Cash in Payments

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Secretary General

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• Not-for-profit industry body for the Cash-In-Transit (CIT) and commercial cash processing industry in Europe

• Based in Brussels Belgium, founded in 1975

• 90%+ of European CIT/CMC Industry represented
  • 120 Members (60% are CIT /CMCs operators)
  • Businesses turnover over €5 Bn
Evolution from a mere “CIT” business to “CMC” operations (Change in the CIT’s core business)
Revisiting our Business Model

“Delegation/partnership”

Less price-only competition

Focus on added value for customers and for suppliers

Sustainable business model

“Commodity”

High price competition

Strong emphasis on “cost of cash”

High market concentration

“Facility management”
Roadmap

The recurrent negative connotation of cash

Inefficient cash?

Cashless or less cash society?

The fallacy of cashless – or why cash must stay!
From Bad to Worse

Money has no smell

(Vespasian, 69 AD)
Europe-wide Study (2014)

2/3rd of people think handling money is unhygienic, only 1/5 wash their hands

More germs can be found on a £1 coin than on a toilet seat

Britons are the worst in Europe for not washing after handling coins or notes

People living in France and Hungary are among the most aware of how filthy money can be, but also more likely not to wash their hands

One psychologist thinks people find it hard to associate ill health with money, which is linked with an individual's success

Source: http://www.dailymail.co.uk/sciencetech/article-2621500/Dirty-cash-Bank-notes-contain-26-000-bacteria-half-Britons-wash-hands-handling-them.html#ixzz4lHMpT9mQ
Health warning needed?

Cash is harmful to your health
“It takes just two weeks for a new note to pick up the drug, either because it is handled by someone who has used cocaine recently or it is contaminated by contact with other currency.”

Cash is addictive

“Although not all use of cash is criminal, all criminals use cash at some stage in the money laundering process.”

“Cash is still one of the most prevalent facilitators for money laundering across almost all criminal activities.”

Highly conservative estimates based on records received by Europol indicate that in excess of EUR 1.5 billion in cash is detected and/or seized by Competent Authorities each year.

“Clearer evidence is needed around legitimate uses [of cash]”
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:

Reduction of the use of cash

1. 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.

Reduction of the cost of cash

2. This can be reached via the improvement and achievement of a Single Euro Cash Area, which will require: Harmonising National Central Bank operational conditions

Sources:
- EPC presentation Future of Cash conference, Paris 12 April 2016, slide 3
- EPC infographic “improving the cost efficiency of cash”, 2016
“Cash is the most expensive payment instrument to operate, as illustrated by the social cost it involves”

“Resources used in the cash chain are a cost for banks – often no direct revenues from cash services” (EPC, 2016)

- However, “social cost” is not defined – what about the social cost of non cash payments?

- Banks claim that cash is expensive… but continue to offer cash services to their customers

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

(ECB Occasional Paper 137, 2012*)

* H. Schmiedel, G. Kostova, W. Rüttenberg; “the social and private cost of retail payment instruments; a European perspective” Sept. 2012
Cash is inefficient? Kill it!

Is he the one in the bed?

Leave him to me!

Go away! He’s mine!

Bleed him!

Where is the patient?

The proposed remedy to the disease: kill the patient!

(when the remedy can be worse than the disease…)

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Is cash expensive?

Cost of cash: €50 bn
(source EPC, 2003)

Number of cash transactions: €360 bn
(source EPC)

\[= \€0,14 \text{ /transaction}^*\]

* Source: Malte Krueger: “pros and cons of cash: the state of the debate”; SUERF conference 2016
3 Camps Advocating for Cashless

“The alchemists”
- Want to overcome the ZLB

“The law and order camp”
- wants to cancel the primary means of payment for illicit activities

“The Finteck”
- Expects major business opportunities from the elimination of high storage, issuance and handling cost of cash

“Negative interest rates did not trigger a flight to cash”

“Why punish a majority for the misbehaving of a minority?”

“Wouldn’t it help the companies offering payment solutions first?”

Source: Yves Mersch, Executive director of the ECB – contribution to project syndicate, 28 April 2017
“There is one more major problem with the arguments for a cashless society:

most people, at least in the eurozone, don’t want it.”

(Yves Mersch, 28 April 2017)
The Fallacy of a Cashless Society

- **Not a cash-less society…**
  50-55% of all payments are in cash (value)

79% of all POS transactions in the eurozone are in cash (volume)
(source: ECB 2017)

- **Not even a less-cash society**
  1) Value of Euro cash in circulation (CIC): €1,200 bn;
  2) CIC/GDP ratio is increasing
  3) Average growth 2008 – 2017 of transaction denominations (€5-20) is 6%
     (source ECB)
  4) Cash payments still increasing in numbers, but at lesser pace than the rate of growth of all payments.
Cash demand remains strong

**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:

   • Likelihood of a financial crisis
   • NCBs as lender of last resort
Cash pays for itself

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<th>Cash is a public service.</th>
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<td>Seigniorage</td>
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<td>Substantial public revenue collected by NCBs</td>
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<th>Payment account directive (2014/92/EU of July 2014)</th>
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<td>Banks can charge a “reasonable fee” for basic services</td>
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<td>Cash is not free to users</td>
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In a competitive payment market, inefficient payment instruments are bound to be weeded out.

So far, only (self proclaimed) cash substitutes have “gone down the drain…”
Banks supports the largest part of payment costs

Societal cost of all retail payments: 0.96% of GDP
(source: ECB occasional paper, 2012)

Banks are bearing 51% of it

What is the real issue: the “social cost” of cash or the private cost that banks support?
Cash **must** remain available to users.

The paradox is that access to cash is controlled by a stakeholder that has:
1. No interest in promoting cash, and
2. An interest in promoting its own competing products

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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.”
We could not have said it better!

Norway Central Bank’s presentation,
Paris, 11 April 2016

Source: slides 6, 13 and 14 of Mr Leif Veggum, Norges Bank, « Future of Cash » Conference Paris 11-12 April 2016
No cash, no Bank?

Sutton’s law: “Bank is where the money is” - Bank notes

NCB
Issues cash
Lender of last resort

If no cash:
• No immediate conversion (and withdrawal) of deposits possible

Banks

• Deposit could only be scaled back by
  o reduction of debt
  o conversion into other assets

Non bank

Cash is the only instrument to withdraw deposits by non banks

Source: F Seitz, ESTA conference 2018
No cash, no Bank!

3 scenarii in case cash is no longer available

1. Central Bank-issued digital money

2. Full reserve backing by NCB money - with huge increase in banks’ reserve requirements

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

For banks:

- No cash
- Less deposit

= Less loans & lower balance sheet

Source: F Seitz, ESTA conference 2018
Thank You!

Looking forward to seeing you at our 2019 conference

Austria, 19-21 May 2019 Vienna InterContinental hotel