Cash in crises financial literacy series

'*Cash in Crises*' is a series of financial literacy audiographics brought to you by Cash Essentials, a private sector initiative with a social mission to support the relief and development community in understanding how cash is managed for society in times of crisis.

Episode II

Role of Central Bank in disaster management

Let's start with a short reality check and look at some lesser-known aspects of digital money.

> *"Access to physical currency is an immediate priority in times of national emergency."*
>
> Iluminada Sicat
> Assistant Governor
> Central Bank of The Philippines

> *"Cash is an immediate priority, not one that can wait a few days."*
>
> Alfred Romualdez
> Mayor of Tacloban
> Philippines 2014

In November 2013, the Philippines was struck by super-Typhoon Haiyan where over 6,000 people died. As the storm approached, the Mayor of Tacloban, a coastal town of 240,000 people lying directly in the storm's projected path, ordered a series of protective measures to be taken, one of which was to construct walls of sandbags around the town's ATMs. He also requested the Central Bank to pre-position an extra supply of low-denomination banknotes because he knew that access to cash would be an immediate priority once the accompanying storm-surge retreated. He was right, but it wasn't enough. In the event, cash demand more than tripled, requiring the Deputy Governor of the Central Bank to fly in from Manila to coordinate banking operations and organise daily injections of additional currency.

Central Banks

> *"People don't realise how important Central Banks are to their lives, especially after a disaster. [...] In an emergency, the Central Bank can act lender of last resort."*
>
> Masaaki Shirakawa
> Governor of the Bank of Japan, 2013

Sudden-onset disasters affect each country differently, but in each case, Central Banks have a major role to play.

Central Banks – or Reserve Banks as they are sometimes called – are obliged by law to continue operations in times of economic shock and carry on doing what they always do: Exercise overarching responsibility for maintaining a stable and well-functioning monetary system.

This requires a Central Bank to ensure business continuity by operating with minimal disruption in three main areas:

- First, it must enact monetary policy aimed at reducing market volatility by controlling inflationary effects
- Second, it must maintain efficient and effective national and international payment, clearing and settlement systems
- And third, it must ensure liquidity by providing the conditions that allow lines of commercial credit to be underwritten and maintain the money supply.

So, what does this mean in practice?

There are six immediate implications of relevance to the aid sector

1. Cash demand increases substantially following a sudden-onset disaster and remains much higher than normal throughout the early recovery phase. In addition, the ability to obtain cash is subject to banks being able to confirm customer account balances. In the case of Typhoon Haiyan, banks allowed emergency cash transfers on credit for known customers for some weeks after the event until settlement systems were
2. re-established. Overall, the quicker public access to cash and credit is re-established, the sooner recovery can begin.

3. Frequent and timely provision of economic impact assessment data is required to lessen volatility and instability in the capital markets and prevent negative effects on the real economy. The Central Bank's priority then, is to maintain confidence in international markets by providing information as and when it can. This requires the earliest possible assessment of economic damage as natural disasters can place huge cash demands on government treasuries and foreign reserves at short notice.

4. The Nepal earthquake of 2015 demonstrated that more can be done to integrate the international relief community into government-led coordination mechanisms in the financial sector along with commercial banks, cash-in-transit companies, TelCo's and security services.

5. When faced with a potential breakdown of market functionality, liquidity is maintained in part by some Central Banks acting as "lender of last resort." They also play another crucial role in reducing disaster risk by developing the strategic framework for risk financing through market-based mechanisms such as disaster reinsurance, the issuing of catastrophe bonds, and deferred repayment loans. Macroeconomic policy response can also include balance of payments or exchange rate support from external institutions. The extent to which such adjustments will be needed ultimately depends on external aid inputs, remittances from overseas and the depth of sovereign insurance.

6. The Central Bank has to make sure that national and international settlements as well as payments systems continue to function without a hitch. Interbank transfer systems require physical back-up of data and satellite-based communications links.

7. Damaged banknotes – for example, those damaged during the Great Japanese Tsunami of 2013 – must be replaced as quickly as possible. This can involve printing and storing additional banknotes, setting up temporary exchange desks, and even flying in ATMs – as was done during the Pakistan floods of 2010.

Summary

> ***"The Central Bank does not just need to be involved in managing cash during a national emergency, it needs to co-lead coordination of the financial sector."***
>
> Alan Boaden
> former Head of Currency
> Reserve Bank of New Zealand, 2019

> ***"A Central Bank is a bank. Accordingly, day-to-day banking operations have to continue … even more so in times of crises."***
>
> Timothy Antoine
> Governor, Eastern Caribbean
> Central Bank, 2019

Recognising that each country's Central Bank will have a slightly different mandate, Central Banks have certain key responsibilities in times of crisis to ensure continuation of their day-to-day role of maintaining a stable and well-functioning monetary system. These include:

- Preparing monetary policy frameworks ahead of time aimed at reducing disaster risk (for example, capital markets and self-insurance)
- Keeping the international money markets informed immediately after the event
- Coordinating external stakeholders involved in cash management, including commercial banks, the private sector and relief agencies
- Ensuring business continuity for, and interoperability of national and international payments and settlements systems
- Conducting a rapid post-disaster economic needs assessment
- Ensuring access to, and supply of, money, including, if necessary, lines of credit
- Adapting macro-economic fiscal policy over the short term (for example, by limiting individual daily cash withdrawals, and by imposing short-term price controls)
- Mapping insurance coverage and pay-outs