



ESBG

European Savings Banks Group

Optimizing euro cash efficiency –
another long march

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The euro is a success...

- ❖ Cash in circulation has grown four-fold since 2002
- ❖ Up to 80% of payments in Europe are settled in cash
- ❖ 2.400 EUR in circulation per capita (2009 - vs 1.700 in 2005)
- ❖ The eurozone and beyond : overall 300 billion cash transactions (euro and other EU currencies in 2008) - 188 billion in Western Europe only (70,5% of all transactions)



...beset by an unexpected legacy contradiction

- ❖ For banks distributing it the euro is an asset (not only a payment instrument)
 - ❖ It is an asset they purchase from Central Banks at a premium (security, storing, distribution costs), yet sell at best at par
 - ❖ Yet that premium differs from country to country (eurozone)
 - ❖ ...so much for the concept of a single currency
- Hence a public policy imperative:
- ❖ Bring such premium down to 0
 - ❖ Avoid gaps between eurozone countries
 - ❖ Any urgency? Well, the 10th anniversary of the euro...

How to remedy?



- ❖ Multi-dimensional problem
- ❖ How about working on inventories...
- ❖ And cash cycles?

Objectives to pursue

- ❖ Leaner supply chains concentrating cash handling steps (fitness sorting, checking, bundling), avoiding process duplication
- ❖ Matching IN and OUT cash flows at source as best as possible
- ❖ Achieving efficient large-scale recycling of euro cash between PSPs and other commercial parties
- ❖ Mitigate financial impact of cash on PSPs' balance sheets NCB while authenticating and fitness checking cash
- ❖ Stimulate improvements on transport optimization, security (less transport), storage (number of facilities)
- ❖ No entry barriers for new cash cycle players

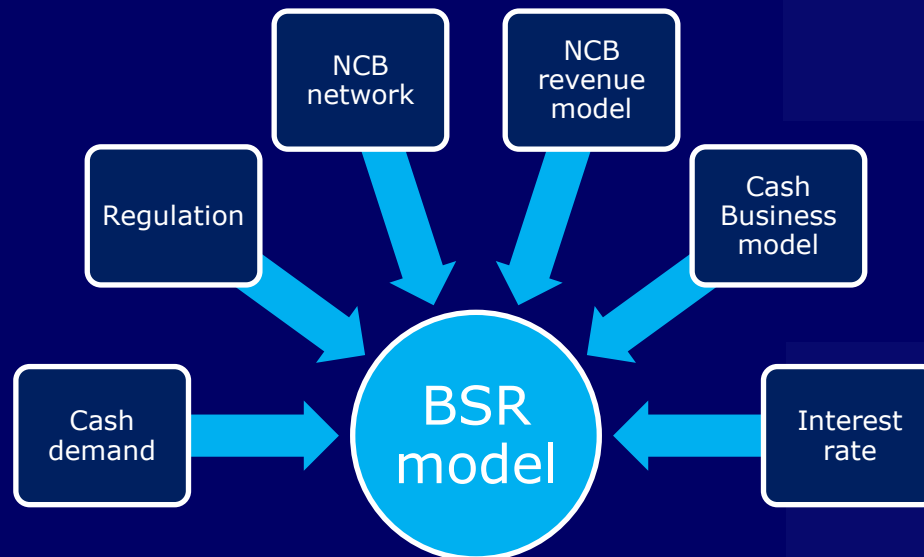
A wide variety of cash cycle typologies today

LEVEL OF NCB PARTICIPATION IN MAIN CASH CYCLE CATEGORIES

Key components	NCB central in cash cycle	Joint venture NCB - commercial participants	NCB activity delegation to commercial participants	NCB activity transfer to commercial participants
Daily Cash transfer to NCB	Yes	Between joint - venture and cash cycle participants	Reduced transport	No
Retail cash processing by NCB	Yes	By joint venture	No	No
Note fitness sorting by commercial participant and at industrial scale	No	By joint venture	Yes	Yes
NCB cash stock stored at a commercial participant	No	Possible at joint venture	Possible	No
Cash stock held in defined Depots outside NCB with full or limited interest relief for Depot holder	No	No	No	Yes
Cash cycle category established in euro zone countries	Germany, France, Italy	Austria	Netherlands, Spain, Finland	None in euro zone

These are not incompatible with move towards a Balance Sheet Relief (BSR) Mechanism

- ❖ 6 variables drive the utility of a BSR mechanism, impact market participants in different ways
- ❖ Differences in BSR models between countries will subsist (“One-size-fits-all” not feasible short term – whatever desirable)
- ❖ Market participants should be allowed to « opt in » for a BSR model



About benefits and hurdles

- ❖ A well designed BSR system will lower funding costs...
 - ❖ Further promote efficiency and a wide operating window
 - ❖ Provide cost optimization opportunities for every cash cycle participant
- Yet: only non-eurozone Central Banks would show interest in pursuing this discussion with the industry?
- A single currency: for you...not for me?