

No Cash, no Banks!

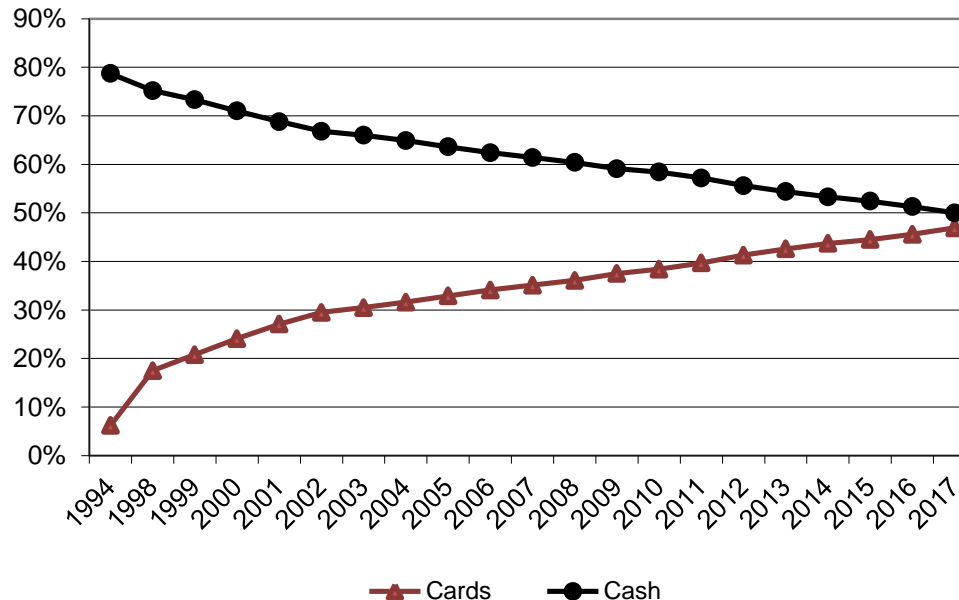
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Cash transactions at the POS

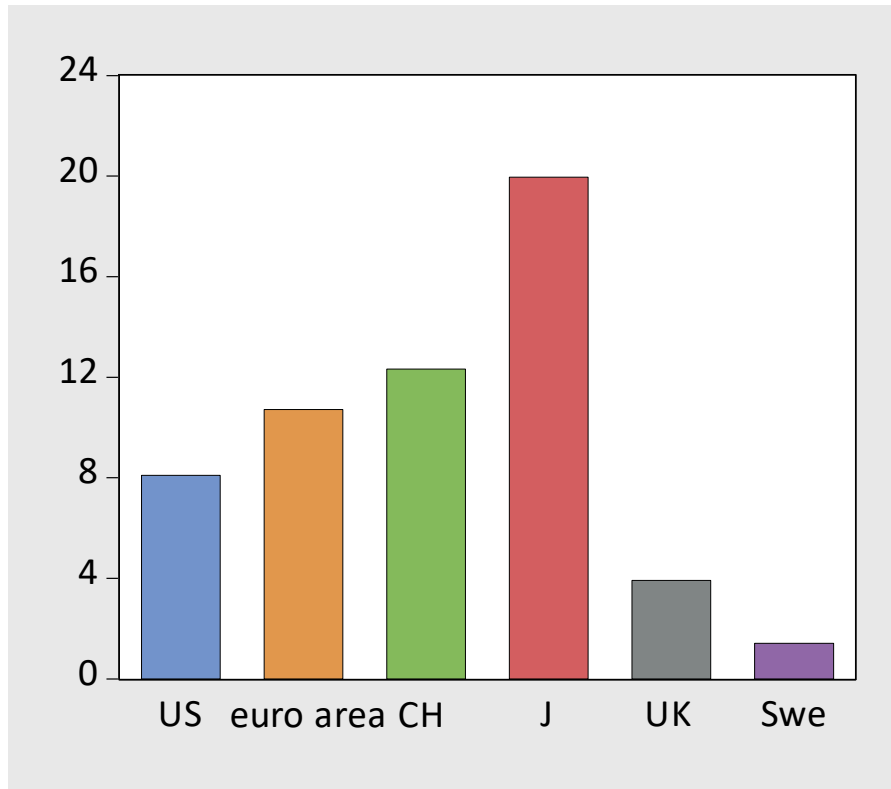
- ▶ Declining volumes
- ▶ Regulatory limits of cash usage
- ▶ Spread of cashless payments instruments

Germany: Cards and cash at the POS (share in retail turnover)

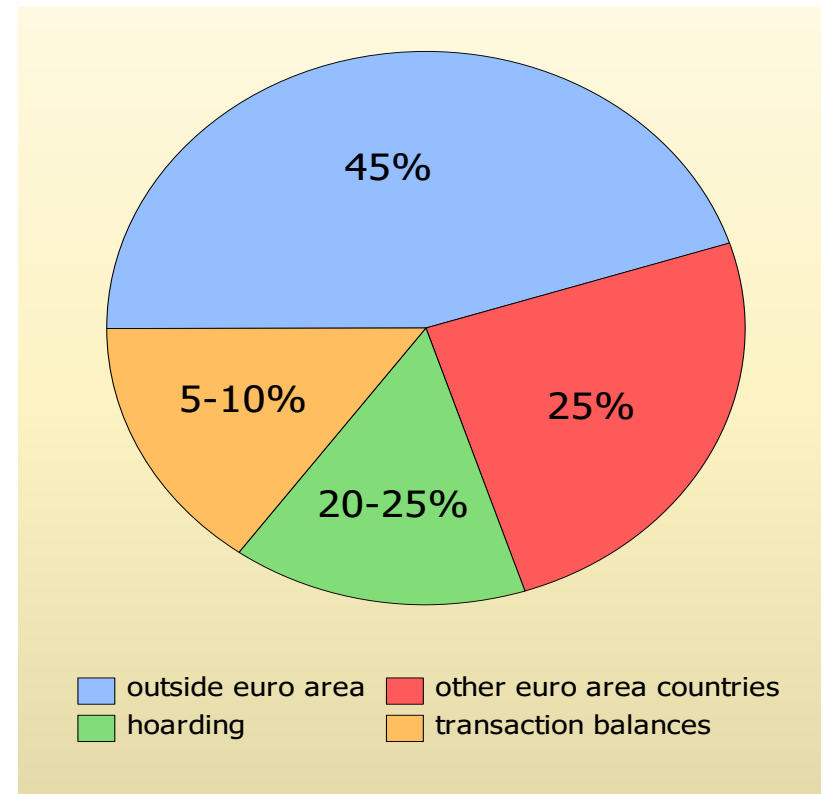


Cash: different countries, different motives

Cash relative to GDP (%, 2016)



GE: Cash demand motives



Banks' statements

- ▶ "Cash is expensive and inefficient. Cash will disappear in the next 10 years." (J. Cryan, CEO Deutsche Bank, 2016)
- ▶ "The provision of cash represents an enormous challenge to the banks. This, in turn, means that it is expensive" (H.-W. Peters, President of the Federal Association of German Banks, 2018)
- ▶ "However, it is no secret that the cash services represent a considerable cost factor for the banks. That was already true in the past. And it is even more so in the present and future." (M. Kemmer, bank representative, 2016)
- ▶
- ▶ However: Cash (and the payments system in general) also generates revenues

Two studies

Malte Krüger and Franz Seitz

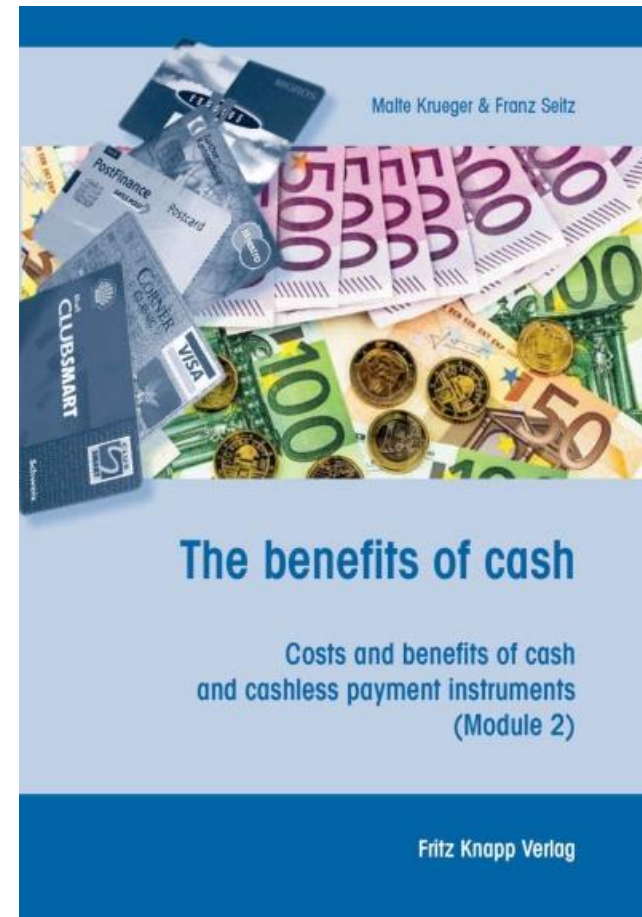
Study commissioned by the Deutsche Bundesbank

Costs and Benefits of Cash and Cashless Payment Instruments

Overview and initial estimates



Module 1



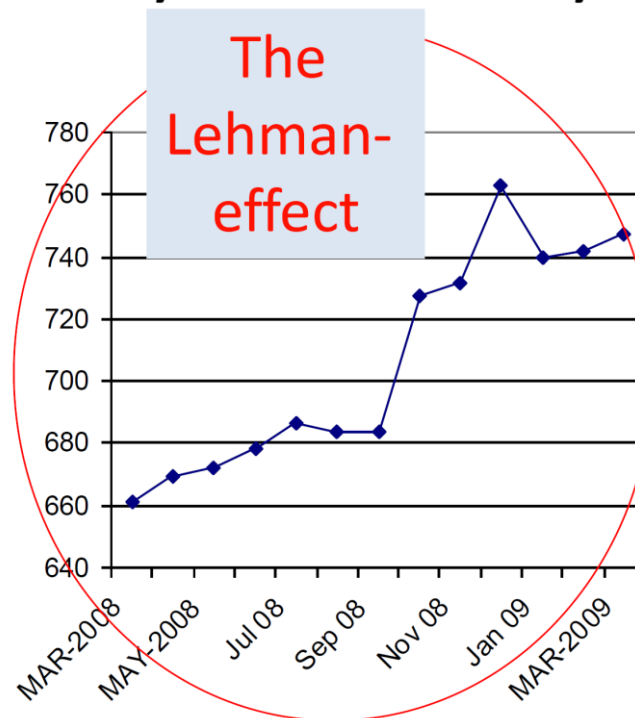
Cash and the banking system

- ▶ Cash is an important **means of settlement** in the relation between **banks** and **non-banks**
 - Non-banks as a whole can withdraw "their money" from the banking system
 - Cashless world: non-banks are "**prisoners**" of the **banking system**
- ▶ Example: financial market / economic crises
 - Cash is an important store of value
 - Availability of cash may stop the panic

Cash and the banking system

- October 2008: after the Lehman bankruptcy cash withdrawals increased drastically

They want their money back



Oct. 2008:
EUR43.7 billion
(app. €150 p.c.)

Cash and the banking system

- ▶ What can replace cash as legal tender – directly accessible to non-banks?
- ▶ Potential structural changes
 - Central bank issued digital (virtual, electronic) money
 - Non-bank access to central bank accounts
 - 100% reserve backing ("Chicago Plan", "Vollgeldinitiative")
- ▶ Many central banks have task forces or working groups on digital money; Fed St. Louis Research: "...there is a strong case for central bank money in electronic form, and it would be easy to implement."
- ▶ Germany: Insurer Talanx asked for access to central bank accounts and sued the Bundesbank

Cash and the banking system

- ▶ Three different systems,...
 - Central bank issued digital money
 - Non-bank access to central bank accounts
 - 100% reserve backing
- ▶ ...**but**: similar consequences
 - Significant growth of central banks' balance sheets
 - Banks lose capability to create money and credit
 - Banks are becoming mere "financial service providers"
 - "A bank is no longer where the money is" (Sutton's Law")

Cash and the banking system

► Potential central bank balance sheet growth

Deposits of enterprises and households	11,616
- Overnight deposits	6,348
Memo item: Eurosystem liability items	
Cash	1,123
Deposits of credit institutions held with the Eurosystem	1,882
Liabilities to euro area non-banks	288

Notes: Euro area, € billion. December 2017

- **Asset side** of balance sheet?
- Risk of "**politicization**" of monetary policy

Cash and the banking system

- ▶ Banks seem to regard cash mainly as a cost factor
- ▶ In the eyes of bank customers, cash may be the decisive point that distinguishes a bank from non-bank competitors
- ▶ See Sutton's Law which refers to cash
- ▶ For most people "money" is equivalent to cash
- ▶ If "money" is not in the bank anymore - is a "bank" still a "bank"?
- ▶ See the term "**bank**notes"

Cash and the banking system

- ▶ In a cashless world, banks will resemble other intermediaries (e.g. mutual funds, money market funds)
- ▶ Banks' potential to create credit will be significantly reduced
- ▶ The profit-generating business model of issuing zero interest rate liabilities will come to an end
- ▶ The potential increase in central banks' balance sheets will be mirrored by a parallel decline in commercial banks' balance sheets
- ▶ Financial stability considerations
 - What, if the electronic payment system is down?
 - What, if its security is compromised?
 -

The payments market and cash

- ▶ Is there **inefficient pricing** of cash?
 - payment market is a two-sided market
 - cost-based pricing not necessarily efficient
 - business models for cash and payment cards are not too different
 - Why is there no surcharge on cash payments?
- ▶ Is cash **subsidized** by **central banks**?
 - Issuing cash generates seigniorage revenues
 - Current fee structure in payment transactions works against cash: as banks are allowed to levy only few direct charges on cash services, they have an incentive to promote cash substitutes

Cash abolition

- ▶ Arguments (e.g., shadow economy, enhancing the scope of monetary policy via deeply negative interest rates) not convincing
- ▶ Often based on **sectoral** (especially banks) **cost** studies
- ▶ Neglect of **benefits** of cash (microeconomic, macroeconomic, societal)
- ▶ **Essential:** economy-wide cost-benefit analysis by taking into account all stakeholders

Summary, conclusion

- ▶ Cashless society not in sight
- ▶ Importance: distinguishing different **motives** of holding cash
 - Diminishing role of transactions motive
 - Increasing role of other motives
- ▶ In the long run possibly extremely negative implications of cash abolition for the (two-tier) **banking system**
- ▶ Digital **legal tender** as a case of "disruptive innovation"?
- ▶ Fostering cash abolition socioeconomic experiment with not only uncertain, but probably unexpected negative consequences
- ▶ Supporters would have to establish that the benefits they postulate – better crisis management of central banks, containment of illegal cash-based activities – are significantly larger than the associated private and social welfare losses

**Cash. I just am not happy
when I don't have it.
(Andy Warhol)**

Thank you very much for your attention!

Any questions?



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