

Cash Business Continuity

(provided there is still some cash to process...)

Presentation to the EPC
Cash Recirculation Workshop

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- 1) The Business Continuity case
(provided there is still some cash to process !)
- 2) The “*cost of cash*”: perception and reality
- 3) Cash continuity : why banks should be concerned ?

Access to cash is controlled by a stakeholder that has:

1. No interest in promoting cash
2. A strong interest in promoting its own competing products

This has two major implications for the continuity of cash:

- Availability of cash
- Accessibility of cash

We could not have said it better !

Banks' adaptation / approach

- Find it difficult to charge their customers, prefer to reduce costs
 - Closing branches, ATM's and other cash services
 - Operations outsourced to a large degree
 - CIT companies, cash-back, «bank in shop»/«in-store banking»
- Promote changeover from cash to other solutions
 - Making cash less available
 - Publicly argue against cash
 - Promote own solutions
 - Phasing out cash would increase possibilities for charging fees for other solutions

Question their responsibility to supply cash to their customers

ces
nding for Norges Bank to relate to u...

ts
ks have reduced their competence on this area
ks have self-interest in phasing out cash
Save costs
Promote their own competing products, reduce competition

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"The banks have been too quick to reduce cash handling."

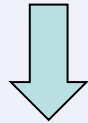
....If the banks continue to set the pace, there is a high risk that the possibility of using cash will disappear before alternative means of payment have become widespread and generally accepted.

To restrain this development, the Riksdag (the Swedish parliament) should introduce a clear obligation for the banks to provide basic functions that meet customers' needs."

Cash is a *public service*.



Seigniorage

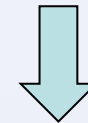


Substantial
public revenue
collected by NCBs

Payment account directive
(2014/92/EU of July 2014)



Banks can charge a “*reasonable fee*” for basic services



Cash is not
free to users

Cash pays for itself

The perfect stealth approach:

1. Reduce ATMs to make withdrawals cumbersome
2. Charge ATM fees where there is no competition
3. Reduce cash services in branches, notably the possibility to deposit cash on one's business account
4. *Restrict the distribution of change money, to make cash payments impracticable*

1. Retailers don't "*refuse cash*" – cash is made cumbersome

2. A substantial part of the cost of cash is passed on from the banks to the public

Specific conditions have led to the situation

1. All notes in circulation were swapped, starting in 2012
2. All note swaps done in a very short period of time:
 - 9 months legal tender, 12 months for redemption
 - Notes held after the redemption deadline are the loss of the bearer
3. *Riksbank: “Decline [of cash] is due to invalid banknotes and coins not being replaced by new ones.” **

* “*Banknote and coin changeover in Sweden: Summary and evaluation*” report from the Riksbank, March 2018 , page 7

Why 9 & 12 months of redemption only?

Timetable is the exact one proposed by the banks

*“the Riksbank was aware that the timetable would lead to complications for the general public”**

But: *“The interests of the cash market were more important”**

* Riksbank report, page 20

The Swedish Lessons

“During the planning of the changeover, the banks had promised the Riksbank to help their customers have a smooth banknote and coin changeover.”

Riksbank
report*

“Despite this, several banks had continued to reduce the number of offices handling cash.”

* Riksbank report, March 2018, at page 26

Frequent
note swaps

&

Short
redemption
periods

+

Timeline
proposed to
Central Bank
by banks

&

implemented

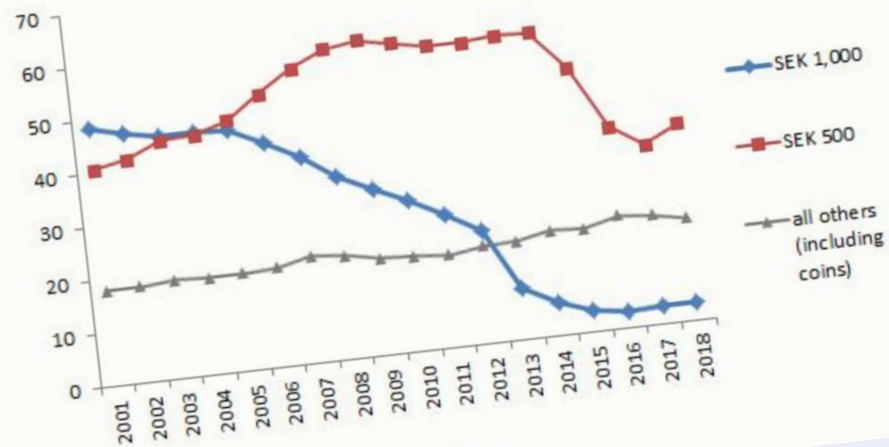
+

Cash
services
reduced
during
redemption
periods

=

Kronor denominations

Swedish banknotes and coins outstanding, year end data
billion kronor



Source: Riksbank, BIS (2018 uses end of October data)

*“Cash will fall to 16% by 2027 from 34% today”**

(UK Finance; access to cash final report, March 2019)

Fatality?

It *will* happen, if commercial banks are left in the driver's seat

Wishful thinking ?

It *won't* happen if monetary authorities don't want it to happen

* In value; the share is more than 50% in volume

Cash services

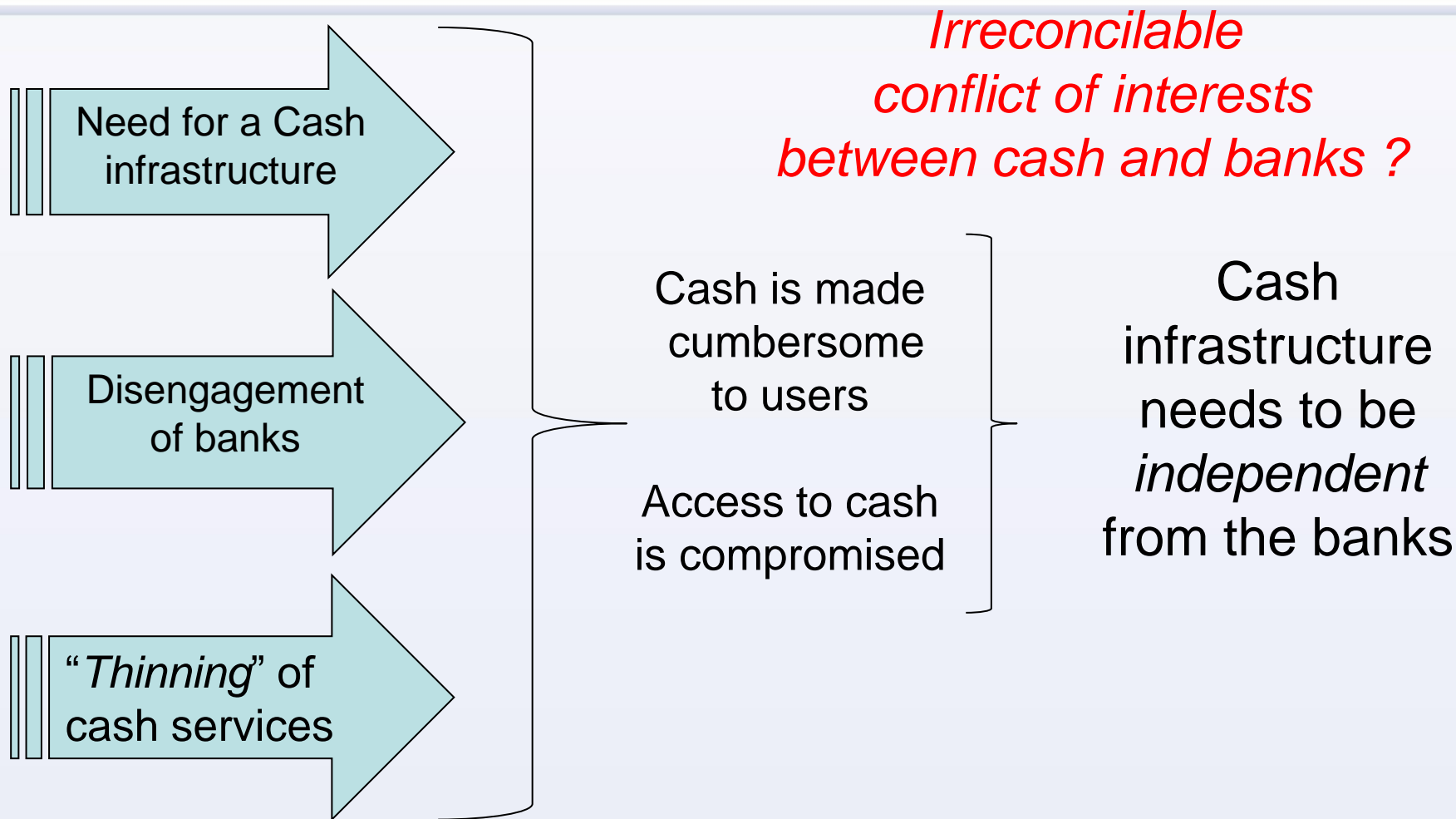


1. Withdrawal and deposits facilities
2. Ability to exchange banknotes denominations without the need for an account
3. Clear definition of legal tender
4. Availability of change money for retailers

Regulatory requirements



1. Flexibility in the way customers funds can be managed by CIT/CMC
2. Balance sheet relief / interest compensation schemes
3. Strict checks on notes and coins & nationwide coverage
4. VAT rules



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(provided there is still some cash to process !)
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- 3) Cash continuity : why banks should be concerned

Cash is costly to banks: get rid of it !

A Different Perception / Approach

■ **Costs are at the top of the agenda**

■ **The cost of the cash became**

■ **Cash is expensive**

How can we reach a more efficient European cash process?

The cashless society, long awaited by many, is not there yet. The European Payments Council recommends to strive for:

- 1 Reducing the use of cash**

The EPC promotes electronic methods of payments, interoperable on a pan-European scale, in order to ensure a convenient and consistent user experience across Europe, in a cost-efficient way. This will truly make the euro a single currency in the Eurozone and broader Single Euro Payments Area.
- 2 Reducing the cost of cash**

This can be reached via the improvement and achievement of a Single Euro Cash Area, which will require:

 - Harmonising National Central Banks operational conditions

The Future of Cash

Sources: EPC presentation Future of Cash conference, Paris 12 April 2016, slide 3
 EPC infographic "improving the cost efficiency of cash", 2016

The Krüger equation

Cost of cash:

€50 bn

(source EPC, 2003)

Cash
transactions:

€360 bn

(source EPC)

= € 0,14 /transaction*

EPC new SECA framework (2016):

“Cash is the most expensive payment instrument to operate, as illustrated by the **societal cost** it involves”

“Resources used in the cash chain are a **cost for banks** – often **no direct revenues** from cash services”

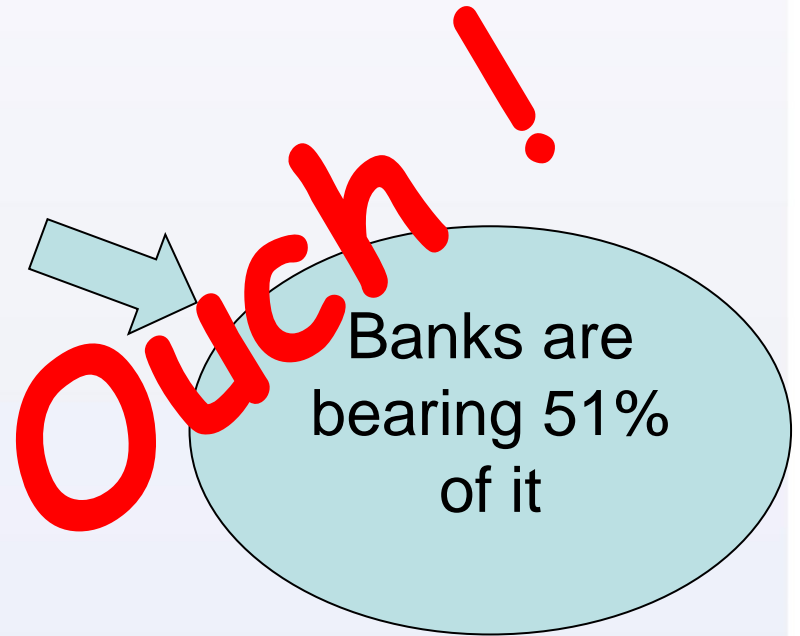
- What is “*societal cost*”?
- what about the “societal costs” of non cash payments ?

Cash has the “*lowest unit social cost*” of all payment instruments

(ECB Occasional Paper 137, 2012*)

Social cost of all retail payments: 0,96% of GDP

(source: ECB occasional paper, 2012)



***What is the real issue :
“societal cost” of cash or
or private cost to banks ?***

Cash

Card w/ PIN

Table 3: Kostenübersicht für Barzahlungen¹⁸

Kostenpunkt	Betrag				
(Bar)Umsatz	210.000.000.000 €				
(Bar)Transaktionen	15.580.000.000				
Ø-Betrag	13,48 €				
Kostenblöcke	absolut	je Transaktion	in % vom Umsatz	je Transaktion	in % vom Umsatz
Gesamtaufwand Kassierzeit	1.881.934.167 €	0,121 €	0,896%	0,159 €	0,325%
Gesamtaufwand Kassenhintergrund	1.314.787.500 €	0,084 €	0,626%	0,031 €	0,062%
Entsorgungs- und Wechselgeldkosten	578.000.000 €	0,037 €	0,275%	0,115 €	0,235%
Gesamtkosten	3.774.721.667 €	0,242 €	1,797%	0,023 €	0,046%
Gesamtkosten in Mio. €	3.775			0,328 €	0,669%

Source: Bundesbank, Kosten der Bargeldzahlung im Einzelhandel, February 2019, at p.37 & 42

Cost of a cash payment

Time: €0.12
Total cost €0.24

Cost of a card payment

+33%

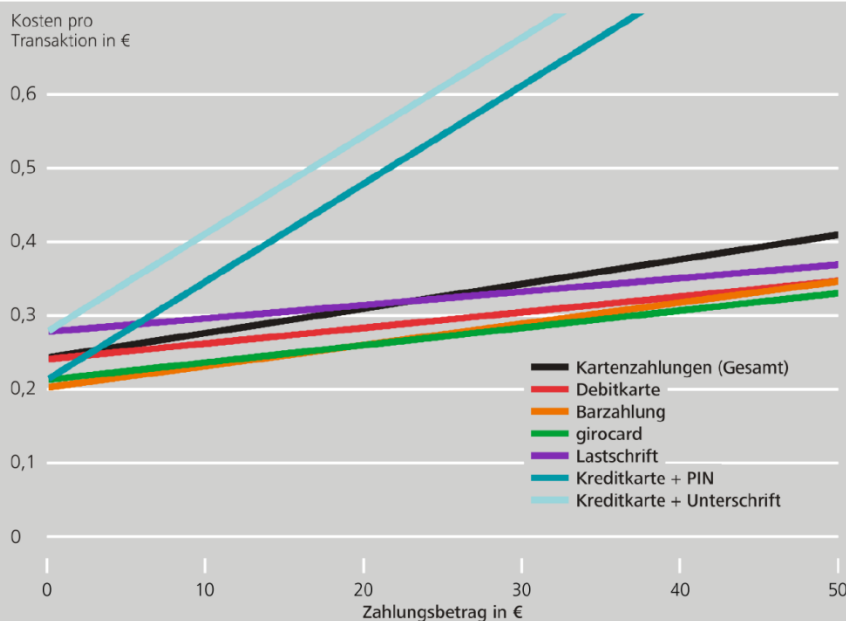
+38%

(credit card: €0.971, **+ 305%**)

Comparative costs

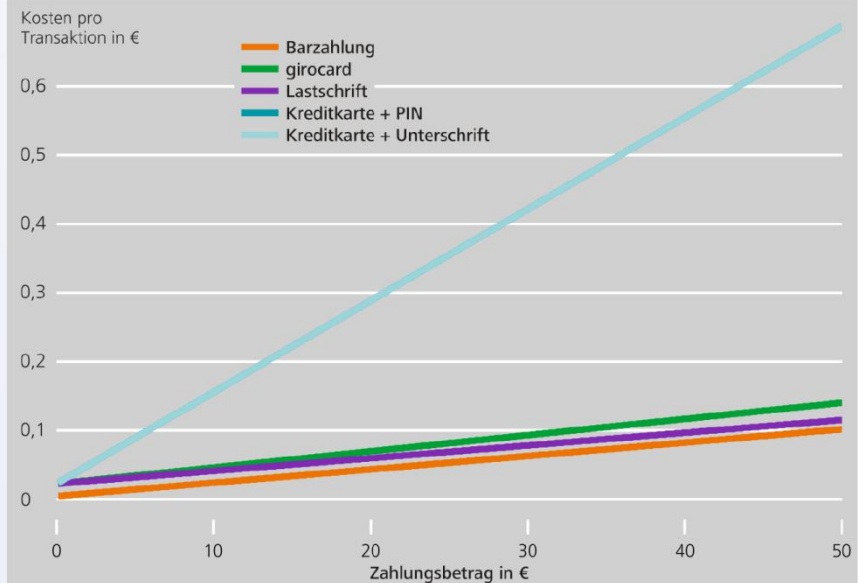
Kostenvergleich unterschiedlicher Zahlungsverfahren

Abb. 21



Kostenvergleich unterschiedlicher Zahlungsverfahren ohne Zeitaufwendungen

Abb. 22



Source: Bundesbank, Kosten der Bargeldzahlung im Einzelhandel, February 2019, at p.67 & 69

If time considered in costs, cash cheaper up to €19.50

If time ignored in costs, cash cheaper up to €50

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(*rethinking the cash business model*)

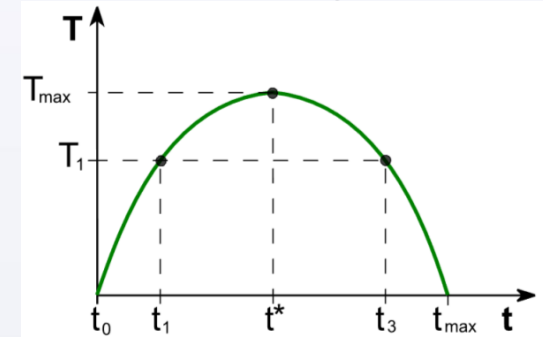
Micro factors

1. Certainty of acceptance
2. Immediate settlement
3. No infrastructure requirement
4. Ease of use
5. Ease of monitoring
6. Privacy & Anonymity
7. State-underpinning
8. Financial inclusion
9. Feel-good factor

Macro factors

1) Limit to excessive budgetary policies

A. Laffer curve



2) Limit to excessive monetary policies

- NIRP of -0,75% may be OK
- NIRP of -6% to -10% is not

3) Undermined trust regarding:

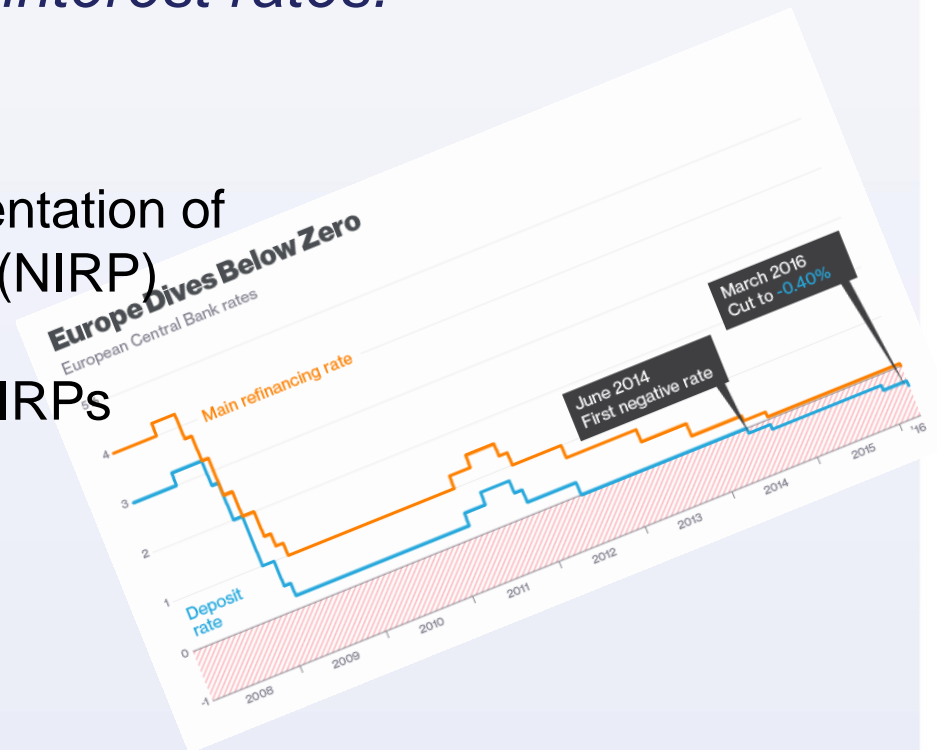
- Ability to withdraw deposits
- Financial stability

The argument goes:

“Cash limits effective monetary policies as it prevents the implementation of negative interest rates.”

However:

- No cash run further to implementation of negative interest rate policies (NIRP)
- Central Banks implementing NIRPs have continued to issue cash



lundi 25 mars 2019 LE FIGARO

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La retenue à la source, un casse-tête de trésorerie aussi pour l'État

La réforme de l'impôt sur le revenu oblige l'Agence France Trésor à gérer finement le compte en banque du pays.

ANNE DE GUGNE  @alegugne

POLITIQUE ÉCONOMIQUE Ména-
ges et entreprises attendaient
avec fébrilité le passage au préle-
vement à la source en janvier
dernier. Mais c'est sans aucun
doute au sein de l'État que la ré-
forme a causé le plus de maux.

Au-delà de ces deux étapes
cruciales, le service a dû s'adap-
ter au nouveau rythme, beau-
coup plus éclaté, d'encaissement
des quelque 70 milliards d'euros
d'impôt sur le revenu. « Avant
l'instauration du prélèvement à la
source, l'impôt sur le revenu était
prélevé en trois échéances pour les
ménages non mensualisés et en dix

le solde courant qui permet de
subvenir à ces dépenses et pla-
cent le surplus de trésorerie sur
des supports mieux rémunérés.
Une gageure dans un environne-
ment de taux déprimé. Logé à la
Banque de France, le compte de
l'État est rémunéré au taux né-
gatif de - 0,4 %.

NIRPs do matter
even for the State
And for the banks.

In cash technologies

Outflow very efficient, not inflow

Low standardisation, even in countries where banks have set up joint cash services

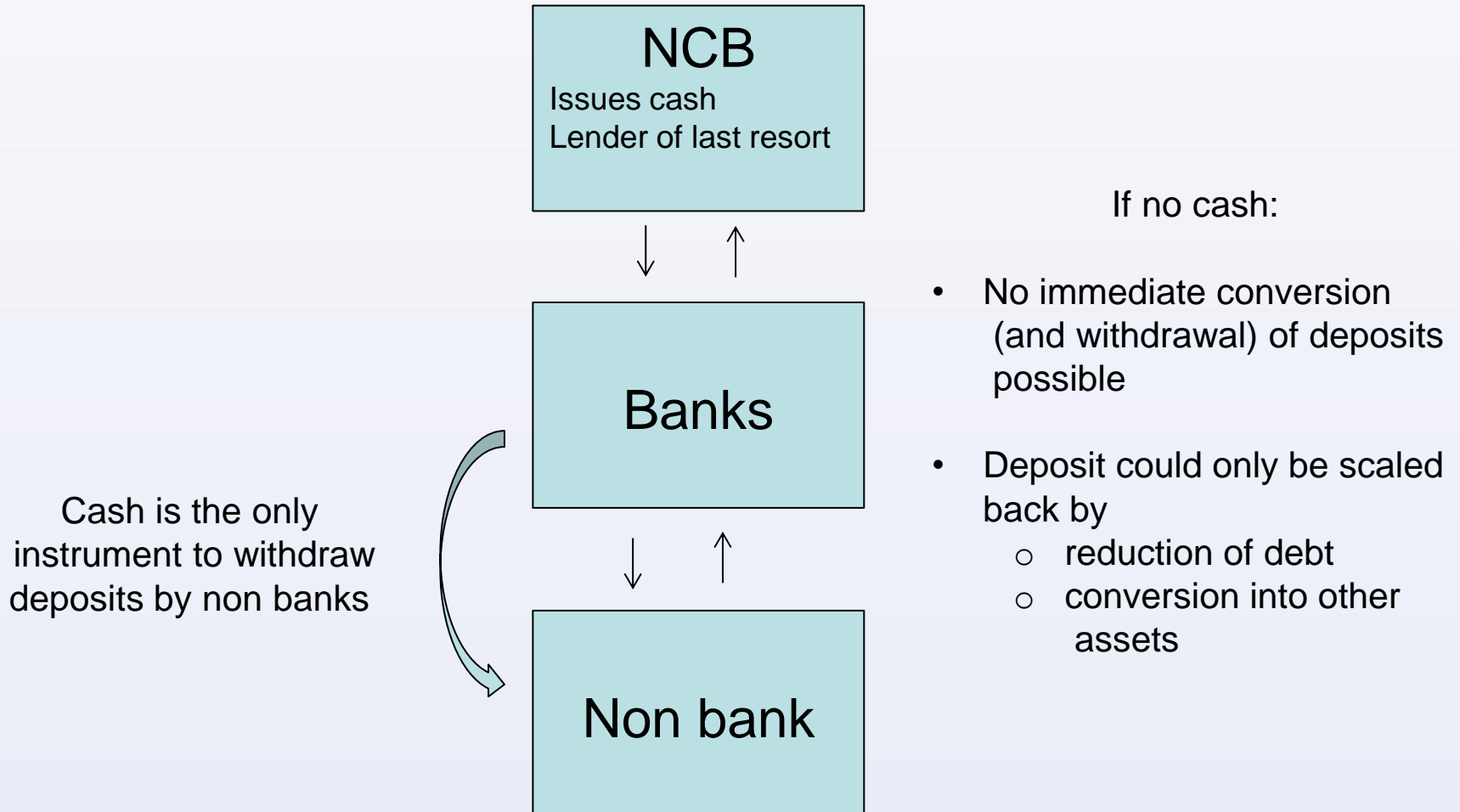
In non-cash technologies

“Banks have delayed moving to real-time transfer due to legacy of float benefits.

*Banks have been able to delay the speeding up of interbank real-time payments by refusing to improve the delivery speed of interbank payment systems”**

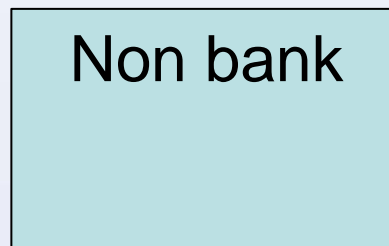
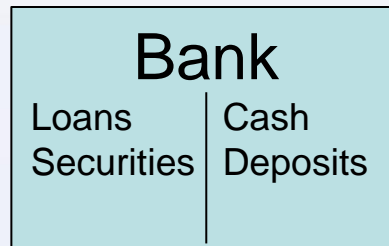
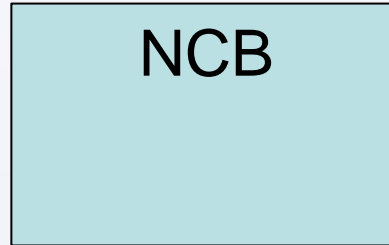
* Harry Leinonen: “Developing future payment instruments ?” SUERF Conference 2016

Sutton's law: "*Bank is where the money is*" - **Bank**notes



3 scenarii in case cash is no longer available

3. Alternatively, non-bank direct access to NCB accounts and NCB money



1. Central Bank-issued digital money
2. Full reserve backing by NCB money - with huge increase in banks' reserve requirements

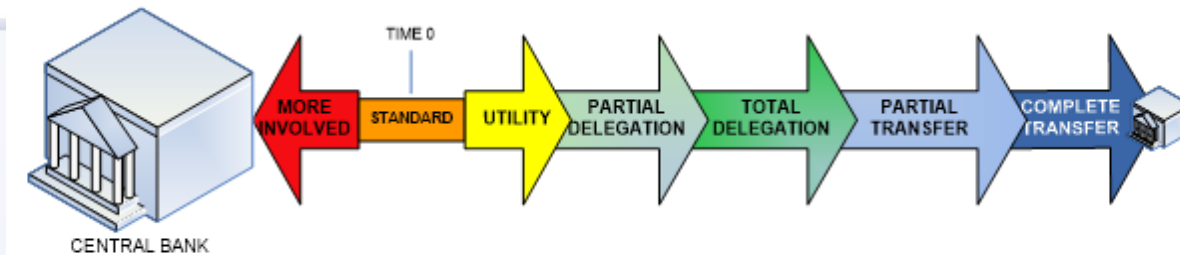
For banks:

No cash

+

Less deposit

= Less loans
& lower balance
sheet



Clarity on what role NCBs want to play

- The lesser their network, the higher the delegation to non-NCB players
- Investments requires good visibility

CMCs can deal with a lot more under:

- The supervision of their NCB and
- Strict verification procedures
- Strict criteria for being allowed to hold cash on behalf of NCBs

CMCs can hold cash for NCBs

- Need the possibility of doing it
- Need interest relief mechanisms/BSR

Cash is not free to users:

- Cash pays for itself (seigniorage)
- Cash is available primarily through ATMs: requires a bank account and a card, both subject to fees

No one should feel forced to offer cash services

- but no one should act against the availability of cash to consumers
- There are alternative circuits to deliver cash to users

A substantial reduction of the 'cost of cash' can be achieved through:

- Standardisation & investments
- Shorter cycles, local recirculation
- Clarity on the role of NCBs
- Stronger cooperation between NCBs, banks, CMCs

Conclusion



“Money hidden under the mattress is money removed from the deposits of banks and thus removed from their finance base.

Banks should do well to consider these points when they determine their cash related service fees”. ”