

Submission to the Inquiry into Financial Related Crime

Parliamentary Joint Committee on Law Enforcement

July 2014

Under the *Reserve Bank Act 1959*, the Reserve Bank has the sole authority to issue banknotes in Australia. As such, a key responsibility of the Bank is to maintain public confidence in banknotes so that they remain an effective payment mechanism and a secure store of wealth. This submission provides some details on banknotes in circulation and some comments on deterrence against banknote counterfeiting and money laundering.

Background

At the end of June 2014, there were around 1.3 billion banknotes (around 54 banknotes per capita) worth \$61 billion in circulation (Table 1). In terms of number of banknotes, this represents a 64 per cent increase over the past 10 years. These figures reflect personal holdings by individuals, banknotes in ATMs or banknote acceptance machines, banknotes in cash registers, banknotes in financial institutions to meet daily customer demand and banknotes held in commercial storage depots by cash-in-transit companies.

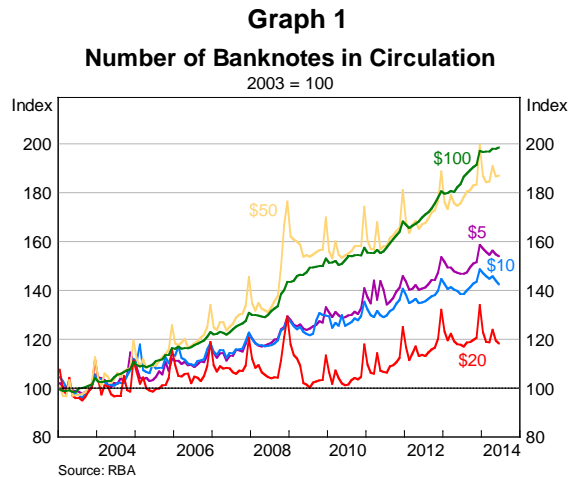
Table 1: Banknotes in Circulation

As at 30 June 2014

	Value		Number		
	\$ billion	Per cent of total	Million	Per cent of total	Per capita
\$5	0.8	1	161	13	7
\$10	1.1	2	112	9	5
\$20	3.1	5	155	12	7
\$50	28.7	47	575	45	24
\$100	27.0	44	270	21	11
Total	60.8	100	1 272	100	54

Sources: ABS; RBA

While the number of banknotes for all denominations has risen over this period, there has been some disparity in their growth rates (Graph 1). Specifically, the number of \$50 and \$100 banknotes in circulation has been rising faster than the lower-value \$5, \$10 and \$20 denominations. This phenomenon, in which the high-denomination banknotes in circulation are increasing more quickly than lower denominations, is common to many other countries.



There is very little information available on the reasons for the relative popularity of the higher-denomination banknotes. Possible reasons include:

- In the case of the \$50 banknote, it is probably at least partly related to the preference of banks and other financial institutions for stocking ATMs with \$50 banknotes.
- High-denomination banknotes offer advantages over lower-denomination banknotes as a means for storing wealth (e.g. only ten \$100 banknotes are needed to store \$1 000 compared with two hundred \$5 banknotes). The low interest rate environment currently prevailing in Australia, where there is less incentive for wealth to be stored by individuals in financial institutions, may explain to some extent the high number of \$50 and \$100 banknotes in circulation. A recent survey by the Bank indicated that many individuals store banknotes in places other than their wallet (Meredith, Kenney and Hatzvi 2014, pp 48–49).
- Discussions with banks suggest that the high value of the Australian dollar compared with other currencies may make Australian currency a favoured form of storing wealth overseas. Transporting \$100 banknotes to meet this demand will obviously cost less than the lower denominations.

Counterfeiting in Australia

The number of counterfeit banknotes detected in circulation has increased in recent years, with levels rising from around 8 400 counterfeits in 2009 to around 18 000 counterfeits for 2013. This represents an increase from 8 to around 15 counterfeits detected for every million banknotes in circulation. While this is still low by international standards, the trend has prompted the Reserve Bank to develop a new banknote series that will significantly improve the security of Australia's banknotes and ensure continued long-term confidence in the currency (Kim and Turton 2014, pp 5–11).

Counterfeiting imposes a direct financial cost on the public. Since counterfeit banknotes cannot be redeemed for value, individuals or businesses that unwittingly come into possession of a counterfeit incur a financial loss. In terms of the financial impost on the public, counterfeiting in Australia represented a loss of around \$1 million in 2013. Although this is relatively low compared with other criminal activities (e.g. the Australian Payments Clearing Association reported that in 2013 payment card fraud totalled \$304 million), the direct impact of losses on individuals and small businesses is considerable.

Notwithstanding that counterfeiting is a crime in its own right, the engagement in counterfeiting activity can also provide a means for criminals to fund other activities such as drug manufacture and distribution. Criminal groups involved in these activities often have access to distribution networks that can facilitate the passing of counterfeits.

The threat counterfeiting poses can be illustrated by a significant counterfeiting incident that occurred in 2010. Large volumes of high-quality polymer \$50 counterfeits that were difficult for the public to detect were passed into circulation over a relatively short period of time. This incident highlighted the challenges the Bank faces in an environment where counterfeiting operations are gaining greater access to more sophisticated printing and scanning equipment (Kim and Turton 2014, p 4). The Bank understands that this incident was also an example of the links that can exist between the two criminal activities of drug distribution and counterfeiting.

Counterfeit Deterrence Arrangements

Counterfeit banknote offences are punishable under the *Crimes (Currency) Act 1981*, which includes provision for significant penalties. The Australian Federal Police (AFP) prosecutes counterfeiters under the *Crimes (Currency) Act* (federal legislation), while state/territory police can prosecute counterfeiters under either state/territory or federal legislation.

The Reserve Bank works closely with the AFP and state/territory law enforcement agencies by providing expert information and statistics about counterfeit banknotes detected in circulation or seized by law enforcement agencies.

In 2009 the Reserve Bank and the AFP entered into a Deed of Agreement, which resulted in the Reserve Bank assuming a number of administrative functions relating to counterfeit banknotes that had been previously undertaken by the AFP. This change enabled the AFP to allocate greater resources to counterfeit investigations and enabled the Reserve Bank to collate and analyse counterfeit data more efficiently.

Under these arrangements, counterfeit banknotes are received by law enforcement agencies from a number of sources including armoured car companies, financial institutions, retailers, members of the public and the Reserve Bank's National Note Processing and Distribution Centre (NNPDC). These counterfeits are examined by the Reserve Bank's Counterfeit Examiners at the Bank's Counterfeit Examination Laboratory located in Craigieburn, Victoria. In the case of counterfeits retained as evidence in prosecutions, the Reserve Bank's Counterfeit Examiners also prepare expert witness statements when requested.

The Reserve Bank also has close relations with international law enforcement agencies, overseas central banks and industry groups. Information is shared with these groups at appropriate forums to support the global effort to counteract emerging threats against banknotes as a safe and secure means of payment.

Proposed Crimes (Currency) Act 1981 Reform

A number of difficulties that the AFP and the Reserve Bank encounter with regard to the existing provisions of the *Crimes (Currency) Act* were outlined in a submission to the Commonwealth Attorney-General's Department in 2009.

In that submission, the Reserve Bank proposed that it assume some of the AFP's responsibilities associated with administering counterfeit banknotes. The additional activities that the Reserve Bank could take responsibility for include the direct receipt of all counterfeit banknotes not associated with any ongoing criminal investigations or prosecutions from federal and state law enforcement agencies, armoured car companies, the NNPDC, financial institutions, retailers and members of the public.

Under the proposed arrangements, the AFP and state/territory police would retain responsibility for the investigation and prosecution of counterfeiters and would continue to be responsible for any evidentiary counterfeit banknotes. Implementation of these changes would ensure the continued efficiency of the counterfeit deterrence arrangements currently in place without the need for a Deed of Agreement between the AFP and the Reserve Bank.

This matter remains outstanding with the Attorney-General's Department.

There are also limitations in the Crimes (Currency) Act, which have been more recently identified and whereby the Act's powers are restricted to domestic borders. Recognising that organised criminal groups have an international reach, the Reserve Bank sees a change to legislation in this area as a necessary step in order to provide the AFP with additional powers when investigating counterfeiting offences that relate to Australian banknotes which are committed overseas.

Damaged Banknotes

The Reserve Bank offers a Damaged Banknotes Facility designed to improve the quality of banknotes in circulation and ensure members of the public do not face financial hardship if their banknotes are accidentally damaged.

On 23 January 2014, the Reserve Bank updated its Damaged Banknotes Policy. The previous Damaged Banknotes Policy said very little about the rationale for the Bank's Damaged Banknotes Facility, beyond aiming to have only good quality banknotes in circulation. In practice, this meant that the Reserve Bank processed damaged banknote claims subject to verification that banknotes were not deliberately damaged and the requirements of the Reserve Bank's Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF) Program had been met.

The revised Policy makes clear that the Damaged Banknotes Facility is only offered to members of the public who have unwittingly come into possession of damaged banknotes or those whose banknotes are accidentally damaged, with the aim of ensuring that they do not face financial hardship. The aim is to protect the integrity of the Facility and the reputation of the Reserve Bank by giving it the right to refuse to process claims that it assesses are inconsistent with these principles. In particular, the new Policy makes clear that the Reserve Bank will not process claims where there is doubt about the nature of the claimant or how the damaged banknotes came into the possession of the claimant. The Policy also emphasises that the Reserve Bank will not process claims where either the cause of the damage or the source of the damaged banknotes is not explained by the claimant to the reasonable satisfaction of the Bank, and that the Reserve Bank will refer a claim to the police if it believes an offence may have been committed.

Reserve Bank of Australia
1 July 2014

References

Kim E and T Turton (2014), 'The Next Generation Banknote Project', *RBA Bulletin*, March, pp 1–11.

Meredith J, R Kenney and E Hatzvi (2014), 'Cash Use in Australia', *RBA Bulletin*, June, pp 43–54.