to reduce costs for the transportation of banknotes that qualify for destruction. They say that these costs are incurred only by the cash management companies as they are responsible for sorting out banknotes that qualify for destruction at their counting centres.

External destruction – the Riksbank exercises control while external parties perform

Various proposals have been made concerning how external destruction could be carried out. The general view, however, is that the Riksbank should exercise control over the destruction process. Decisions concerning destruction could be made by the Riksbank but destruction itself could be procured or performed by an external party under some form of licence.

Several interviewees pointed out the need to calculate the costs of various alternatives and to compare how efficient they would be. Most of them believe that the Riksbank must bear the costs that arise if external destruction is introduced.

Quality of banknotes

The quality of banknotes is discussed on an ongoing basis

Discussions on the quality of the banknotes are now conducted in the banknote and coin group of the Cash Management Advisory Board. In this forum, the Riksbank and other participants can point out whether the quality of the banknotes needs to be improved. This method of handling the quality of the banknotes works well.

What are the responsibilities of the Riksbank and what are those of the market players?

Some of the interviewees say that the quality of banknotes in circulation has deteriorated, and that this is because they are kept in circulation in the retail sector for too long. Others say that this may be due to normal fluctuations over time, that is that the number of worn banknotes in circulation sometimes accumulates and that it takes a while before these are replaced. The interviewees say that the 20-kronor banknotes in circulation often deteriorate in quality so quickly that it often becomes impossible to use them in ATMs. Similarly, the 100-kronor banknotes also work poorly in ATMs from time to time. The settings of the sorting machines in the counting centres should therefore be adjusted. A view expressed by several of the interviewees is that the counting centres of the cash management companies are quite often careless about sorting out banknotes that have become too worn. In order to avoid storage that requires a lot of work and space, as well as expensive transports to the Riksbank for destruction, the centres allow the banknotes to

go back into circulation in the hope that someone else will take responsibility. Some interviewees called for a survey of how widespread this behaviour is. Another view is that the depot owners should make higher demands of the depot operators so that they sort out banknotes that qualify for destruction to a greater extent.

None of the interviewees say that they believe the poorer quality of the banknotes in circulation can be linked to the new depot structure. They do say, however, that it is now more difficult for the Riksbank to check the quality of the banknotes in circulation as the Riksbank is involved in the handling of banknotes that will be put back into circulation to a much lesser extent than before.

Management of coins

Limited storage of coins in depots

It is pointed out by several of the interviewees that the management of coins is unsatisfactory at present because the depots avoid handling coins. This is considered to be unwieldy, heavy and expensive. Some of the interviewees also say that a significant factor is that the interest cost remuneration for coins is relatively small as the value of the stored coins is usually very low – even though the depots handle large quantities. Coins are stored in one of the depots in Stockholm and, to a certain extent, in one of the depots in Malmö. Other depots have only “petty cash” in coins.

It has been pointed out that it would be an advantage if one could turn to the depots to trade in both banknotes and coins. Today, it is largely the cash management companies one has to turn to buy or sell coins.

Some of the interviewees say that trading in coins is clearly limited compared with trading in banknotes. Cash companies and other players that engage in extensive trading in coins therefore find it difficult to find a market for the coins. Several interviewees say that there is currently a great surplus of coins. Most of them would therefore like to see more coin depots. According to information received, BDB has plans to open more coin depots.

Concern that the Riksbank will phase out its management of coins

There is also widespread concern that the management of coins may become an even bigger problem when the Riksbank implements its plans to phase out its management of coins. Most interviewees say that the need to open coin depots and a large coin store will then be even greater. One solution would be for the cash management companies to cooperate and open joint coin depots. Others mention the need for a large bulk store for coins where it would be possible to buy coins per pallet. If special coin depots are opened, these should be entitled to interest cost remuneration .

Special coin depots should be accessible on equal terms

Another fear that has been expressed is that BDB's coin depots will only be for the owners of BDB, i.e. the five major banks. Some of the interviewees say that in this case the Riksbank should act so that the players outside the BDB sphere have the same possibilities to deposit coins. There are clear signals that the cash management companies that are not operators will be at a disadvantage as they will have no, or only limited, access to the coin depots.

The Riksbank should offer support to coin management

Several of the interviewees believe that the banks and other players will demand that the Riksbank take action to facilitate the management of coins, for example by offering support, both operational and financial, to the development of private coin depots.

One advantage of the coin management process is, however, that it does not require as extensive security arrangements as for banknotes in connection with transportation or storage. The management of coins is mainly considered to raise issues relating to premises and the work environment as coins are heavy and require a lot of space.

Standardised packages for coins in circulation

It has also been pointed out that there is a need to introduce a packaging standard for coins that circulate on the market between different players. Today, there are several types of packaging on the market and this makes the handling of coins unwieldy. Several interviewees say that the Riksbank, as a neutral party, should be able to coordinate an initiative to develop a standard that can apply to both newly-minted coins and coins that are in circulation on the market. Such work should be conducted in close cooperation with other players such as the banks, cash management companies, the manufacturers of money changing machines and so on.

The Riksbank's monitoring of the depots

The interviewees all agree that the Riksbank's monitoring of the depots is reasonable at present and does not need to be extended.

The general view is that the current system in which the depot operators, i.e. the cash management companies, sort, count and report to the Riksbank the sum on which the depot owner's interest cost remuneration is based, is an effective one. This vouches for the credibility of the data as it reduces the incentives to report false figures.

Security around the depots

The level of security at the depots is generally considered to be a matter for the depot owners to decide. This has worked to date because the banks, by tradition, have great experience of security issues and always have security in mind. Several of the interviewees point out that it is very important that the government bill⁹ on giving cash depots protected status is realised.

⁹ Bill 2009/10:87 on a new Protection Act has been submitted to parliament and is scheduled for consideration on 21 April 2010.

Costs and charges

Difficult to calculate the costs for the change

Opinions differ on how the new depot structure has affected costs for the depot owners, i.e. the banks. On the one hand, the depot owners' costs for transportation to and from the Riksbank have decreased as fewer transports are now required. On the other hand, the setting up and operation of the depots has led to increased costs for the depot owners. These costs are not particularly high, however, as the depot owners usually lease premises and operations from the cash management companies. Otherwise BDB buys services, for example from the cash management companies.

Some representatives of the banks say that the new depot structure has increased their costs. The increased costs stem from administration, the start-up and operation of BDB, loans, stores, IT systems, costs relating to the Swedish Bankers' Association and so on. At the same time, some of the interviewees say that it is difficult to calculate cash management costs as so many different players are involved in the process.

Charges for withdrawals and deposits at the depots

Some of the interviewees are concerned that BDB, given its almost monopoly position, can charge what it wants for withdrawals and deposits at the depots. At present, BDB only charges for withdrawals, which affects the banks as they need to withdraw cash. In the main, the retail sector only needs to deposit cash and thus does not pay any charges. Several of the interviewees say that this means that the banks pay too much for cash management while the retail sector is not taking its share of the costs. There are therefore plans to also charge for depositing cash at the depots. The idea is that the costs for withdrawing and depositing cash should be shared fairly in the future. This means that the retail sector and the cash management companies will bear a greater part of the costs while the costs of the banks will be reduced. Previously the banks (i.e. BDB) have not wanted to charge for depositing cash at the depots because they were concerned that this would mean that the cash management companies and retail sector would not then deposit cash at the depots, which in turn could make it difficult for the banks to cover their need for cash.

Attempts to reduce cash management costs

One way to reduce costs in the long term is to introduce compatible closed systems in the retail sector and banks by using cash cassettes that work throughout the cash management chain. This would make it possible for retailers to deposit cash in a type of service box that is linked to ATMs. This would remove the need to transport cash over long distances. Such a system would also provide a lot of benefits from the security point of view.

6. The Riksbank's considerations and conclusions

From the sections above it can be seen that the depot owners, depot operators and banks believe that the current depot structure works well. The Riksbank's general conclusion is that the objectives for the new depot structure have been achieved. It is the Riksbank's assessment that cash management is conducted more efficiently in the new depot structure than previously. The division of responsibility between the Riksbank and the private players works well in the main and will continue to be applicable. The practical problems that have arisen in the first few years have been solved by the Riksbank and the parties involved.

The Riksbank should therefore continue to work on the basis of the principle adopted in 2004; that is that the Riksbank should only be responsible for operations in the cash management process when it is doubtful that these operations can be run efficiently without the involvement of public authorities. On the other hand, the Riksbank should not work with activities that private players can run better or as well as the Riksbank.

No information on serious faults in the new structure that must be corrected has emerged. The cash market now conducts many aspects of cash management itself without the involvement of the Riksbank to any great extent. However, the interviewees have highlighted a number of issues that require further examination. These relate, for example, to how the incentives the Riksbank uses to promote efficient cash management should be designed in the future.

In this chapter, the Riksbank presents its considerations and conclusions regarding these issues.

Introduction of the depot structure and the location of the depots

The Riksbank has offered the banks remuneration for interest costs since 2005. The Riksbank notes that after a slow start there is now a well-developed depot structure with depots throughout the country. However, although the depots are now well established there is probably potential for the banks, the depot owners and the depot operators to further develop and improve the efficiency of the operations. In our contacts with the depot owners we have noted that they constantly focus on further improvements in efficiency. This is well in line with the Riksbank's aim for the depot structure; that is to provide the preconditions for more efficient cash management. However, the further development of the depots, for example in terms of location, is a matter for the players to determine for themselves without the intervention of the Riksbank.

Neutral depots

Several of the interviewees have pointed out that the depots should be neutral as this would improve trading between the depots. Most of the interviewees believe that trading is inadequate at present. By "neutral" they mean that all of the parties involved should be able to deposit and withdraw cash at the depots on equal terms.

In this context it is important to note that the Riksbank's instructions on interest cost remuneration¹⁰ state that a depot owner is obliged to receive and provide cash if, in the assessment of the depot owner, this is possible within the framework of the capacity of the depot. The depot owners must apply the principles of free access and neutrality for banks. The background to this instruction is that an efficient cash management infrastructure, like the other parts of the payment infrastructure, presupposes a high degree of concentration. It is therefore very important that access barriers and the abuse of market power are not permitted. In this way, despite the concentration of the infrastructure, sound competition in relation to services for end customers can still be retained.¹¹

One could conclude from the interviews that the depot owners are not currently complying with the instructions on unrestricted access and neutrality and that trading between the depots is not working optimally. The Riksbank intends to study these issues more closely.

BDB is the central player

The cash management companies say that the fact that they cannot claim remuneration for interest costs prevents them from competing with BDB.

For several reasons, only banks or companies wholly-owned by banks can receive interest cost remuneration. Banks are under the supervision of Finansinspektionen. It is only banks that can become participants in RIX, the Riksbank's system for the settlement of payments, and have accounts with the Riksbank. Banks and bank-owned depot companies are thus a natural counterparty for the Riksbank.

It can also be mentioned that when the new structure was initially discussed the cash management companies said that they could not own the cash in the depots as this would have an undesirable effect on their balance sheets.

Interest cost remuneration

Most interviewees believe that interest cost remuneration is a prerequisite if the system with private depots is to work. The current agreements with the depot owners, and thus the guarantee of interest cost remuneration, will expire at the end of 2015. The Riksbank believes that the 10-year agreements that the Riksbank and the banks signed in 2005 work well and sees no need for any major changes. The structure on the cash market requires considerable investments and in order to create stable conditions for the players the Riksbank intends to initiate discussions on an extension of the current agreements with the banks.

A prerequisite for receiving interest cost remuneration is that the cash remains in the depot between the hours of 21.00 and 23.00 (and in premises adjoining the depot between 23.00 and 24.00). Several interviewees question the importance of having the cash "locked down" during this period. The time should instead be adapted to the actual work processes for cash management. It is also seen as an unnecessary requirement that the cash should be sorted and packaged.

¹⁰ RBFS 2005:1, §3

¹¹ Annex B to the Minutes of the Executive Board 10 November 2005, §5, reg. no. 2005-1263-MOP

The Riksbank must be able to check the balance in the depots. In order to be able to do this, the cash must be counted, sorted, packaged and checked for authenticity, and be available for the Riksbank's inspection. These times have been agreed with the banks, but may of course be discussed further as it is in the interests of the Riksbank that the preconditions for efficient private cash management are as good as possible. The Riksbank's regulations should be adapted to this as far as possible.

Cash deposits and withdrawals at the Riksbank

SEASONAL DEPOSITS

Cash fit for circulation may be deposited with the Riksbank only as so-called seasonal surpluses during limited periods. Several interviewees would like to see a more flexible system for deposits.

The intention behind the Riksbank's decision to limit the possibility for the depot owners to deposit cash that is still fit for circulation was to create a strong incentive for the depot owners to develop their ability to forecast the need for cash.

However, there are certain periods when the private market finds it difficult to store all the cash that comes in when consumption increases. The possibility to make seasonal deposits therefore needs to be retained. On the basis of the interviews as well as statistics on how much cash is deposited with the Riksbank, it is, however, reasonable to conclude that some of the current depositing periods for seasonal surpluses are superfluous. The Riksbank should look more closely at this and discuss with the banks whether one or several of these periods should be withdrawn.

FREE WITHDRAWALS

Another view put forward is that the Riksbank acts inconsistently with regard to the depositing and withdrawal of cash fit for circulation. This relates to the fact that some depots often have a surplus of cash while others often have a shortage. Depots with a surplus can use the Riksbank's capacity only during the periods for seasonal deposits, while depots with a shortage can use the Riksbank's capacity throughout the year.

According to the Sveriges Riksbank Act, the Riksbank is responsible for supplying Sweden with banknotes and coins. The possibility to withdraw new banknotes and coins is central to this. None the less, the interviews reveal that free withdrawal contributes to inefficient cash trading on the private market. The Riksbank should therefore discuss this problem with the banks and look more closely at the possibility to limit the free withdrawal of cash from the Riksbank.

PAYMENT IN ADVANCE IN CONNECTION WITH WITHDRAWAL

Some interviewees comment on the Riksbank's demand for payment in advance in connection with the withdrawal of cash. They believe that this demand makes it difficult to control the transportation of cash. They would like to be able to pay in arrears.

The Riksbank is planning to introduce a new business system for cash management. In connection with this, the Riksbank will review the requirement for payment in advance. It could, for example, be possible to pay in arrears against pledged collateral.

THE RIKSBANK REDUCES THE NUMBER OF CASH MANAGEMENT OFFICES

The Riksbank will construct a new cash management office close to Arlanda Airport and close the two existing offices in Tumba and Mölndal. There are several reasons for this decision.

For security reasons, for example, the Riksbank wishes to own the property that houses the cash management operations so that it will be free to upgrade security in the future to the extent this is needed. In addition, the Riksbank's current cash management operations are so limited that having two offices cannot be justified.

The Riksbank has noted that some of the interviewees believe that this will lead to considerable logistical difficulties for cash management in southern and western Sweden. The market has been informed of the change in good time and should be well able to adapt its operations to the new conditions, particularly as the new office will not be in full operation until early 2013.

Destruction of banknotes

Several of the interviewees believe that the destruction of banknotes should be transferred from the Riksbank to external players. By this they probably mean depot owners and depot operators. They would also like to see the Riksbank bear the costs for external destruction.

The question of external destruction has been discussed several times over the years. During the period that cash management was conducted by Riksbank-owned companies, it could be said that destruction was carried out by external parties. This entailed comprehensive security arrangements.

Although several interviewees say that external destruction would be a good thing, no one is currently actively pursuing this issue. In the Cash Management Advisory Board and its subgroups, the Riksbank has said that it can consider external destruction on condition that its costs for destruction do not increase and that destruction is supervised in a reliable way. Some destruction operations will, however, need to be kept at the Riksbank in order, for example, to retain expertise in this field.

External destruction raises many issues. Preconditions for external destruction are that the Riksbank has complete control over destruction and that the Riksbank's costs for destruction do not increase. The Riksbank is prepared to discuss external destruction once again if the players wish to do so.

Quality of banknotes

Some of the interviewees say that the quality of banknotes in circulation has deteriorated, and that this is because they are kept in circulation in the retail sector for too long. No one blames the decline in quality on the new depot

structure. However, several interviewees point out that it has become more difficult for the Riksbank to check the quality of the banknotes in circulation as the Riksbank now handles these banknotes to a very limited extent.

The quality of the banknotes is a constantly recurring issue. Periods of good banknote quality are often followed by periods of poorer quality. It is therefore very important that the Riksbank and the private players cooperate on the issue of banknote quality. Today, this cooperation consists of discussions in various fora and of practical work aimed at maintaining consensus on which banknotes should not remain in circulation due to poor quality.

In 2009, the Riksbank checked the quality of the banknotes in circulation by inspecting random samples from the cash management companies' counting centres. This has given the Riksbank adequate control of the quality of the banknotes in circulation. The Riksbank must be clear about at what point the quality of banknotes becomes too low for them to be effective as a means of payment.

Management of coins

We stated in section 3.6 that the Riksbank is reviewing its management of coins. The background to this is that the planned cash management office at Arlanda will not be built to handle coins. The alternatives include the Riksbank procuring the management of coins (storage and distribution) or that the coins are simply delivered directly from the coin manufacturer to the depot owners without passing through the Riksbank's store. The Riksbank intends to resolve this issue in the course of 2010 so that the solution can be implemented in good time before the new cash management office is commissioned in 2013. Some of the interviewees point out that there is and will continue to be a great need for coin depots and coin stores. They believe that if special coin depots are opened they should also be entitled to interest cost remuneration like the present depots. It should be noted that the Riksbank already provides remuneration for interest costs for both coins and banknotes.

It has been pointed out that there is a need for a common packaging standard for coins that circulate on the market between different players. The Riksbank has standard packages for coins that are deposited with and withdrawn from the Riksbank. The Riksbank's assessment is that the market is best suited to developing additional standard packaging if this is needed.

Security

Several interviewees point out the importance of the government bill ¹² on giving private depots protected status being realised. This issue has been discussed in the Cash Management Advisory Board and the Riksbank has supported this demand. The Riksdag will discuss the bill in the spring of 2010.

Costs and charges

Some of the interviewees are concerned that BDB, given its almost monopoly position, can charge what it wants for withdrawals and deposits at the depots. It is not the Riksbank's role to control market forces as long as the principle of

¹² Bill 2009/10:87 on a new Protection Act has been submitted to parliament and is scheduled for consideration on 21 April 2010.

neutrality in the instructions on interest cost remuneration is complied with. Neither should the Riksbank control the pricing of the players on the cash management market.

The Riksbank's knowledge and follow-up of cash management can be improved

In conclusion we can note that the Riksbank is well informed about the form and structure of cash management in Sweden but it can develop its knowledge in some areas. The Riksbank should not control the structure of the market, how many depots there should be or how the banks choose to organise cash management. However, the Riksbank does have a responsibility for ensuring that the regulations governing cash supply are complied with, that incentives for more efficient cash management have the desired effect and that cash is an efficient means of payment.

The Riksbank will therefore follow developments on the cash market and continue the existing dialogue with banks, depot owners, cash management companies and other players. In order to be able to perform sufficiently accurate assessments of whether the current system is working efficiently or not, the acquisition of knowledge needs to be systemised. The Riksbank should therefore produce an annual report on the functioning of the cash supply system. The basis for such a report should consist of both interviews and existing statistics.



Sveriges riksbank
SE-103 37 Stockholm

Tel. +46 8 787 00 00
Fax +46 8 21 05 31
registratorn@riksbank.se
www.riksbank.se