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RBI mulls move to make cash management more efficient

Central bank plans to shift from a wholesale cash cycle, in place at present, to a retail-based model

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Mumbai, 25 October

The Reserve Bank of India (RBI) is in discussions with Cash Logistics Companies (CLCs) on a road map for changing the cash management cycle of the economy, in the coming years. The plan to move from a wholesale cash cycle, in place at present, to a retail-based model will increase the velocity of cash circulation, which will boost economic activity, industry sources said.

The data (see chart) depicts a typical wholesale cash cycle, where CLCs help banks distribute the cash they receive from the RBI's printing press(es) and mint(s) to their branches and ATM networks.

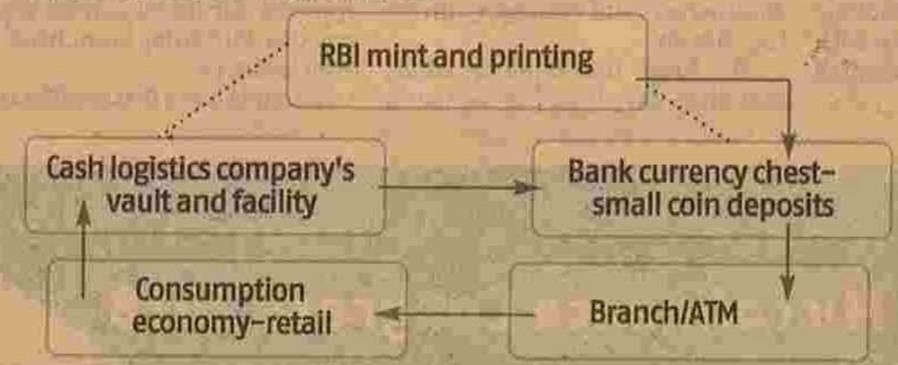
After the cash is deposited in ATMs or branches, it is withdrawn by consumers who spend their money at retail outlets. CLCs therefore pick up this cash from their retail clients and process the cash at their facilities, where quality checks are conducted, after which the cash is again deposited back with the banks' currency chest.

Business Standard sent queries to the RBI, but did not receive comments at the time of publication. Currency management "is still extremely inefficient in India, compared to other countries," says Anush Raghavan, vice-president of CMS Info Systems, the biggest CLC in the country servicing about 55,000 of the total 213,000 ATMs.

According to RBI data, as of September 28, there were ₹18.95 trillion notes and coins worth ₹249.54 billion in circulation.

"Ideally, under the retail cash cycle, money that is picked up by CMS from retail outlets will be deposited back to bank branches/ATMs, instead of the currency chest again. I don't think the country needs so many currency chests," he said.

HOW IT CUTS THE TIME



RBI is considering circumventing the process of sending cash back to the currency chests/small coin deposits of banks. Instead, the CLC vault facility will directly deposit cash collected to the branch/ATM of the banks' choice, with real-time information updates to all stakeholders

"Many state-run banks found use for their chests only during demonetisation, when they had to deposit the surplus notes," the executive with a CLC said.

Once the cash is collected by CMS, it will be sent to its vault facility. After which it will be distributed to the branch or ATMs, that the banking clients of CMS decide. CMS enables cash pickup/ drop-offs for over 45,000 retail touch points and handles from ₹15-20 billion cash a day. There are about 220 types of vault facility across the country.

While the discussions are still underway, industry executives told Business Standard, that the RBI has expressed their desire for the industry players to expedite the process to improve the cash cycle.

"One of the main jobs of the CCA is to audit the quality of work and employees and the infrastructure, and monitor, measure and ensure that there is compliance of standards set by the Ministry of Home Affairs (MHA) and the RBI," Raghavan, also the vice-president of CCA, said.

President of CCA, U S Paliwal, the former executive director of the RBI, could not be reached for comments. The move towards a retail cash cycle requires coordination between the MHA and the RBI. While the RBI does not have supervisory and regulatory powers over CLCs as a matter of law, the MHA is responsible for setting standards for private security agencies that are contracted either by the banks or CLCs for moving cash from one place to another.

In April this year, the RBI came out with new guidelines concerning cash management practices for all types of banks, including regional and cooperative banks, to implement by the end of March 2019.

On the governance structure of the SRO, Raghavan said they may want to include banks, vehicle providers and the insurers as part of the CCA to make it as broad-based as possible. "We are trying to ensure that the SRO as a body is accountable and neutral, and commercially viable. So, the CCA will need to have a credible governing body, so that there is no potential for one of the companies to influence decisions or game the outcome. We are resisting the temptation to allow companies with larger market share to have a bigger say in CCA," he said.

Ultimately, a retail cash cycle will ensure that the turnaround time for one note to travel throughout the "chain" reduces from the current standard of seven days to three-four days.

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