

THE THREAT TO CASH

Mike Bowen for

ESTA,

The European Security Transport Association



CASH
IS
SPENT.



THE NEW CASH



Lets Take the Red Pill!



Imagine a World where....

- Cash provides funds for schools & hospitals**
- Cash helps control expenditure**
- Cash protects you from Big Brother**
- Cash is much less prone to Fraud**
- Cash is cost effective**
- Cash efficiency can be transformed**

FREE YOUR MIND





Money Issue

- Issuing money generates revenue for the Issuer in line with the level of usage
 - Obvious for Private Issuers - cards
 - Less obvious for the Public Issuer – cash
- **Cash and cards are in competition with each other**

The Concept of Seignorage

- 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

- Seignorage is the ultimate *“Stealth Tax”*

Because it represents the interest lost to the general public by holding state issued I.O.U.s (cash). The State generates a return upon this “interest-free loan” unwittingly granted by the public – seignorage.



Public to Private

- 2005 EU estimated seignorage revenues:

> €24 Bn

- Migration to cards is the displacement of public revenues to private revenues

Who will pay the new taxes?

Imagine a World where....

- **Cash provides funds for schools & hospitals**

Cash assists expenditure control

- When Dutch consumers wish to limit their expenses they most often make use of cash. **Hoofdbedrijfschap Detailhandel study (2002)**

“Cash cannot lead to over-indebtedness if the funds are withdrawn from a supply channel which does not authorize debt. On the other hand, the credit facility offered by credit cards can lead to excessive debt for consumers. The borrowing facilities available with a number of current accounts can also lead to this, even though in principle they are limited to a certain sum.”

QUADEN, Governor NBB, December 2005

- *“The convenience of the cashless lifestyle has created a group of ‘cavalier cardholders’, who use cards for everyday purchases, but are less in control of their spending as a result.*

UK NS&I Study March 2006



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Imagine a World where....

- **Cash helps control expenditure**

Big Brother

- *“ It is entirely legitimate for people to wish to maintain a degree of discretion regarding their payment operations. The problem of confidentiality is not limited to illegal activities but also concerns legal transactions which relate to a consumer’s private life. To date, only cash guarantees total confidentiality and anonymity of transactions and provides complete assurance with regard to the protection of private life, as opposed to other forms of monetary transfer.”* **QUADEN, Governor NBB, December 2005**
- Electronic payments generate an audit trail: accessed by whom?
 - UK : Police use of Oyster transactions on the London Underground
 - EU: Airline disclosure of PNR data to US Aviation Authorities
 - EU: Use of SWIFT data by US authorities
- How secure is the Data?....





A New Record!

WINNERS



- **45.7 Million** transactions hacked affecting customers in USA, Canada, UK, Ireland & Puerto Rica
- **455,000** customers have had personal data stolen - including driver's licence & military ID details

“ There is a lot of information we don't know, and may never be able to know ”

“ the intruder had access to the decryption tool for the encryption software utilized by TJX ”





Validity



“The most secure form of payment”

US SECRET SERVICE ICCOS 2006

- Current levels of counterfeiting of major currencies very low
 - 1 in 10,000 (\$ internationally) to less than 1 in 20,000 (€) banknotes
- Not the case with alternative forms of Money....



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11% of European Adults victim of card fraud!!

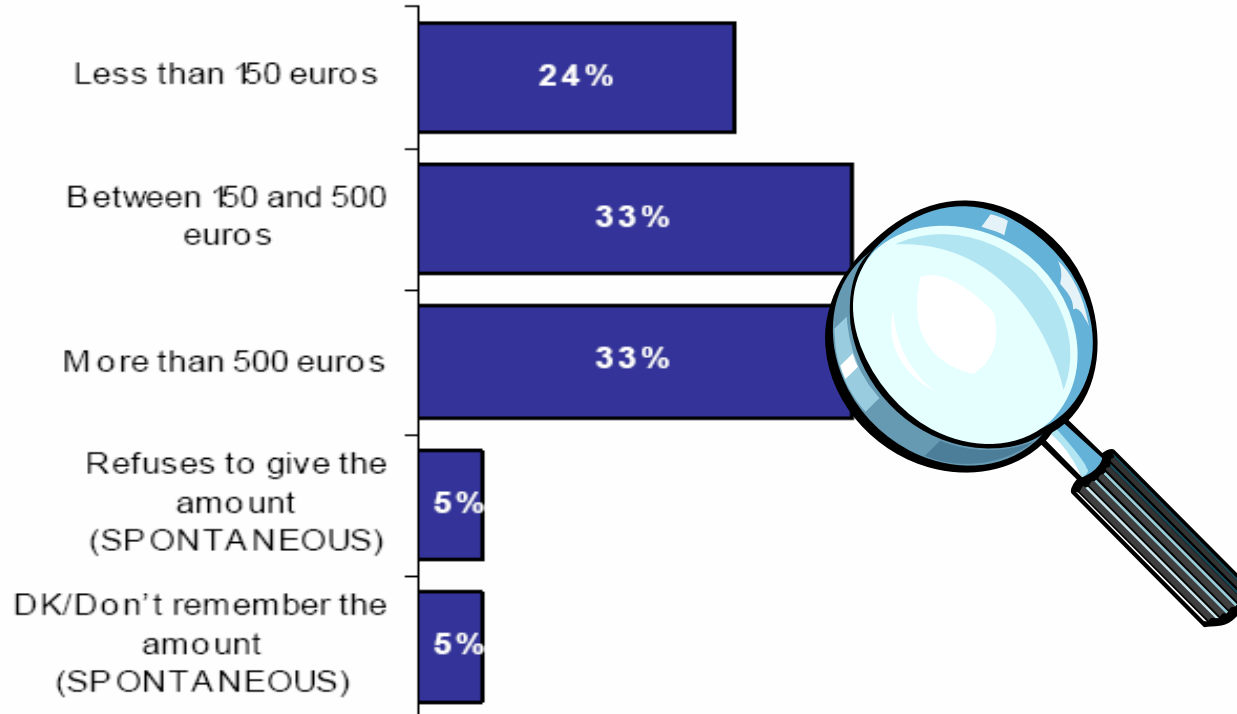
(SOURCE: TNS Pan European Survey for ESTA 2006)



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Eurobarometer

Q10d The last time someone used your bank or credit card without your consent, how much money was withdrawn or spent? (TO: those whose bank or credit card has been used without their consent) - %EU



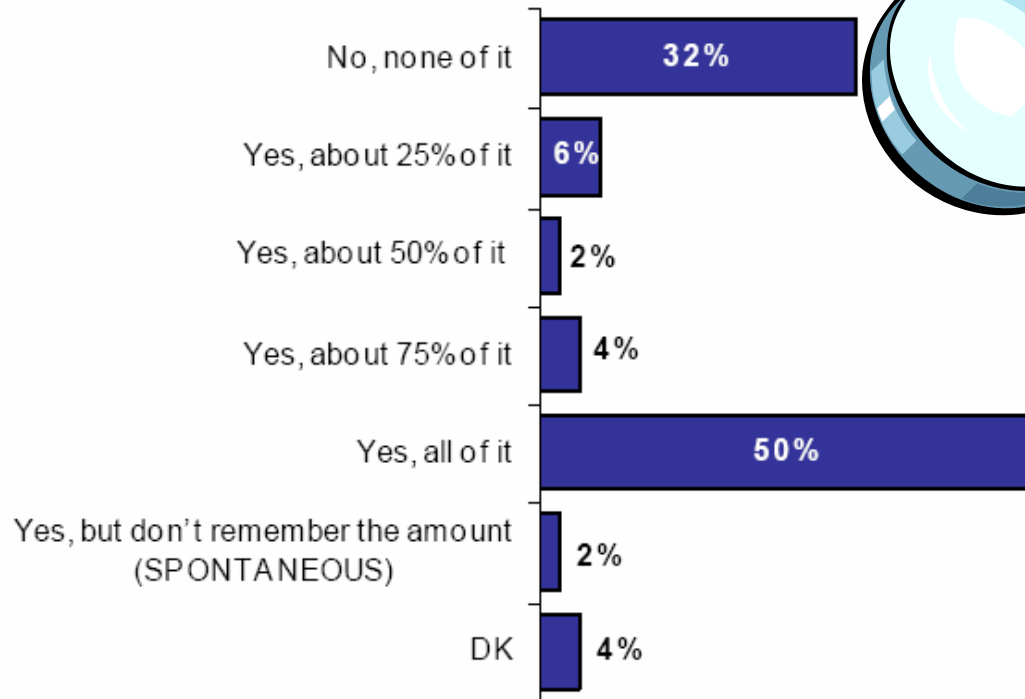
1/3rd of
Crime is
for > \$500



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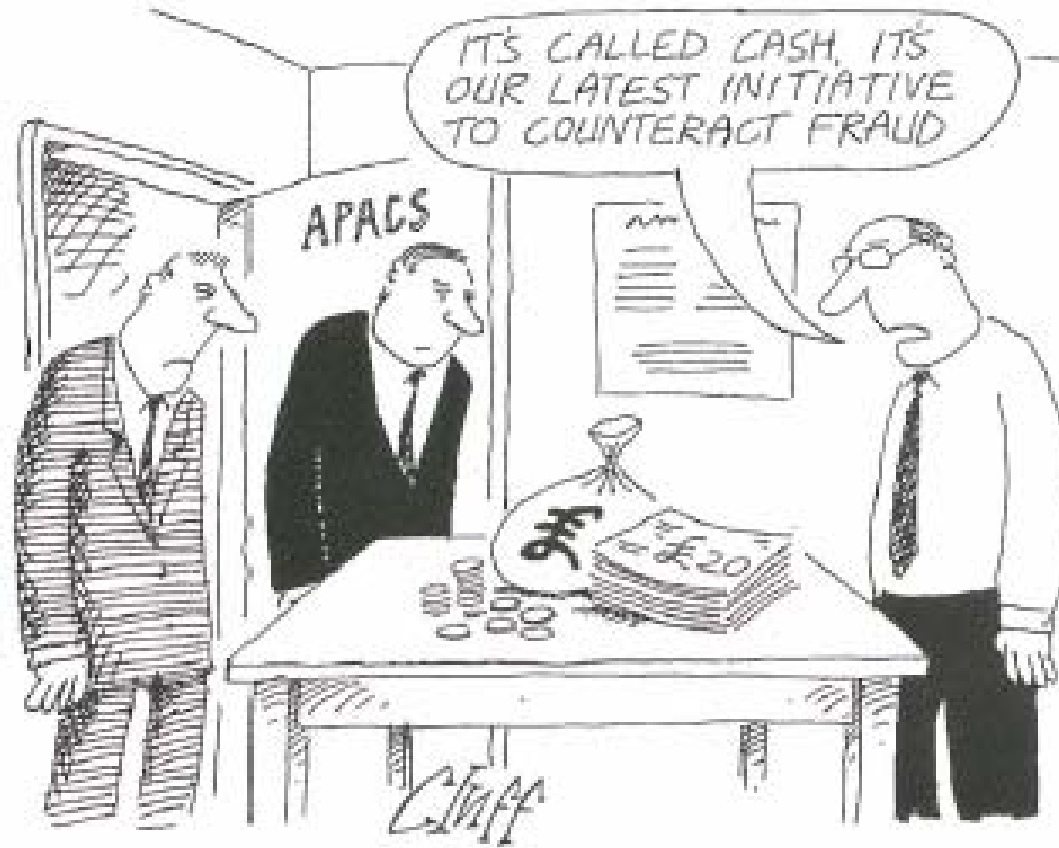
Eurobarometer again...

Q10e The last time someone used your bank or credit card without your consent, did you get any of the money back from the bank or card issuer? (TO: those whose bank or credit card has been used without their consent) - %EU



1/3rd of people get
**NO
REIMBURSEMENT**

A new perspective...



Imagine a World where....

- **Cash protects you from Big Brother**
- **Cash is much less prone to Fraud**

Recent Central Bank Research

The Netherlands (DNB) 2004 & Belgium (NBB) 2005

- Central Bank lead
- Stakeholder panel
- Costs of banks, retailers & Central Bank
- Substitution simulations conducted

Balance of fixed v variable costs very different for cash v cards

2 different cost drivers identified:

- Cost per additional transaction (volume)
- Cost of increasing amount spent (value)

Interaction of these cost drivers & differing balance of fixed v variable cost has profound effects upon substitution

DNB & NBB Payment Cost Studies

- Cost of payments similar 0.65% (NL) 0.74% (BE)
- Similar cost of cash 0.48% and 0.58%
- Substitution Simulation (2x Debit cards & 6x e_purse gave virtually identical results:

Only 0.02% GDP saving of VARIABLE ONLY costs

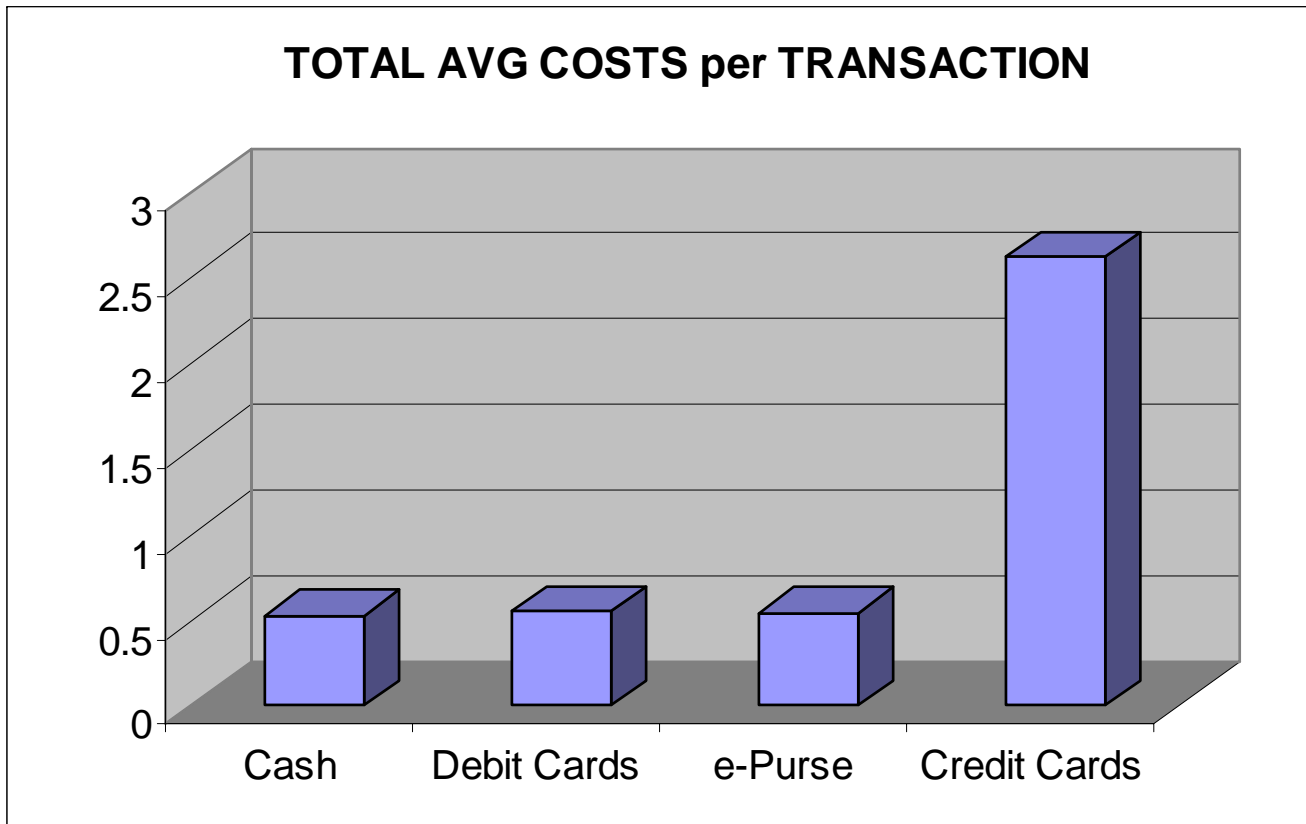
“Such a saving is rather low, even if a comparison is made at overall cost level (0.74% of GDP). Only a shift to a “cashless society” could generate substantial savings. This, however, is a purely hypothetical scenario, given the fact that it is cash that the public most wishes to use.”

Quaden 2005



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Not all cards are equal!



Source Data: NBB
Presentation to ESTA 2006



DNB / NBB Simulations are OPTIMISTIC Cases...

- ...Because the DNB / NBB assumed optimal migration
- IF CONSUMERS BEHAVE NON-OPTIMALLY THE COST OF PAYMENTS TO THE BANKING SECTOR CAN ACTUALLY INCREASE

e.g. If 30% of the higher value payments went to Credit Cards....

– €1.9Bn INCREASE IN VARIABLE COST OF PAYMENTS

- Is a 5 fold increase in e-Purse uptake a credible scenario?
- Is NO migration to Credit Cards a credible scenario?



ECB Intervention in the European “War on Cash” Argument

- *“ These discussions may have contributed to a somewhat distorted perception of the merits of cash, which is by far the most widely used payment instrument in the euro area. “*
- *“ECB’s position vis-à-vis the different payment instruments is neutral”*
- *“...it is also important to underline the contingency function of cash for the economy. Cash has also proven more secure in terms of fraud/counterfeiting resistance than electronic payments instruments.”*
- *“ECB has evaluated existing studies...”*
- **“ CONCLUSIONS**
Only moderate potential savings can be achieved from a substitution of cash by electronic means of payments. Most probably, much greater cost savings could result from optimising the cash handling process, in particular the lodgement processes. The Eurosystem is committed to contributing in this context together with all relevant stakeholders in the cash cycle. “



SEPA: More Expensive Plastic?

- In November, the ECB publicly expressed the Eurosystem's concerns:

“Moreover, the Eurosystem is concerned that the implementation of a SEPA for cards may lead to increases in card fees and could thus be paradoxically detrimental to European citizens and merchants”

- Such appear to be with foundation:

“It is in the interest of the merchants that they prepare to accept Maestro. Otherwise, they will not be able to continue to accept debit cards.”

BELGIUM SEPA MIGRATION PLAN Jan 2007

– **Estimated that merchants cost INCREASES of €105M.**

- **STOP PRESS: MARCH 30th – Existing Schemes to continue!!**



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Imagine a World where....

- **Cash is cost effective**



EUROPEAN PAYMENTS COUNCIL
Towards our Single Payment Area

According to the EPC Cash Working Group:

- **INFLOW COST is $2x >$ OUTFLOW COST....**
- **IF INFLOW COST = OUTFLOW COST THEN...**

€10Bn OPPORTUNITY FOR THE INDUSTRY



ESTA's Vision of SECA




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The “Lean Cash Cycle”

- We are convinced the “inflow cash cycle” can be re-engineered to substantially reduce costs
 - EVERY study concurs upon high cost of branch payments
 - ECB appears to agree
 - Requires commitment from ALL stakeholders
 - Central Banks
 - Commercial Banks
 - CIT Companies
 - Equipment Manufacturers

In the Real World....

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BUT...
ITS NOT OVER YET



EVERYTHING THAT HAS A BEGINNING HAS AN END



The Latest Challenges

- **The Netherlands**

appears to be set against cash (influenced by the DNB)

- **EPC & SECA...**

- Pan European CIT?

- Central Bank entry into Retail Payments creating space e.g. Germany



- **“Contactless” / “Waive & Go”**

- **UK:** APACS have announced the replacement of current Debit Cards with contactless full

- Card & Mobile Phone Alliances

- Where else can mobile operators generate new revenue?
- All Major Players in cards & telecoms

- Potential to impact low value payments



ESTA's KEY ACHIEVEMENT

- **Legislative Neutrality**
- **Changed the perception of cash by many European bodies**
- **But we remain at War...**
 - **Because our competitors are hungry...**

Things to do before you die:

Learn to Tango in Buenos Aires

Learn to Surf at Bondi Beach

Learn the **REAL COST OF CARDS...**

...while there is still a "free" alternative

Thank You 🗣️

V SIGN



Mike Bowen

Consultant to ESTA

