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ESTA Cash Key Messages and Plan of Action

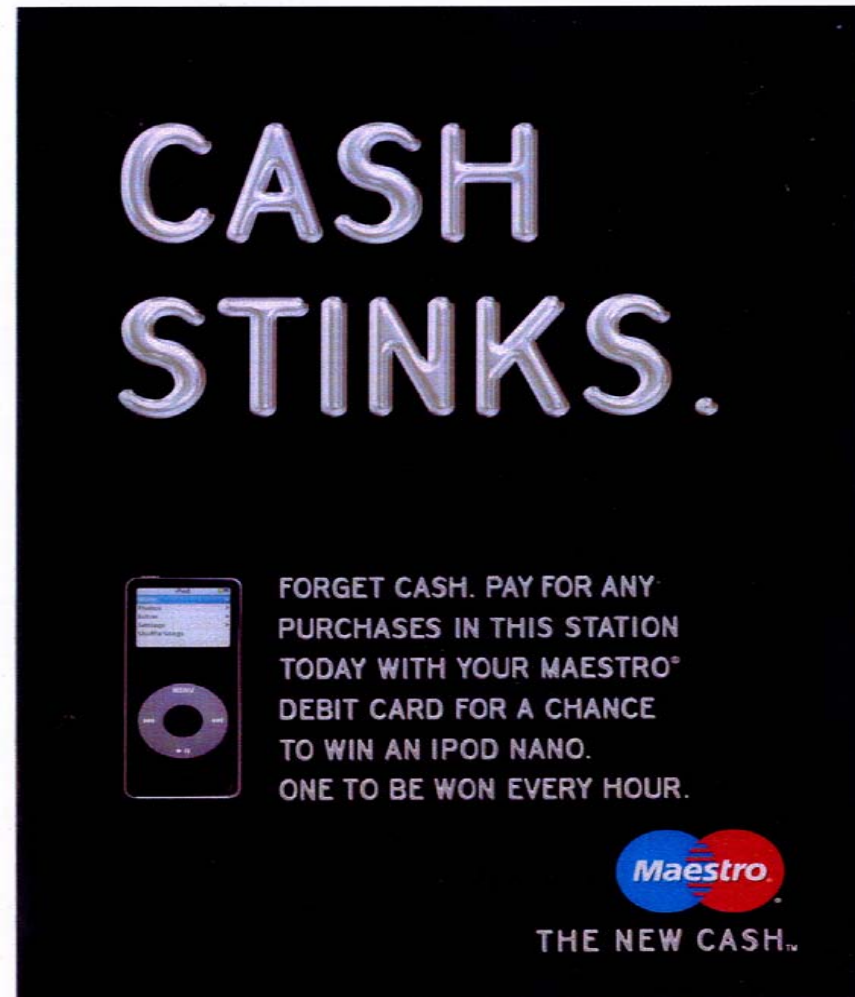
Graham Levinsohn
Regional President,
Group4 Securicor
Chair of ESTA Cash Group

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The Battle Between Cash & Plastic – The Cross-Roads

- The Banking Industry Battle Against Cash has moved to Brussels
- European Commission Internal Markets & Services DG is publishing negative facts about Cash, and promoting more efficient electronic payment mechanisms
- Mastercard & Visa are publically stating their intention to kill Cash
- EPC (European Payments Council – Association of European Banks) is charged with SEPA Vision
- EPC Quote – “European Voice Nov 05
“If we want to produce a competitive economy that relies on non-cash payments, that can only happen if we have real competition between payment services so that customers can compare the merits of pricing”



**CASH
STINKS.**

FORGET CASH. PAY FOR ANY PURCHASES IN THIS STATION TODAY WITH YOUR MAESTRO® DEBIT CARD FOR A CHANCE TO WIN AN IPOD NANO. ONE TO BE WON EVERY HOUR.


THE NEW CASH.

What is it?

SEPA

- EU vision of a **S**ingle **E**uropean **P**ayments **A**rea (Single Market for Payments)
- Payments services should be borderless across EU
- “Best of Breed” products available across geography
- Complement to the borderless Euro currency (account-based services catching up)
- Cross border technology to enable consumers to transact on a European wide basis at the same price as if they were in their home country

SECA

- EPC conceived vision of a **S**ingle **E**uropean **C**ash **A**rea
- Subset of SEPA
- Common standards & prices from National Central Banks
- Common security standards
- Borderless CIT
- “Reposition” (Reduce) Cash
- **Distraction of attention from SEPA**

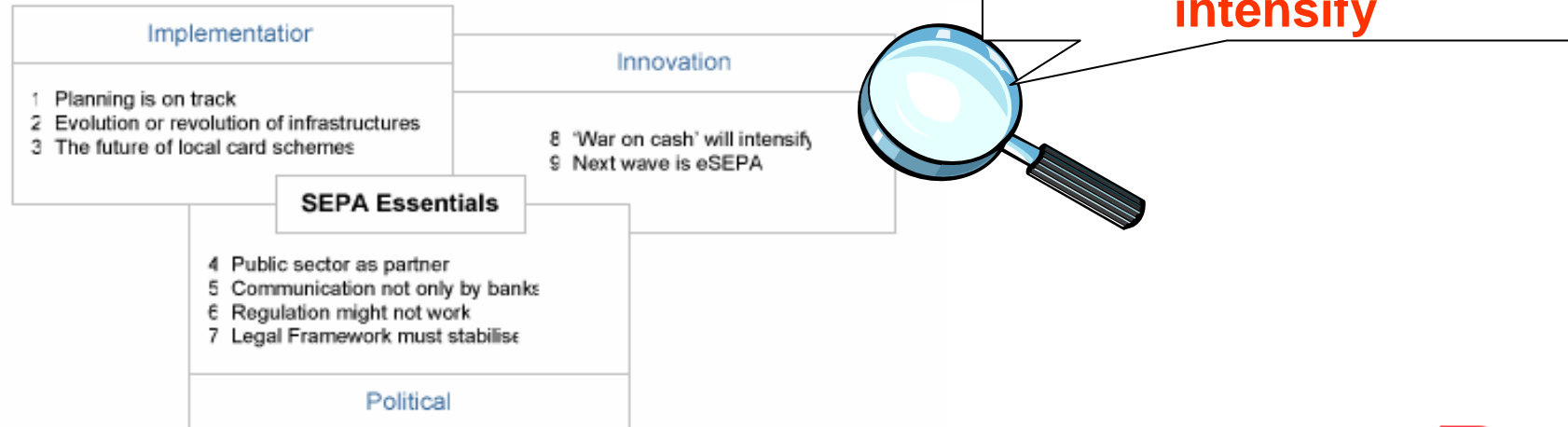
It's NOT Paranoia!!



Report of 5th EPCA Conference 'Payment innovation beyond SEPA', Amsterdam 4-5 April 2006

The Nine SEPA Essentials

By Douwe Lycklama and Harry Smorenberg



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What the Card Industry Says...



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8. The 'War On Cash' will intensify.

“ A major part of a Bank's payback on SEPA investments has to come from reducing the Usage of cash in society. Cash is a bleeder for banks according to Hartsink (EPC Chair) and Rom Colthoff (Capgemini). However users have to be incentivised for using electronic Payment methods. Both Van Der Velde (Visa) and Perez (Mastercard) presented their solution to increase debit card usage for amounts below €25.”

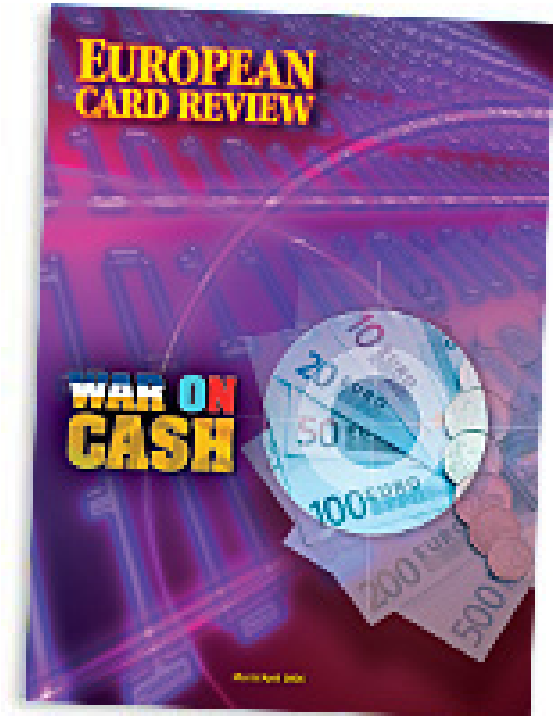
“EPC (Hartsink) has published the 'SECA'- Framework: Single Euro Cash Area. The cooperation between banks, merchants and central banks is key to making this a reality.”

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EPCA CONFERENCE SPEAKERS

- Hermann-Josef Lamberti *Member of the Board of Managing Directors Deutsche Bank, Frankfurt*
- Jean-Michel Godeffroy *Director General European Central Bank Frankfurt*
- Gerard Hartsink *Chairman EPC, Brussels*
- Ben Haasdijk *CEO Interpay, Utrecht*
- Johannes van der Velde *Deputy chairman and non-executive director Visa, London*
- Javier Perez *President Mastercard Europe, Brussels*
- Mario Daberkow *General Manager Services Deutsche Postbank AG, Bonn*
- John Holsberg *Senior Vice President Rabobank, Utrecht*
- Petri Aalto *Head of Payment Development, OP Bank Group, Helsinki*
- Katarzyna Przybyla *Commercial Card Director Citibank Handlowy, Warsaw*
- Olli Kähkönen *Manager Strategy and infrastructure, Nordea Bank, Helsinki*
- Philip Klopper *Executive Director Dutch Central Bank, Amsterdam*

EUROPEAN CARD REVIEW: APRIL 2006



But We Have Just Heard : -

- ESTA commissioned research by Europe Economics, led by the eminent economist, Mr Derek Scott, tells us cash is competitive, and market forces should decide without interference from Brussels or the EPC
- Monsiour Lepecq, who is organiser of the EFMA Cash Processing Conference and Author of a Report on Cash concludes Cash still has a vital role to play in society
- Belgium National Bank tells us that their study into payment systems shows cash has it's place
- We could have invited the Dutch National Bank to share their study, or the ECB to share their underlying views, and it would have all been positive
- We could have invited BEUC (European Consumers Council), who stated in their submission to EC that consumers should have a strong voice in this debate, and that Cash is a critical payment mechanism
- We could have invited National Consumers Council in UK who did research which saw Cash as a critical payment and debt management tool for lower income groups

So against all this weight of evidence, why does ESTA remain so stressed about promoting and defending the role of cash.

Who else, if not the Cash Industry will ensure the truth about Cash is heard.

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What the EPC says...

- *“The cost of cash is generally ill externalized to actual users, thus burdening the pricing of electronic payment instruments, preventing their competition for acceptance on the basis of genuine customer value, and stalling the banking industry’s aim to contain operational losses in this field”*
SECA FRAMEWORK 2005
- *“The sheer cost of cash to society as a whole. This cost has been estimated at around EUR 50 billion p.a. With the current organizations and cultures, incentives are scarce that would create the actual conditions for key stakeholders to reduce this cost”*
EXECUTIVE SUMMARY SECA FRAMEWORK 2005
- *Therefore it is proposed that the scope of this work encompasses:*
 - *not only banking industry initiatives to reduce the cost basis of cash handling (notably wholesale cash) services,*
 - *but also concerted actions by the key stakeholders to longer term reduce the proportion of cash in circulation.*

CWG FINDINGS & RECOMMENDATIONS PAPER 2003

What the EU Commission (Internal Markets & Services DG) says...

- *“The proposal for a Directive focuses on electronic payments, which are more cost-efficient than cash and which also stimulate consumer spending and economic growth.”*

PAYMENT SERVICES DIRECTIVE PRESS RELEASE 2005

- *“The starting point for the assessment of social and economic impacts of these alternatives was the need to enhance the trust of users in remote or electronic payments in order to push back the use of cash in particular removal of obstacles (caused by mistrust) to the further use of cheap and efficient means of payments”*

PAYMENT SERVICES DIRECTIVE IMPACT ASSESSMENT 2005

- *“(55) How can efficient payment instruments be promoted and cash and cheques be repositioned? How can the price signalling mechanism be improved to promote the use of the most efficient instruments?”...*
- *“(58) Are there other rules or market practices that favour the use of cash/cheques? Are there examples of best practice to reduce consumer reliance on cash without provoking consumer organisations?”*

SEPA CONSULTATION QUESTIONS 2006

THEIR VISION OF SECA...

1. Consumers only use cash because it's free
2. Consumer preferences can be manipulated by pricing
3. Cash is the best of the European public
4. Cash is the most effective payment instrument
5. Cash substitutes can potentially reduce the costs of a whole
6. Cash substitution can improve efficiency in an economy
7. The cost of cash to banks is

"CASH

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ESTA's VISION OF SEPA / SECA

~~SECA~~

SEPA ✓

There should be a **SINGLE EUROPEAN PAYMENTS AREA** where **CONSUMERS** can **CHOOSE** which payment instrument they will use.

- There is already a SECA since Euro currency launch
- Cash is the consumer's preferred instrument
- Cash is a SEPA "Best of Breed" product
- THE COSTS OF CASH CAN BE SUBSTANTIALLY REDUCED

There should be no covert regulatory attempt to "reposition cash" to advantage cards

ESTA unequivocally opposes the use of SEPA, SECA or any other instrument to dis-advantage Cash in any way

We are not alone in our stance :-

There is already a De Facto SECA!

- The recent Joint Statement from the ECB & EU Commission supports ESTA's view:
*“The introduction of **the euro as the single currency of the euro area will only be completed when SEPA has become a reality**, i.e. when consumers, businesses and governments are able to make **cashless payments** throughout the euro area from a **single payment account** anywhere in the euro area using a single set of payment instruments as easily, efficiently and safely as they can make payments today in the domestic context.”*
EU Commission / ECB Joint Statement May 06
- Unlike other forms of payment, cash is currently borderless within the Euro Zone
 - THERE IS NO NEED FOR INTERVENTION IN CASH
 - TO SUGGEST SO IS TO DISTRACT THE SEPA FOCUS

BEUC (European Consumers Association) Response to the Proposal on the Payment Services Directive

- We are surprised and shocked by the Commission stating that the 'initiative will focus on electronic payments as an alternative to expensive cash. Consumers are best placed to decide what is in their view the most 'efficient' means of payment
- Policy making must be based on consumers as they actually are, and not as policy makers or industry think they should be
- We are particularly concerned about the biased view on the alleged costs of cash to society as compared to other means of payment, labelled as more efficient, as it appears in the proposal for the directive and in the impact assessment. The analysis is much too simplistic and hardly relates to the costs and advantages of cash as compared to alternative payment instruments for consumers and society in general
- More neutral and recent studies, such as the one published by the Belgian Central Bank, point out to a much more balanced assessment of the relative costs and advantages of all means of payment. In fact, if one compares the cost per transaction of payment instruments in Belgium, cash is the cheapest instrument, followed by Proton (electronic wallet), debit cards and credit cards
- The coexistence of several means of payment allows for substitution when one of the payment systems is encountering major problems
- 'Efficiency' should be assessed in terms of simplicity, user-friendliness and safety/perception of safety
- The other specific side benefits of cash, such as seigniorage, should be acknowledged in a balanced assessment

GMB Input to Uni on SEPA April 2006

SINGLE EUROPEAN PAYMENTS AREA

- The GMB trade union is the fourth largest union in the United Kingdom. We have a number of concerns about areas that do not appear to have yet been addressed in the considerations leading up to the SEPA proposals.
- The argument that cash is expensive to handle when compared with electronic payments such as credit cards appears to have been accepted by the European Commission without taking the views of groups outwith the banking industry into account. Consumers, small retailers and the cash industry itself have had little or no stake in the creation of SEPA where governance is in the hands of the EPC.
- The GMB is concerned:
 - That the focus of the proposals is on the benefits of the system to commercial banking organisations, and not to the consumer.
 - The impact upon employment – currently there are around 14,000 people employed in cash logistics in the United Kingdom, and it is estimated around 100,000 throughout the European Community.
 - The shift from a resource (cash) which is guaranteed by the State over to the products of commercial organisations which are dependent upon markets and profitability for survival.
 - The impact upon financially excluded groups who do not have access to bank accounts, or who for other reasons choose not to use the banking system. These include the elderly, poor, people from ethnic minorities and people who are excluded from the banking system because of previous debts or other problems.
 - The charges that banks and credit cards make both to customers and users.
 - We are also concerned that there has been little consideration of cultural or religious barriers that impede the use of banking services.

The Social Case

- UK National Savings and Investments research : “39% of debit card holders are overspending by using them for day-to-day purchases. One of the main reasons, they found, was that plastic card spenders had difficulty seeing their use of cards as spending real money”.
- Dax Harkins, senior savings strategist at NS&I, explained: “The shift from physical payment in the form of cash to virtual spending has caused many people to lose track of their day-to-day spending. Plastic payments lower some consumers’ financial awareness and control, causing them to spend more money more easily.
- In the National Consumers Council's Submission to "The Select Committee into Financial Inclusion", they quoted 2005 Research into Low Income Groups as follows :-
 - "Half of low-income consumers with a bank account still prefer to manage their money in cash"It went on to say
 - "Low income consumers with bank accounts have higher levels of arrears and indebtedness than their unbanked counterparts. "
- In other words, use of cash is really a successful money/debt management mechanism.

Neelie Kroes

European Commissioner for Competition Policy

Payment cards competition inquiry – Speech on preliminary results : April 2006

The EC DG For Competition is already worried about Banks having to much power. She said :

- “First, we need more competition between banks. Only a handful of banks per EU Member State offer card related services to retailers. And in some countries these banks cooperate to become an effective monopoly provider. This must change.
- Second, we must allow other service providers to enter the market and bring innovation. Some networks are still too closed to allow for more competition between banks and processors.
- Third, the industry should re-think its pricing model. Banks collectively set fees that “tax” businesses, and ultimately all consumers, for every card payment. As a consequence, there is not enough market pressure on fees paid by retailers and retail prices are inflated due to card payments.
- Fourth, we need to create more Europe-wide payment schemes. There must be more competition between card networks.
- We need more diversity. This means that different national networks must be able to “speak” to each other, through common technical standards. Such common standards are an essential step to creating more room for competition.”

And these are the people the DG Internal Markets & Services say should drive SEPA, and we should let them reposition cash, and provide incentives to move away from Government backed Cash to their profit generating “Card Systems” ?

The Battle-ground : Key Events in 2006

- ECB analysis into Cost of Cash now happening, with results due in third quarter of 2006
- Cash Users Group (jointly hosted by ECB and EC ECFIN DG) Cost of Cash Debate to be held in Quarter 4 2006
- EC Internal Markets & Services DG Consultation Paper on SEPA Benefits
 - Deadline for Replies (21st March 2006). ESTA provided robust response to EC (EPC) position
 - Second Consultation in Summer 2006
 - SEPA Conference October 2006
 - EC External Study on Cost and Benefits of SEPA ongoing
 - EC communique by end of 2006 on direction of SEPA (including SECA), and on whether any regulatory intervention is planned
- EC Payment Services Directive Hearings commenced 25th April
 - Directive drafted by Internal Markets & Services DG
 - Currently Directive excludes Cash, which we welcome
 - Impact Assessment states regularly that cash is inefficient and electronic payment is efficient
 - Hearings ongoing during 2006
- EPC SEPA
 - Ongoing debate and progress

Powerful Arguments For Cash

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Attractiveness: Unique Features

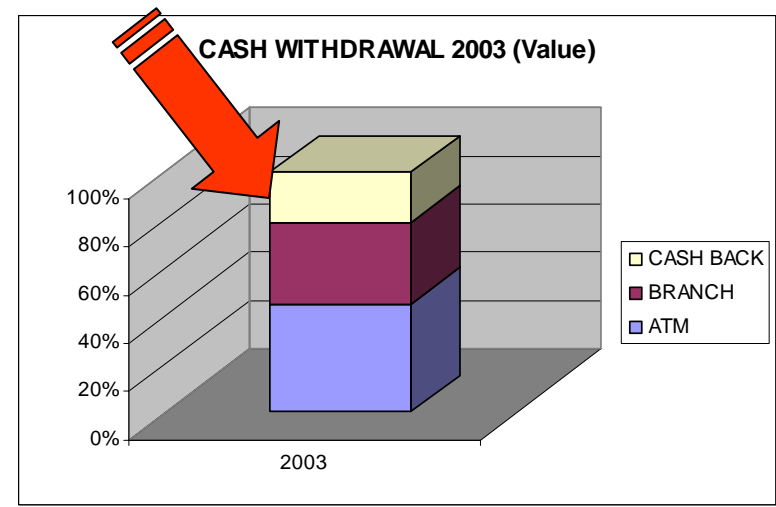
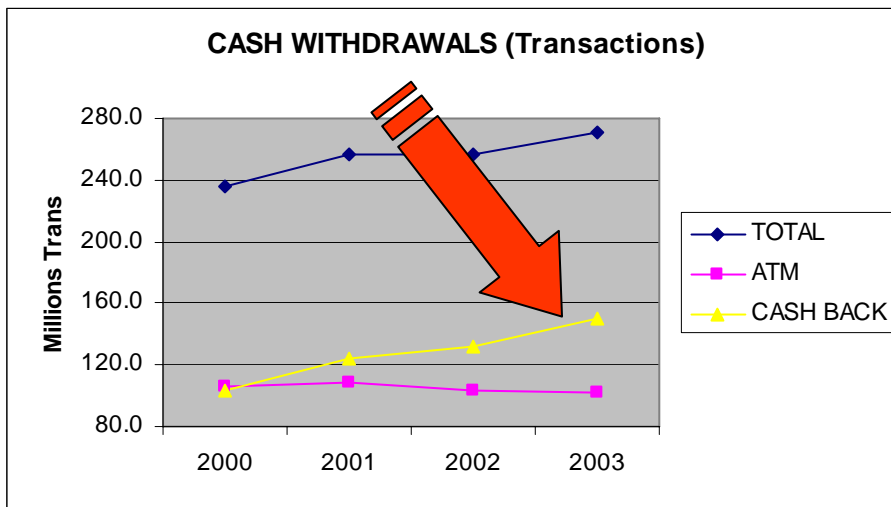
1. Certainty of acceptance
Legal Tender
2. Immediate settlement
Fastest Settlement Possible
3. No infrastructure requirement
Key for P2P
4. Ease of use
8 to 80 year olds
5. Ease of monitoring
Controls indebtedness
6. Anonymity
Not just for Crooks!
7. State-underpinning
Confidence



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Cash Demand is Resilient To A Point : Norway Tried Pricing ATM Withdrawals to shift Consumer Behaviour

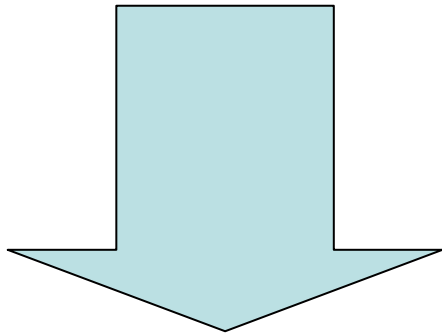
CASH IN CIRCULATION GROWTH FLATTENED – NO REDUCTION IN CIC



- Consumers simply got their Cash via Cash-back at Retailers (40%+ growth 2000 – 2003)
- Over 50% of cash sourcing now via Cash-back (Notes recycled)
- Over 20% of total value of cash transactions
 - **NOT** “A Drastic move away from cash” as claimed by the EPC (“European Voice” November 2004).

Cash is Resilient To A Point : Finland

- Reduced it's Bank Branches by 1/3
- Reduced it's ATM Base by 1/3
- Increased it's EFPOS terminals by 1/3
- Actively promoted e-purse



- Finnish Consumers still has a 49% preference rating for Cash, above the EU average
- Finnish ATM's are the second most intensively used in Europe, being used between 2 – 5 times more intensively than in UK, Germany, France, and Spain
- Cash in Circulation, and in Usage is again rising in Finland

Cash is Free at the Point of Dispense, But is still paid for by The Public

- In many European countries ATM usage carries no charge
- Simply because cash may be “*free at the point of dispense*” does not mean the public are not paying for cash
- Public’s preference for cash cost them some €16bn in EU15 in 2003 via Seignorage

This State revenue stream represents almost 13% of the EU 2006 budget.

- Seignorage =
The value the State receives by issuing token money (banknotes and coin). The difference between the intrinsic (cost to produce and circulate) and representational (face value) value of the token.
- Seignorage is NOT a windfall to the State...
“Seignorage revenue thus allows the federal government to finance a portion of its expenditures without having to collect taxes.”
Source: Bank of Canada

BUT CASH CAN STILL BE MORE EFFICIENT, AND HERE IS AN OPPORTUNITY FOR US TO LEAD THE DEBATE IN A POSITIVE MANNER

- Opportunity to Create A Lean Cash Cycle
 - INFLOW COST is $2x >$ OUTFLOW COST....
 - IF INFLOW COST = OUTFLOW COST THEN...

€10Bn OPPORTUNITY FOR THE INDUSTRY (20% reduction in the Net Societal Cost)

- We are convinced the “inflow cash cycle can be re-engineered to substantially reduce costs
 - EVERY study concurs upon high cost of branch payments
- €10bn exceeds EU Commission’s SEPA savings for cash AND CHEQUES
 - Without massive behavioural shift
 - Without Fiscal impact upon State
 - Without further delay to key SEPA objectives
- **SEPA should be much bigger than a Cash v Cards debate**

ESTA Plan of Action

ESTA has engaged a specialist Public Affairs House in Brussels, Edelman, led by Thierry Lebeaux to :-

- Raise awareness about the complexity of the cash cycles and the truth about the comparative cost of means of payments - let the market decide
- Identify natural allies which would be unlikely to support a reduction in the use of cash – including those who benefit from seignorage: the European Central Bank (seignorage is further shared with Member States) and the Member States' bodies which issue coins
- The social/employment aspects of cash reduction should be further emphasised to highlight the consequences of “repositioning”. The argument would help to significantly widen the audiences concerned and raise it, notably, with DG Employment and Social Affairs or the relevant EP committee, the Economic and Social Committee etc.

Strategy

The arguments to be provided to the different audiences will stress the following points:

- True Cost of Cash
- Users' preferred means of payments
- Efficiency of cash and the seignorage issue
- Social issues, including low income groups needs, consumers needs, and jobs

The actions suggested to develop this strategy take also into consideration that:

- Banks have been the main stakeholder monopolizing this debate so far – raising awareness of an effective “bank lobby” would help to put into perspective the current policy positioning
- It will be necessary to develop a number of actions at national and EU level to generate a core of support within the Council to allow early opposition to any cash-adverse initiative of the Commission.

Strategy

The objective is therefore to secure:

- Neutrality of the Commission statements on cash – no promotion of cash substitution measures or a policy favouring one means of payment over another
- Securing a level playing field between means of payment: fair competition will mean that end users will be able to choose freely
- Recognition that some “mantras” are wrong – eg that cash is more expensive than all electronic payments and that a clear distinction is made between cash and cheques
- Solution is in the re-engineering of cash cycles to seek cost savings where they are possible

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Specific Actions

- Secure amendments to the Payment Services Directive and in SEPA related documents establishing the principle of fair competition between payment systems – this may not necessarily mention cash specifically, with a view to facilitating the inclusion of the amendment in the draft Directive;
- Brief senior Commission officials and politicians (Commissioners, MEPs, relevant ministers) on cash issues to avoid any adverse statements
- Start targeted networking and make submissions and/or one-to-one meetings at political level:
- Commissioner McCreevy meeting with ESTA President : Nick Buckles
- Meetings :-
 - Members of relevant Commissioners' cabinets
 - MEPs who have influence in their home Member States or at international level, with a view to having amendments tabled during the Payment Services Directive discussion to generate a debate
 - Representatives of the ECB's General Council
 - Input in ECB Cost of Cash Study
 - Representatives of National Central Banks
 - Representatives of the national Ministries of Finance
 - Representatives of consumers' associations at EU (BEUC) and national level on the basis that consumer like cash
 - Representatives of other third parties such as trade unions, NGOs, etc

Specific Actions - Events

- Organisation of some events/debates on the issue of cash in organisations which could offer a good opportunity for informed debate
- Organisation of a conference/hearing on the use of cash at the Economic and Social Committee.
- The Brussels Economic Forum. Sponsored by DG Economic and Financial Affairs, this annual meeting holds debates on financial/economic issues. The aim would be to ensure a debate on the use of cash at the 2006 Forum.
- Meetings organised by the European Parliament's Kangaroo Group on the use of cash. The Kangaroo group is composed by MEPs and industry representatives. On the basis of the proposals made by its members, participants discuss various issues of relevance.
- Presentation by ESTA of The Facts about Cash at Banking Conferences (EPC is also presenting)
 - ICCOS : New Orleans - June 06
 - EMFA : Paris - June 06
- Meeting 8 MEP's on Economic Affairs – Strasbourg – 17th May

Specific Actions – Reports & Press

- Preparation of an own initiative opinion by a member of the Economic and Social Committee. As compared to the previous suggestion, the main difference would be that members of the ESC are usually not the main targets of the lobbying of different stakeholders and therefore the outcome would mainly depend on the work done by the Rapporteur and the members of the working group;
- European Voice, the Brussels based journal which is read by most of the EU decision makers is preparing a special report on Financial Services which will be published on 16 June. The report would be a good opportunity for a short article, or interview, on the use of cash.
- Limited media campaign to restore some truth about cash amongst the EU press corps representatives in Brussels (journalists accredited to the EU institutions): the point would be to have a few background articles to present the real facts about cash.



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Thank You

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