

CRISIS!

Cash is meeting the
Challenge



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*A presentation by Mike Bowen,
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WE ARE NOT GOING TO DISCUSS

- The cost of cash
- The cost of cards
- The risks of cash v cards
- The ease of use of various payments

Instead I would like to address a much more basic question.....



Is Cash a “Good Thing”?

Should we even try to live without it?



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“THE NICE DECADE IS BEHIND US”

MERVYN KING, GOVERNOR OF THE BANK OF ENGLAND

- We used to believe:
 - In perfect markets & complete Self Regulation
 - Minute interest rate adjustments could control an economy
 - Property was a one way bet
 - Globalisation could only be beneficial
- We used to believe the world was as predictable & reliable as a Swiss Watch



In truth we had no right to....

The world was not getting safer...



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FINANCIAL INFECTION

- A LOT MORE COMMON THAN YOU MIGHT THINK!!
 - 1637, 1719, 1825, 1873, 1890, 1893, 1907, 1929, 1933, 1971, 1987, 1994, 1997, 2008
- “Financial Failure has been more extensive in last 30 years than in any previous period”

Manias, Panics & Crashes, Kindleberger & Aliber 2005
- The current situation is 1st Global Crisis to involve securitisation (but hardly 1st global crisis)

CONTAGION

- Financial & Biological infection have something in common - they can be contagious and become pandemics
 - Proximity
 - Inter-connectedness
 - Concentration
- In a globalised world we are increasing these factors

FINANCIAL CRISES HAVE A PATHOLOGY

ANDERSSON & VIOTTI, RIKSBANK, 1999

STAGE ONE: BUILD UP

STAGE TWO: THREATS OF PAYMENT SYSTEM COLLAPSE

STAGE THREE: CRISIS MANAGEMENT

- A Payment System collapse threatens Civil unrest because people lose faith in the safety of their money lodged with Financial Institutions
- A complete Payment System collapse threatens the survival of the State because wide scale civil unrest means international investors lose faith in the country and therefore its currency

At least we have avoided a collapse of the Payments System.....just.

BANK RUNS

- Cash is **Public Money**:
State Underpinned
- Everything else is **Private Money**
underpinned by a private
institution
- In a Financial Crisis people start
to **lose faith** in Private Money
- A Bank Run is actually a
VERY RATIONAL response –
 - Its getting a **State Issued
Guarantee of Value: Cash**
 - As long as people believe they
can exercise this option
catastrophic failure may be
avoided



A LONG BANK HOLIDAY: CYPRUS

- Following the agreement made with the Troika on the 15th March Cypriot Banks did not re-open for 10 days.
 - G4S operated as a central depository and cash clearing centre under Central Bank Supervision
 - ATM system was sustained but no interoperability and initially no limits (card limits)
 - Huge initial withdrawals – system at risk
 - Customers cannot top-up current accounts because banking system closed. People start to struggle to make payments
 - Central Bank introduces a €300 / day limit
 - Petrol stations ONLY accept cash throughout crisis
- For 10 days cash really was King (and to a great extent still is)

CYPRUS: DRAMA AND CRISIS

- In lead up to the weekend major deposit flight by “savvy” investors from “at risk” banks;
 - Many retailers and businesses refused to accept cards & transactions from “at risk” banks especially Laiki;
- Expectation of systemic collapse and civil unrest by much of the global media;
- Unprecedented demand upon ATMs during bank closure
- Unprecedented cash deployment and civil controls for bank re-opening



CYPRUS: OUTCOMES

- Through the resilience of the cash supply chain and the good will of Cypriot people the “run” was endured and successfully managed;
- Huge damage to confidence in Cypriot banking system at home and abroad;
- Capital controls remain operational in an EU Member State;
- Severe recession and cash remains king with Cypriot people

GENERAL: CASH & ITS SUPPLY CHAIN

- Through the availability & resilience of the Cash Supply Chain (Central Banks / Commercial Banks / CITs) the public can access a **Central Bank guaranteed payment** instrument that **does not require hardware to be operational**
- Cash is **THE BUSINESS CONTINUITY PLAN** for the Payment System during man-made or natural disasters
- A failed Payment System is a step towards a failed State

3 KEY FUTURE POLICY QUESTIONS FOR EVERY COUNTRY

1. How resilient does the Cash Supply Chain need to be?
2. How resilient can the Cash Supply Chain be if payment substitution materially erodes deployment (scope) and volumes (bandwidth)?
3. At what point does Payment Substitution impact Critical National Business Continuity Infrastructure?





THANK YOU



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