

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

13 – 14 February 2013

Question: AET 11-15

Topic: Next Generation Banknote Project

Written: Received from Committee – 14 February 2013

Senator BERNARDI asked:

11. It was reported that the Next Generation Banknote (NGB) project was two years behind schedule (Adam Shand, 'First look at our potential new banknotes and the untold tale behind their design', *The Australian*, 27.9.2012).
 - a. Is this correct?
 - b. If so, what are the reasons behind this delay?
 - c. What is the expected completion date of this project?
12. Given that \$9.3 million has been spent already, what is the expected budget for the NGB project?
13.
 - a. What efforts are being made to retain the cultural importance attached to the banknotes?
 - b. If there are changes in the cultural and historical features of the new banknotes (compared to the old banknotes) can you please provide an explanation as to why each of these changes were made?
 - c. For example, it appears that the new \$20 note design does not include the pedal wireless, human body chart or the rider and his camel – all notable parts of John Flynn's work in the outback. Why were these features removed?
14. According to *The Australian*, designers were "supplied with new portraits depicting the subjects on the notes at earlier moments in their lives." (*The Australian*, 27.9.2012)
Why was the decision made to supply younger portraits of the banknote subjects?
15. When the RBA states that "the Bank will also consult extensively with relevant stakeholders to ensure that Australia's banknotes continue to meet community needs" (RBA media release, 27.9.2012), will any people that are experts in Australian history and culture be consulted?
 - a. If so, please provide details about these people and their qualifications

Answer:

11.
 - a-b. The Next Generation Banknote (NGB) project is not behind schedule. While there are indicative dates for completion of various stages, these dates were always intended to be subject to review as the project progressed.

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

13 – 14 February 2013

The need for flexibility in the program reflects the complexity of the process of designing and developing a new banknote. Sufficient time must be allocated throughout the process to ensure that every element of the design will produce a secure, functional and durable banknote. Any new features, for example, must be rigorously tested, durable and effectively incorporated into the banknote designs.

- c. There is currently no firm completion date for the NGB project. The issuance of the first upgraded banknotes is still several years away and, as was the case for the current series of banknotes, the issuance of the denominations will be staggered across a number of years.

It is not uncommon for a project of this nature to take many years to complete. For example, it took 12 years to develop and issue Australia's current banknote series (not taking into account the many years of research into polymer material that preceded the design process). Similarly, the Reserve Bank of New Zealand's current banknote series began development in 1990 but the first banknote was not issued until 1999. And the development of the second series of euro banknotes was announced in 2005, with the first banknote due to be released in May 2013.

12. The preliminary budget for the development of the NGB series is around \$25 million, of which around \$10.5 million has been spent to date on design, development and testing. Around half of this forecast cost would, however, have been incurred even in the absence of the NGB project so the preliminary forecast for the total net cost is around \$12 to \$13 million. The final budget will depend on the number of trials conducted and the extent of public education required.

Expenditure on the NGB series is an investment in the future security of Australian banknotes. It is therefore important to consider this investment in the context of the potential life of the banknote series. International experience suggests that the average life of a banknote series is around seven to ten years. Using this as a benchmark, the annual net cost of the development of the NGB series would be around \$1.5 million. The current Australian series of banknotes, however, has had a much longer life (it was issued more than 20 years ago) primarily reflecting its relatively high resistance to counterfeiting. On this life cycle, the average annual net cost of the NGB project could be as low as \$600 000.

It is also important to consider the cost of upgrading the banknotes in relation to the potential cost of counterfeiting to the economy. The direct 'theft' associated with counterfeiting in Australia has averaged around \$418 000 per annum for the past decade. If the rate were to increase to levels experienced in some other countries during that period, the annual cost would be around \$20 million. It is worth noting that this cost generally falls on those who can least afford it – often small businesses and individuals – and, unlike credit card fraud, they can't be protected against the loss.

In addition to direct costs to people who accept counterfeit banknotes, there are also considerable indirect costs associated with a counterfeit attack. Transaction costs would increase as businesses invest in detection equipment and as staff spend more time verifying banknotes, the efficacy and efficiency of the payments systems would be affected

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

13 – 14 February 2013

as people may refuse to accept cash payments or change to alternative methods, and the Reserve Bank and the government would experience significant reputational loss.

While Australia has experienced relatively low levels of counterfeiting – both in absolute terms and compared with other countries – it is the Bank's assessment that a security upgrade is necessary to ensure that Australia's counterfeiting level remains low into the future. Overseas experience suggests that if an upgrade project were delayed until such time as a counterfeit attack eventuated, the resulting 'fast-tracking' of the new series would introduce significant risks of failure and disruption to the economy.

In addition to the costs of developing the new banknotes, there will be significant costs in printing and distributing the new notes and withdrawing the existing notes.

13. The cultural importance attached to the banknotes is a primary consideration of the Reserve Bank. The people and associated images depicted on the banknotes are based on their historical and cultural significance to Australia.

The images shown in *The Australian* on 27 September 2012 are early concept designs and have been superseded. As announced by the Reserve Bank in September 2012, the banknotes will retain many of the key design elements of the current banknote series, such as the colour, size and portraits. That said, some design changes will be necessary to accommodate the new security features. The nature of these changes has not been finalised.

The design of the \$20 banknote has not been finalised.

14. The existing portraits will be retained.
15. In line with the process adopted for the current polymer series banknotes, the Bank will consult with a wide cross-section of the community. This will include special interest and representative groups, such as the visually impaired community, cash handlers and banknote equipment manufacturers. In addition, the Bank has been consulting with a number of people with expertise in the fields of history, art and design. Subject matter experts will also be consulted for advice on specific design elements as required.

Full details of this consultation will be disclosed at a later date.