Europe scrambles to keep cash option

By Elisa Barwick

Australia's Reserve Bank has announced its central bank digital currency (CBDC) pilot for January to April 2023, raising questions over whether it is committed to maintaining cash payments, just as other central banks are moving to protect cash payments *by law,* due to the growing risk of disruption of digital payment systems. From cyber-attacks to electricity disruptions, system glitches or financial meltdowns, the reliability of digital methods is increasingly questionable. (*AAS*, 19 Oct.)

The Head of the Payment Systems Department and Chief Cashier at the Bank of Finland, Päivi Heikkinen, speaking on national television 12 October, urged people to keep cash on hand in case payments systems are interrupted, according to an article in Naked Capitalism. A disruption, potentially from a cyber-attack, could last for weeks in the worst-case scenario, Heikkinen stressed.

The Bank of Finland expects cash use to be negligible by 2029. This might have something to do with the fact that, according to news website yle.fi, "the number of banks distributing banknotes has been cut by nearly half in the last 15 years, from 1,600 to 850 nationwide. Likewise, the number of ATM machines has also fallen; from 2,500 twenty years ago to 1,500 today."

Now one of their own, Heikkinen, is saying that a "single payment method" is not good enough; "Cash still plays a very important role". In fact, in March the central bank initiated legislation to protect cash usage. "With this legislative initiative, we seek to promote equal opportunities for all Finns to choose the most suitable payment method for their needs", said Tuomas Välimäki, Member of the Board of the Bank of Finland.

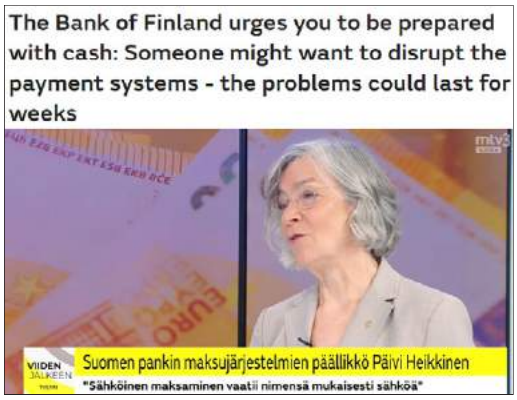
This issue is raising its head across Europe. A German payment system outage in June forced retailers back to cash; in that country cash accounts for 60 per cent or more of all transactions. With power shortages becoming more common, cash may again be king.

In the UK, bank regulator the Financial Conduct Authority is making banks consult with local communities before reducing operating hours or cutting back services on offer, in addition to closing branches (on which they are already required to consult). It has threatened to block bank closures if there is no alternative access to banking services, or impose fines, but activist groups say it is not enough.

The British Post Office, meanwhile, handled a record amount of cash in August, which it put down to "ongoing closure of local bank branches", according to the *Guardian*. There have been over 430 branches shut just this year. The Herald Scotland reported that 47 per cent of the 1,000 bank branches it had in 2015 have closed.

At the time of its March 2020 budget, the British Treasury announced it would prepare legislation to protect cash access and an "Access to Cash" consultation was held in 2021. The resulting proposal would establish geographic requirements for provision of cash facilities, to ensure cash access if available within a reasonable distance, designate outlets to meet these requirements, and add regulatory oversight of cash services. The legislation was tabled in parliament in July and is in the committee stage in the House of Commons.

While digital transactions were most common, in 2020 cash was still the second most frequently used method of payment. People and groups who responded to an earlier 2018 Call for Evidence on *Cash and Digital Payments in the New Economy* therefore insisted upon government support for cash payment systems and cash access.



Finnish central bank rep tells people to keep cash. Photo: Screenshot

The British government is legislating to give the Bank of England powers to oversee and regulate the wholesale cash network, which includes production, distribution and maintenance of cash and cash infrastructure. It involves banks, the Post Office, the Treasury, security, logistics and cash-in-transit companies, cash processors and legal firms. A policy statement issued by HM Treasury in April 2022, under the title, "Protecting UK wholesale cash infrastructure", outlined the significant requirements to maintain the cash system: "To support continued access to cash, we also need a sustainable and resilient wholesale cash system. This is the UK's infrastructure, including a system of cash centres, that is integral to the sorting, storing and distribution of coins and notes. ... These networks all have significant infrastructure and, as such, a high fixed cost base. As we have seen the transactional use of cash decline, this has put pressure on the business models for these networks." As in Australia, however, transactional use of cash often declines due to its inaccessibility, notably because of bank branch closures. Due to this increased cost of infrastructure, states the UK report, "Over time, the industry is expected to transition to a smaller overall network so it can continue to operate sustainably."

Seventeen EU nations have statutory cash restrictions, with limits ranging from €500 to €15,000. An April 2021 Bloomberg headline summarised a state of affairs increasingly seen across Europe: "Cashlessness may have gone too far in Norway, government warns". As we reported in the 12 May 2021 *AAS*, the country's finance ministry had to intervene to force the largest six banks to support the use of cash in the economy. A survey by the Financial Supervisory Authority found many Norwegian banks claimed "they are not responsible for offering cash services". In the country which has the lowest cash use in the world, "There is a need to clarify individual banks' duty to give customers the opportunity to deposit and withdraw cash", stated the ministry. In May, prior to a major public holiday, bank terminals experienced an outage causing chaos and queues, including at the few available ATMs. State preparedness authorities had earlier issued advisories that all households should have enough cash for three days of food and necessities.

In Sweden, where there are many cashless bank branches, the government has also had to introduce legal measures requiring banks to provide access to cash. A 2021 amendment to the Swedish *Act on Payment Services*, required any bank holding over 70 billion kroner (around $10.5 billion) to provide access for deposit and withdrawal of cash to an "adequate" extent across the country. Cash is legal tender under Swedish law, and while businesses are not legally required to accept it, government entities are. The government is also obliged to ensure people have "reasonable access" (within 25 kilometres) to cash services.