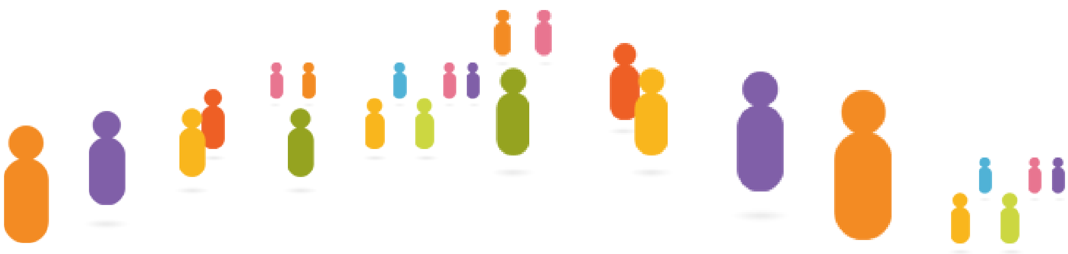
The Consumer Voice in Europe

CASH VERSUS CASHLESS:

Consumers need a right to use cash



Contact: **Jean Allix - Farid Aliyev – financialservices@beuc.eu**

BUREAU EUROPÉEN DES UNIONS DE CONSOMMATEURS AISBL | DER EUROPÄISCHE VERBRAUCHERVERBAND
Rue d'Arlon 80, B-1040 Brussels • Tel. +32 (0)2 743 15 90 • www.twitter.com/beuc • www.beuc.eu
EC register for interest representatives: identification number 9505781573-45

Co-funded by the European Union

Ref: BEUC-X-2019-052 - 25/09/2019

Why it matters to consumers

Consumers should have a right to choose how they pay for something. Each payment method has its advantages depending on the consumer's needs and preferences. Cash has several features which cannot be matched by electronic payment services: it guarantees the consumer's privacy. It also ensures the financial inclusion of people who don't have a bank account. It is also independent from energy outages or from information technology failures Finally it contributes to a more competitive retail payments market by preventing market domination by a few payment card companies. Cash needs protecting.

Summary

This paper presents a case and makes recommendations for EU-level action to ensure that consumers have a non-discriminatory right to access and use cash, alongside electronic and innovative means of payment.

First, we illustrate the increasing difficulty for consumers to access their own cash. The number of ATMs across EU countries has been steadily decreasing since 2014 and this trend is accelerating. In addition, ATM owners are introducing charges for their use, which means that in some cases consumers have to pay to withdraw the money that is in their bank account.

Second, we look at the use of cash as a means of payment. More and more businesses, but also public administrations in some countries, refuse to accept cash payments. The underlying legal issue is that of the legal tender: can a merchant refuse to be paid in cash? As this issue is not harmonised at European level, the situations differ a lot from one country to another.

Third, we analyse the possible consequences for consumers of the total disappearance of cash, since this scenario no longer seems unrealistic today. A cashless society would mean: financial and social exclusion of all those who, for one reason or another, are excluded from the digital society; lack of an alternative to electronic payments and limited consumer choice; complete loss of personal privacy, since a cashless society is a fully traceable society; full dominance of the commercial sector in the payments market, since cash is the only public currency issued by the authorities; increased vulnerability of payment systems to IT system failures or cyberattacks.

Finally, the paper sheds some light on the debate around the comparative costs of various means of payment and discusses who would truly benefit from a cashless world.

Table of Contents

1. BEUC recommendations 3

2. How do consumers use cash? 3

3. Consumers' access to cash 7

3.1. ATM availability 7

3.2. ATM fees 9

3.3. Cash withdrawals in shops 10

4. Acceptance of cash payments 12

5. A cashless society is against consumer interests 13

5.1. Digital and social exclusion 13

5.2. Privacy 14

5.3. Competition, public money versus private money 14

5.4. Outage and cybersecurity risks 16

6. Debate around the cost and the future of cash 16

7. To whom benefits a cashless world? 17

1. BEUC recommendations

Cash is a public good which calls for public measures to ensure its continued existence alongside electronic and innovative payment options. The EU should ensure that:

- All physical traders are obliged to accept payments in cash and make it the EU legal tender. Cash is the only means of payment protecting privacy and ensuring social inclusion. This general rule should be adapted to the various situations, for example, when the value of the banknote is disproportionate to the value of the purchase.

- Consumer access to cash is free of charge, at least when using the ATM network of their bank. Plus, consumers should have the right to make several free of charge withdrawals per month at other ATMs. Countries where ATM fees are currently prohibited should maintain the prohibition.

- There is a minimum availability and balanced geographical distribution of ATMs within each Member State across the EU.

- 'Cash withdrawals in shops' are promoted, as a complementary option to the use of ATMs.

The European Central Bank should give a high priority to the working group on access to cash**.** In 2018, BEUC, as a member of the Euro Retail Payments Board (ERPB), asked for the creation at EU level of a working group on access to cash. This proposal has been included in the ERPB work programme 2019-2020, but the work has not started yet. We urge the ECB to give a high priority to this working group.

We wish to reiterate that BEUC is not at all opposed to digitalisation and the emergence of electronic and innovative payment solutions. We are in favour of competition between various payment instruments. Since the adoption of the directive on payment accounts which make mandatory the delivery of a debit card with the basic account, we insist that debit cards should also be accepted everywhere, both online and offline. In too many cases only credit cards are accepted, to the detriment of consumers who only have a debit card.[1]

2. How do consumers use cash?

Consumers use cash to pay for their daily transactions, but also to store value. When it comes to payments, it is quite difficult to know the exact proportion of cash payments in shops across the EU. An extensive ECB study covering the eurozone countries found that, in 2016, 79% of all payments in shops were carried out using cash. But the market is evolving very quickly, with the development of contactless payments by cards and other innovative payment solutions.

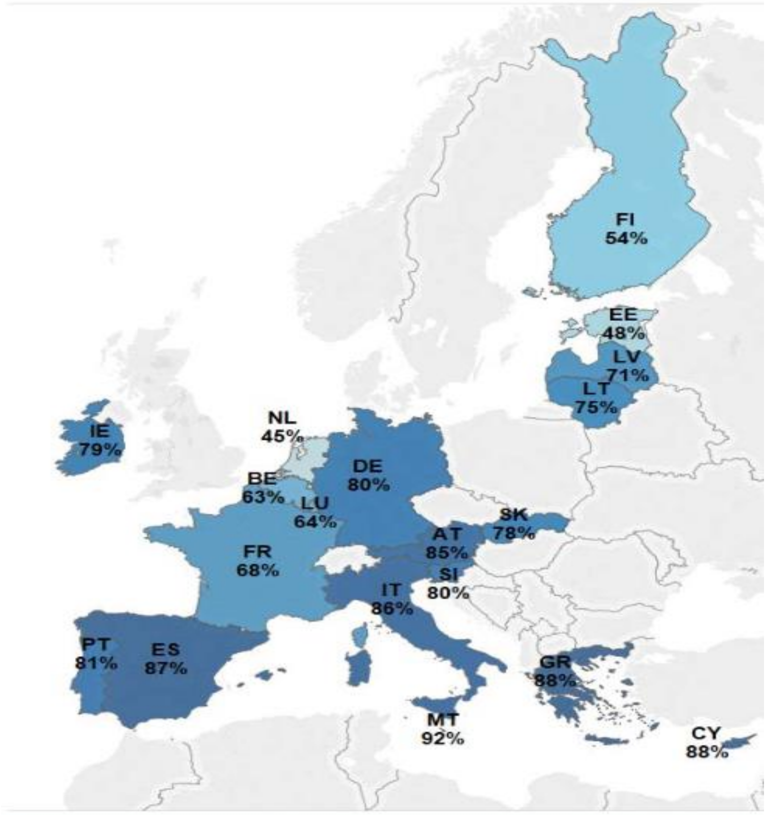
The below table shows important differences between countries on the share of payments made using cash: from 92% in Malta to 45% in the Netherlands and 48% in Estonia. These figures are sometimes misleading, however.

[1] Due to the specific context of the financial services market in Italy, our Italian member Altroconsumo is in favour of limiting the use of cash payments.

It is often said that in Sweden – the most cashless society in the world – less than 2% of offline payments are made with cash. But this figure is based on the value of all transactions (including salary payments by employers) and not limited to payment transactions in shops. In reality, as regard the number of transactions, there are fewer than 20% of payment transactions that are made with cash in Sweden.

Share of cash transactions per country at points of sale

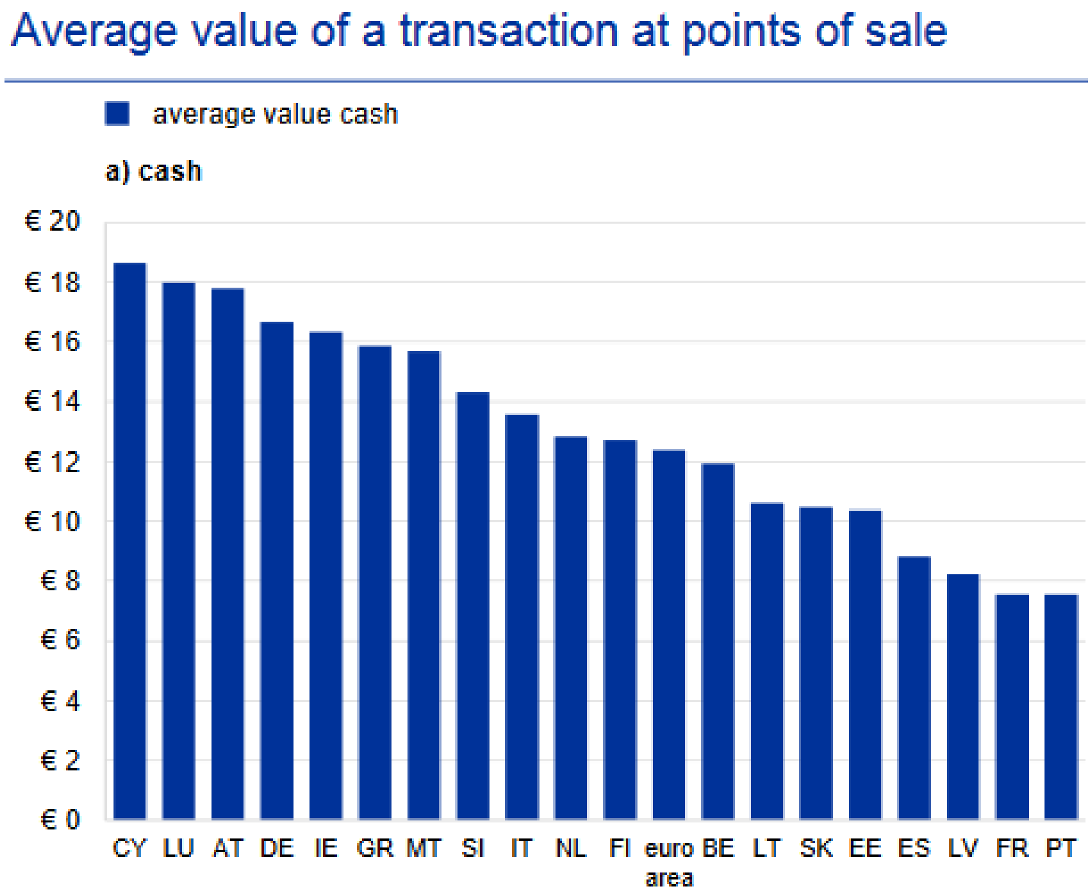
(number of transactions)



Sources: ECB, Deutsche Bundesbank and De Nederlandsche Bank.

Cards and other payment instruments are used for high amount payments. The average value of a cash transaction is €12.38.

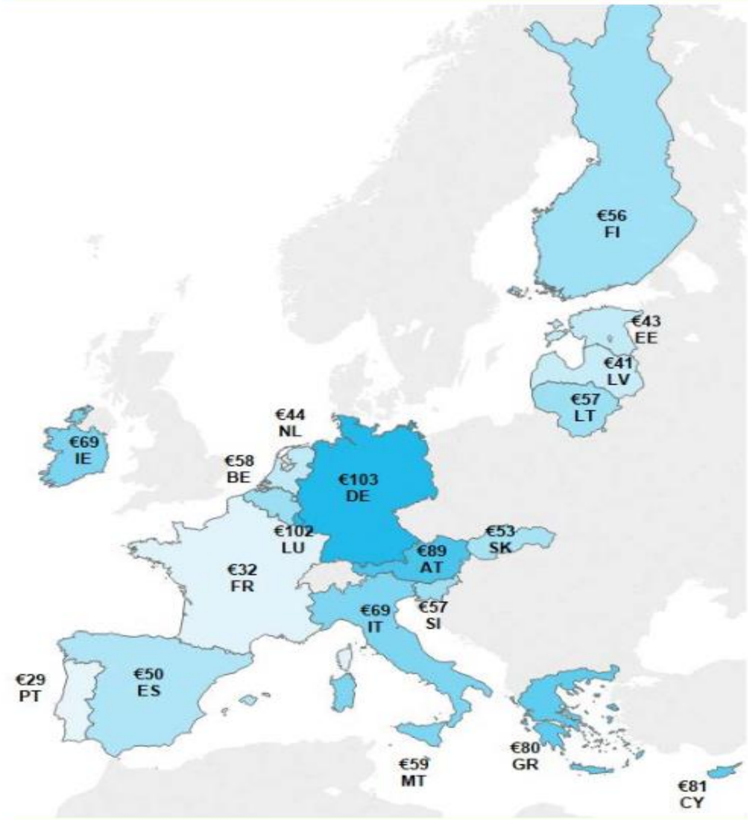
Research from the Cologne-based EHI Retail Institute showed that in 2018, consumers' card payments in Germany accounted for 48.6% of total retail sales, narrowly overtaking the 48.3% of cash payments.



The situation changes rapidly in the countries where contactless payments are more and more used by consumers. Consumers do not have to enter their PIN code when the amount of the transaction is below €25 or €30.

The use of cash by consumers is also influenced by the amount of cash they have in their wallet. Once again there are important differences across countries (see table below).

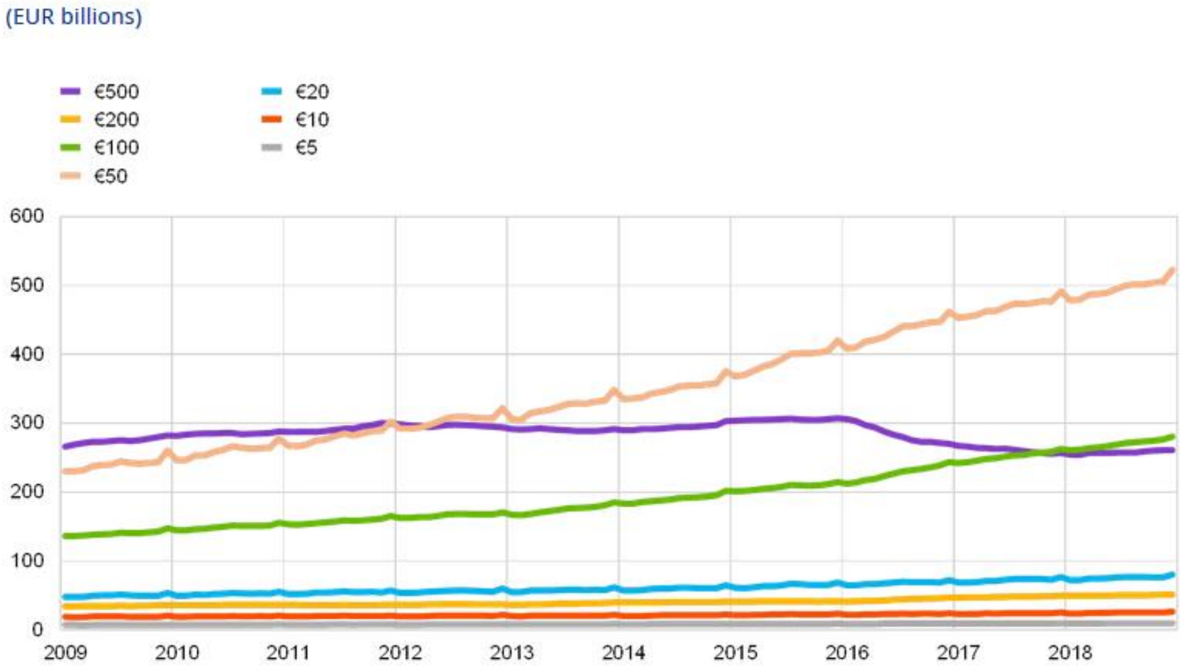
Average amount of cash in wallet



Sources: ECB, Deutsche Bundesbank and De Nederlandsche Bank

The ECB [figures](#) show that the number of banknotes in circulation does not stop increasing (see table below). But at the same time there is a decrease of payments using cash. This means that cash is also used for other purposes than making payments. The ECB indicates that one third of the notes are exported to countries outside the eurozone. Even if it is difficult to evaluate, it seems that with the combination of low interest rates and low inflation, some consumers partly store their savings in cash. Banks are discussing the possibilities of applying negative interest rates to deposits. In that case, 'cash under the mattress' would become the way for consumers to protect their savings. This could generate a huge demand for high value notes.

Value of euro banknotes in circulation by denomination



3. Consumers' access to cash

Automated Teller Machines (ATM) are the easiest means for consumers to get cash. To prevent consumers from lining up at the bank branch to withdraw their money, banks invented ATMs forty years ago. Nowadays, most consumers access cash through ATMs.

However, consumers increasingly face difficulties in accessing their cash through ATMs and bank branches. Bank branch networks are being cut in several countries, and sometimes there are no cash services provided. Moreover, more and more banks and ATM providers across the EU impose fees for cash withdrawals. In some EU countries, cash is no longer accepted in shops. This raises the question of legal tender which is not defined at the EU level even within the eurozone.

3.1. ATM availability

According to the 2016 ECB document, in some countries more than 10% have difficulties in accessing ATMs, although on average 5-6% of the surveyed participants in the euro area reported that it was difficult to find an ATM or bank when needed. At regional level access to cash may be less favourable than the country's average, especially in rural areas.

The table below shows clearly that in most EU countries there is a decrease in the number of ATMs. According to the data already available for 2018, this movement is accelerating. For example, in the UK, there were 1,400 ATM closures in 2017, but 4,700 in 2018.

	ATMs				
	2013	2014	2015	2016	2017
BE	1,335.8	1,134.2	1,393.7	1,025.3	912.4
BG	804.9	777.3	782.4	806.8	806.8
CZ	418.5	422.1	431.9	446.4	471.0
DK	464.5	448.0	447.0	415.8	418.2
DE	1,026.2	1,071.4	1,061.4	1,043.7	1,027.6
EE	584.0	548.7	609.9	586.7	568.6
IE	664.9	780.2	727.3	716.2	708.8
GR	660.5	636.5	489.1	492.8	516.0
ES	1,120.8	1,085.9	1,074.5	1,075.6	1,092.2
FR	888.6	1,081.9	912.3	874.7	844.2
HR	968.4	995.6	1,051.5	1,089.1	1,192.7
IT	825.1	816.8	832.1	812.9	802.2
CY	770.4	544.3	620.5	596.6	577.1
LV	584.8	535.5	535.1	520.1	524.1
LT	426.3	437.5	418.6	411.8	399.0
LU	843.5	877.6	909.7	922.7	968.2
HU	488.2	494.6	489.3	509.0	522.0
MT	507.0	476.0	478.3	474.0	471.7
NL	439.5	424.9	413.7	396.5	373.0
AT	1,005.9	1,600.0	1,576.3	1,397.9	1,415.5
PL	490.3	533.5	575.8	610.3	604.6
PT	1,543.7	1,516.5	1,489.9	1,453.6	1,405.9
RO	538.9	579.5	579.8	564.6	563.5
SI	861.8	820.6	819.1	811.8	796.8
SK	476.8	499.6	504.4	508.9	513.8
FI	412.0	404.6	372.2	349.9	349.8
SE	337.2	333.2	335.2	286.9	263.6
UK	1,060.2	1,074.1	1,079.3	1,066.6	1,054.0
Euro area	931.5	978.8	940.9	906.9	892.1
EU	857.2	896.5	879.3	857.3	846.6

Number of ATMs per million inhabitants (ECB statistics)

The number of ATMs in the EU and in the eurozone peaked in 2014. Since then this number has been declining.

	2014	2015	2016	2017	2018
Euro area	978.1	940.9	906.9	892.1	?
EU	896.5	879.3	857.3	846.6	?

Number of ATMs per million inhabitants (ECB statistics)

The countries with the highest number of ATMs per inhabitants are Austria (1415) and Portugal (1405). The countries with the lowest numbers are Sweden (263) and Finland (349).[2]

Today we observe that, in various forms depending on the country, banks and other ATM providers want to make consumers pay for the use of ATMs. They also want to reduce the number of ATMs. Many consumers are reacting by paying more and more by card which decreases the use of ATMs and encourages banks to close more ATMs. This is a vicious circle because we will be sleepwalking[3] to a disappearance of cash: when the authorities will wake up it will be too late – the network will be gone.

[2] A study by the Center for European Policy Studies on the future of ATMs in 8 EU member states distinguishes between: a) ATMs in bank branches (Belgium, France, Spain and Germany). In these countries the closure of the branch leads to the closure of the ATM; b) ATMs owned by banks but not located in bank branches (Greece, Portugal, Sweden); c) ATMs owned by independent firms (Poland).

[3] This the main conclusion of "Access to cash review", final report, March 2019: https://www.accesstocash.org.uk/media/1087/final-report-final-web.pdf

Some Member States have taken measures to ensure a **balanced geographical distribution of ATMs** so that all consumers can find an ATM in the vicinity. In the Netherlands, for example, where most ATMs are managed by a single company (GELDNAAT), banks have decided that any consumer should have an ATM available at less than 5 kms from his home. In Sweden, a possible legislation could rule that 99% of the consumers should have an ATM available less than 25 kms from their home. One should keep in mind that the density of population is not the same in the Netherlands (411 per km^2) and Sweden (22 per km^2).

In Belgium, the closure of ATMs by each bank is decided by the domestic card scheme. In the UK, the company managing the ATMs proposed for some ATMs with very low usage rates to pay a fee of £2.75 for each transaction to the owner of the ATM. The logic of the proposal is to incentivise the ATM owner not to close it. BEUC's UK member Which? reports that the UK lost two thirds of its bank branches in the last 30 years and that over 60 branches continue to close every month[4]. Meanwhile, cashpoint closures have surged, with almost 220 free-to-use machines closing monthly in 2018.

The UK government announced in May 2019 the creation of the new Joint Authorities Cash Strategy Group (JACS) – chaired by the Treasury and bringing together the regulators and Bank of England to manage the various cash issues.

Recommendation 1: The EU should ensure that there is a minimum availability and balanced geographical distribution of ATMs within each Member State across the EU.

3.2. ATM fees

There are three categories of fees for the use of ATMs: the consumer's bank fee, the disloyalty fee and the direct charge fee.

The consumer's bank fee is a fee paid by the consumer when using an ATM of his/her bank or of the network of his/her bank. In most countries there is no fee for that category of withdrawal.

The German Bundesbank made a survey (page 16) on consumer reaction to a €0.50 fee for a cash withdrawal. One-third of respondents responded that they would not change their behaviour, whereas a sizeable proportion said they would. 36% of respondents would make less frequent use of an ATM and make larger withdrawals when they did so. On the other hand, 22% would look around for cheaper or cost-free alternatives, for example cash in shop options with a mere 6% stating that they would withdraw less cash altogether, possibly leading to greater use of their payment cards.

Consumers pay a disloyalty[5] fee to their bank when using an ATM which is not owned by his/her bank or member of the network of this bank. This fee is not at all related to the cost, it is a fine of some sort because the consumer is using the ATM of another bank. Some years ago, in Germany, these disloyalty fees could be as high as €10 for a simple withdrawal. Now in Germany the average amount is between €5 and €6 and the name of the fee has changed: "external withdrawal fees". A petition launched by our Belgian member Test-Achats in February 2019 urges that cash withdrawals should be free of

[4] Which? press release, More than seven million people unable to use their payment card in last year due to IT glitches, Which? reveals (2019) https://press.which.co.uk/whichpressreleases/more-than-seven-million-people-unable-to-use-their-payment-card-in-last-year-due-to-it-glitches-which-reveals/

[5] This kind of fee is sometime called a surcharge. We prefer not to use this wording as surcharge is already used for the fee taken by retailers for the use of payment instruments. The revised Payment Services Directive (PSD2) forbids surcharges for most electronic payments.

charge when consumers use the ATM network of their bank and 5 free withdrawals a month in other ATM networks.

Direct charging fees are charged directly by the owner of the ATM. If the ATM indicates that the use of this ATM will cost €2, when the consumer does a withdrawal of 200 euros, his/her bank account will be debited €202. Consumer associations are strongly against that kind of fee.

In **Portugal**, it is forbidden by law to charge fees for ATM withdrawals with debit cards. The Decree-Law n. 3/2010, of 5 January, states in Article 2 that *"credit institutions are not allowed to apply any direct charges for performing banking operations in automated tellers, namely withdrawals, deposits or payment services"*. This is applicable to any ATM irrespective of the credit institution running it.

In **Austria,** there is also legislation prohibiting charges for the use of ATMs except in the case of independent ATMs (Austrian Consumer Payment Account Act) which has been recently confirmed by the Supreme Court.

Italy is well known for being the most expensive country for banking services in the eurozone. It is true also for cash withdrawals: for the consumer with a framework contract with his/her bank, the fee is 3.73% of the amount with a minimum of €1.79.

In **Malta**, before 18 February 2019 there were no ATM fees. The situation has changed for withdrawals made outside the network of the consumer's bank since February this year - the fee has jumped to €2.50 for one bank and €3 for the other bank. The two banks own the majority of ATMs.

In **Greece,** banks have recently introduced a fee of between €2.50-€3 for withdrawals outside of the consumer's bank network.

The combination of disloyalty fees and direct charging fees for a single ATM transaction raises a big concern. The consumer pays twice for the same service. This is sometimes called double charging. Twenty years ago, in the UK, following many consumer complaints, the network of UK ATMs LINK decided to prohibit double charging.

Recommendation 2: The EU should ensure that consumer access to cash is free of charge, at least when using the ATM network of their bank. Plus, consumers should have the right to make several free of charge withdrawals/month at other ATMs. Countries where ATM fees are currently prohibited should maintain the prohibition.

3.3. Cash withdrawals in shops

A complementary solution for consumers to get access to cash (which cannot replace access through ATMs) is to withdraw **cash inside a shop** – a service where the customer pays a higher amount to the retailer than the value of the purchase for goods and/or services electronically and receives the difference back in cash.

For the sake of clarity, the term 'cashback' should be given up for this service because this term also means a rebate made on a purchase but after the purchase, in exchange by the consumer of his data and the acceptance to receive advertising. We propose to denominate this service "cash withdrawal in shop" or "cash in shop".

In the Payment Services Directive 2 (PSD2), this practice is defined in article 3(e) as *"service where cash is provided by the payee to the payer as part of a payment transaction following an explicit request by the payment service user just before the execution of the payment transaction through a payment for the purchase of goods or services."* This service is not covered by PSD2 which means that retailers do not need a licence to provide it to their clients. At EU level, there is no legislation related to cash withdrawal in shop.

As of today, it cannot be stated that cash withdrawal in shop is a common practice as it exists in only 11 countries in the EU. In many countries there are rules preventing this service. For example it was prohibited in France and has been authorised by a decree published on 24 December 2018. Another piece of legislation detailed how the information has to be provided to the consumer.

Cash withdrawals in shops can be an easy (complementary to ATMs) solution for consumers. Of course, they will never replace ATMs, but they can avoid long trips for the consumer if there is no ATM in his/her village. Conditions of this service are decided by retailers. In some countries, retailers don't request the consumer makes a purchase to get a cash withdrawal.

A lot of issues will need to be solved to see the development of cash withdrawals in shops. The most important is related to the fees. Of course, this service should be free for the consumer because this is a win-win situation – the retailer has less cash to manage. But the key issue here is the fee paid by the retailer to the acquiring bank (Merchant Service Charge – MSC). In countries where the MSC is a fixed amount for ATM withdrawal with debit cards (such as Belgium) and not a percentage of the transaction, the cash in shop has thrived.

The issue of the fee paid between the issuing and the acquiring bank also needs to be solved: no interchange fee, an interchange fee as for card payments or an interchange fee as for ATMs. MasterCard, for example, excludes interchange fees for the part of the transaction which is not the purchase. Last February in the UK, Lloyds and Visa launched a pilot project for the development of cash withdrawal in shops which includes a fee paid to the retailer.

All discussions on bank charges end in a stalemate. Consumers know perfectly well that there is no free lunch. But do banks need to develop fees per transaction or have these costs included in the services provided by the bank account? Consumers are not paid for the service they render to banks by lending their money in the form of a deposit (current accounts usually don't generate interest income). Why should consumers pay to get that money back?

It is also necessary to take into account the situation in rural areas where only one ATM of a certain bank is usually available. In this case it should be up to the banks by reciprocal agreements to cover the fees for withdrawals at these ATMs, at least for a limited number of transactions. The BEUC position is that all ATM withdrawals within the consumer's bank network, plus several withdrawals/month outside that network should be at no cost to the consumer.

Recommendation 3: The EU should ensure that 'cash withdrawal in shop' is promoted, as a complementary option to the use of ATMs.

Recommendation 4: The European Central Bank should give a high priority to the working group on access to cash. In 2018, BEUC, as member of the Euro Retail Payments Board (ERPB), asked for the creation at the EU level of a *working group* on access to cash. This proposal has been included in the ERPB work programme 2019-2020, but the work has not started yet. We urge the ECB to give a high priority to this working group.

4. Acceptance of cash payments

Cash acceptance is a multi-dimensional issue. The main one is of course the acceptance of cash payments in shops. But there are other issues such as the acceptance of cash deposits by bank branches and ATMs.

In many countries, retailers can decide not to accept cash. In this case they display clearly which means of payment they accept. Some retailers have a very good argument to oppose the acceptance of cash: what they will do with the cash when the nearest bank branch is located 50 kms away or that the nearest ATM does not accept deposits in cash? This is a sensitive issue in Sweden where half of the country's 1,400 bank branches no longer accept cash deposits.

There are two definitions of **legal tender** with different objectives. One is related to the acceptance of cash in shops, and the other to the banknote as a representation of the official currency of the country that can be used to honour a transaction.

The first dimension of the legal tender means the obligation for the payee to accept cash for the payment. The 2010 European Commission recommendation and the accompanying expert report explain the difference of interpretation of 'legal tender' country by country. At EU level there is no "right to pay by cash". It exists only in some EU countries.

In some countries (Belgium, France, Portugal) the legal tender implies that a retailer cannot refuse cash if there is a human presence in the shop. That means that for unattended payment terminals like in petrol stations there is no obligation to accept cash. In Greece, such a rule existed before the introduction of the euro. In some countries such a general principle does not exist, but the legislation can impose a limited obligation.

In February 2019 Dutch consumer group and BEUC member Consumentenbond strongly opposed the decision of a pharmacy group to stop accepting cash payments. Since that incident, a law is under discussion in the Netherlands to oblige pharmacies to accept cash. In Denmark, only 23% of the total payments in physical shops are in cash, and there is a law requiring physical, staffed shops to accept cash payments. In 2018 this legal requirement was reduced to only apply during daytime (from 6am to 10pm).

Another issue related to acceptance of cash is the fact that some retailers ask for an additional fee (surcharge) when the consumer pays in cash. At EU level, it is only recommended to prohibit that kind of surcharge.[6]

It should be also in the interest of the consumer to develop possibilities to pay by cash when using internet services. Google Pay has announced a new service mixing internet payments and cash.

[6] Point 4 of the Commission Recommendation on legal tender: https://ec.europa.eu/economy_finance/articles/euro/2010-03-22-legal-tender-euro_en.htm

The second dimension of 'legal tender': For the time being all euro notes have legal tender. This rule is stated by article 128.1 of the EU treaty (TFEU). This means that the retailer who accepts cash should not be able to refuse notes of €200 or €500. There is currently a debate to withdraw legal tender to the €500 notes, as the ECB has decided to stop issuing these notes. On 20 June 2019 the Commission confirmed that it remains committed to the right to use cash as legal tender. Christine Lagarde, head of the IMF, stressed at a hearing of the European Parliament that the withdrawal of legal tender to the €500 note would have a negative impact on trust in the euro.[7]
In the UK there is an old debate as the notes issued by the Scottish Central Bank can be refused by English retailers despite it being the same currency. Only the notes issued by the Bank of England have legal tender in England.

In a recent position paper from February 2019 the Central Bank of Lithuania indicates *"It should be noted that EU Member States have not reached an agreement on the harmonisation of legal tender at the EU level"* and concludes *"EU Member States retain a margin of discretion over the regulation of issues pertaining to the use of the euro"* .On this basis the central bank concludes that *"Refusal to accept cash is acceptable if parties have agreed on other means of payment."*

As this statement was issued after the discussion about refusal of cash in shops in this country, it raised at least two issues. First, according our Lithuanian member Lietuvos vartotojų organizacijų aljansas, consumer representatives have not been consulted. This kind of national rule cannot be decided by a central bank alone even if it is also in charge of consumer protection. Second, one wonders what the central bank is doing to ensure that consumers' freedom of choice is maintained.

Recommendation 5: The EU should ensure that all physical traders have an obligation to accept payments in cash (EU legal tender). This general rule should be adapted to the various situations, for example, when the value of the banknote is disproportionate to the value of the purchase.

5. A cashless society is against consumer interests

The issue of cash is sensitive in many countries. For example, BEUC's Swedish member Sveriges Konsumenter published in September 2018 a report entitled *"Payment services of tomorrow – from a consumer perspective"*. Sweden has been called "the most cashless society in the planet" but the study shows that 7 out of 10 consumers want to be able to pay by cash in the future.

5.1. Digital and social exclusion

One of the fundamental problems related to the cashless society is digital and social exclusion. Cashless does not just mean using a card and a code to pay in a shop. More and more transactions require the use of sophisticated smartphones and applications that require a minimum of skills to make payments. It is also clear that the fast development towards a cash free society will affect many vulnerable consumers. For example, Swedish member Sveriges Konsumenter is opposed to a cashless society considering that it will negatively affect many vulnerable consumers and proposes a series of political solutions to deal with these growing problems.

[7] Answer to question number 43 of the audition.

We must also take into account the ageing of the population. Some consumers are already excluded from the digital world, especially ecommerce, either because they do not have computers or because making payments is too complicated.

The Luxemburgish consumer group *Union Luxembourgeoise des Consommateurs* runs a campaign against increasing bank tariffs and the closure of bank branches as such a policy ignores the needs of elderly or disabled clients. These clients often use services at bank counters because they do not have internet access or because they do not feel able to use online banking. The issue of a digital divide between young and elderly people is unlikely to disappear, due to age-related sensorial, cognitive and physical declines as well as health issues.
Besides digitally vulnerable people, millions of EU consumers do not have a bank account, which means that they do not have means of payment available other than cash.[8] During the last months in the US, many cities (San Francisco, Philadelphia) or states (New Jersey, Massachusetts) have issued legislation making the acceptance of cash mandatory. The justification is the same everywhere: protection of low-income citizens who don't have access to a bank account.

5.2. Privacy

The cashless society is a traceable society. In a cashless society all payment transactions are electronic and are therefore traceable. A consumer who wants to protect their privacy must be able to make cash payments so that their transactions are not listed on their payment account statement. Any person or company with access to the bank statement of the consumer can learn a lot of information about his/her financial and personal life by analysing their payment transactions, for example about the consumer's political and religious affiliation, sexual orientation, health conditions, personal relationships.

The situation with privacy will worsen soon with the introduction of Open Banking. Many service providers will request access to consumers' payment accounts in order to profile consumers as explained in a recent BEUC position paper.[9]

As regards privacy but also social exclusion, cash payments after delivery for e-commerce are developing. The Dutch Banking Association indicates in its 2018 annual report that at 6%, this payment method's share is relatively limited, but was used much more frequently in 2018 than before.

The European Commission in the future will manage a huge database of nearly all cross-border e-commerce payment transactions in order to combat VAT fraud.[10] Of course, access will be limited to tax authorities. Nevertheless, there is a risk of security with that kind of files. The registration of all cross-border consumer transactions is perhaps disproportionate as regards the objectives of fighting fraud.

5.3. Competition, public money versus private money

It is fundamental to maintain cash as the only existing alternative to card (plastic or digitalised cards) and electronic payments in European countries. It is a question of competition between means of payment. For example, our UK member Which? runs a campaign aimed at protecting cash and consumers' freedom to pay their way.

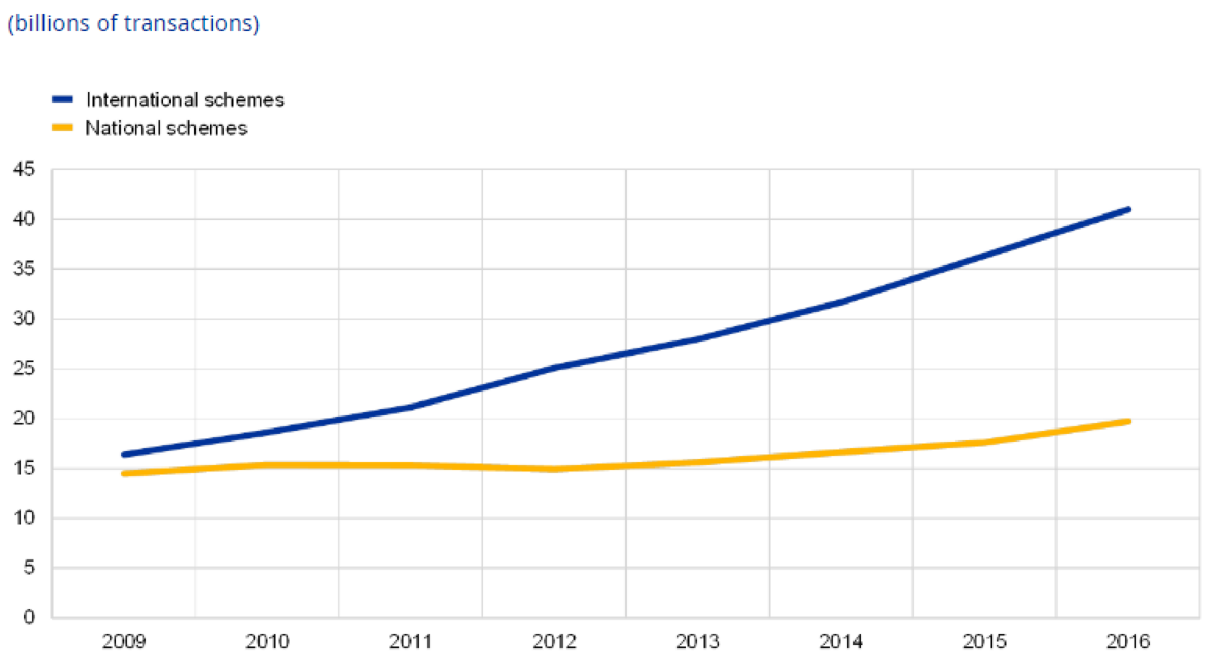
The maintenance of this competition has a double dimension. The first is consumer access to cash: closing bank branches and ATMs, in addition to introducing ATM fees, makes it

[8] In 2016, 37 million adult EU citizens (8.6% of Europe's population) lacked access to formal financial services: https://www.wsbi-esbg.org/press/latest-news/Pages/Close-to-40-million-EU-citizens-outside-banking-mainstream.aspx
[9] BEUC position paper, Consumer-friendly open banking (2018)
[10] Commission proposal COM (2018) 812 final and COM(2018) 813 final

increasingly difficult for consumers to access cash. The second dimension is the acceptance of cash i.e. the possibility for traders to refuse payments in cash. This second question does not arise for the moment in some countries such as Belgium where the law obliges traders to accept cash (legal tender).

Besides that, cash is the only public means of payment (issued by central banks) as opposed to electronic payment solutions issues by commercial entities. Last year, the European Commission abandoned a controversial initiative aimed at imposing maximum thresholds for cash payments. The Commission concluded that *"Restrictions on cash payments are a sensitive issue for European citizens, many of whom view the possibility to pay in cash as a fundamental freedom, which should not be disproportionally restricted".* In the EU many national debit card schemes have disappeared (UK, Finland, the Netherlands, Ireland) and banks now provide only Visa and MasterCard cards. The remaining national debit card schemes ones are in danger. The issue is quite simple: cards issued by domestic schemes can be used only in one country. Therefore, they need to be co-badged with an international scheme. What is happening for the time being is that some banks are stopping to issue the domestic brand and are issuing only the international one. This move will kill the remaining domestic card schemes. This risk was also mentioned in the ECB report on card payments in Europe in April 2019: *"Increasingly, payment service providers issue cards from international card schemes".* The graph number four of this report illustrates this trend quite clearly.

Number of transactions made with national and international card schemes on payment cards issued in the EU



Source: ECB

In the current situation, the end of cash would mean that all payments in the EU will be provided by a duopoly (Visa and MasterCard). In the past, a decision of the US authorities had for effect to block the use of international cards in some countries. Fortunately, we see the arrival on the market of new digital providers like Swish in Sweden or e-Ideal in the Netherlands, which are not based on card payments.

5.4. Outage and cybersecurity risks

Digital payment systems are vulnerable to technical outages and cyberattacks, while cash transactions are independent of those circumstances. There are two categories of outage: linked to a problem of energy supply or to an IT functioning.

There are fears of what will happen if the payment system suddenly crashes. The fact that payment systems are classified by the Directive on security of network and information systems as critical infrastructures will not in itself prevent technical outages. The continued existence of cash is an important dimension of the resilience of the society.

For example, Belgian consumers have already experienced the consequences of the fragility of IT infrastructures when, on a Saturday in December, the national card network Bancontact collapsed.

In the UK, more than seven million people were unable to use their payment card last year due to IT glitches. Which? reveals (15%) in Scotland were left unable to use their card due to an outage in the past year.

Another aspect is cyberattacks. A weekend night in 2016 in the UK hackers hacked the cards of 40,000 consumers of the Tesco bank. The affected consumers could not use their cards for a week and had to borrow money from friends to be able to pay for their purchases. This cyber-attack can be considered has the first e-heist of this history of payments.

This is why payment by cash should remain a fallback solution in case of outage.

6. Debate around the cost and the future of cash

Studying the cost of means of payment is a complex subject because one must not only take into account the cost for a single link in the chain (such as banks, retailers), but for the whole of society. Various studies have shown that in some countries the debit cards of national schemes are sometimes cheaper than cash transactions, but this is also due to the high cost of the cash processing chain. As a British report has just shown, a lot of progress can be made in this area, starting with the development of cash withdrawal in shop which avoids the expensive return and checking of banknotes to the bank and the central bank.

According to a recent study on the cost of cash by the German central bank and the retailer institute, in Germany, 75% of payments are made by cash, the average purchase amount is just under 21 euros, but only 14 euros for payments by cash. On average, cash payments take just over 22 seconds and cost around 24 cents per transaction. The study found that cash payments are roughly seven seconds quicker than card payments with PIN. This point shows that cost calculations should not be limited to the cost for a single market actor but must integrate all the direct and indirect costs, such as the duration of the payment transaction.

It is possible that payments in the form of physical coins and banknotes disappear one day, but cash as a payment instrument issued by a public authority, anonymous and independent of computer networks, will continue to exist. That is the subject of a whole debate about electronic monetary units issued by a central bank. It means that electronic coins and notes could replace physical coins and notes the central bank remaining the issuer. The term 'Central Bank Digital Currency (CBDC)' is commonly used in this context. According to the Bank for International Settlements, 66% of the central banks in the world are working on this idea. For the time being only Canada and Singapore have decided to launch large experiments. The Swedish Central Bank approaches this issue from the consumer angle and does the promotion of the e-Krona.

7. To whom benefits a cashless world?

Dominant card schemes like Visa and MasterCard as well as banks are behind this push towards a cashless society. They endeavour to persuade the public opinion that cash is an outdated payment method, involves high societal costs, and is mainly used for money laundering and terrorism purposes. Some of these arguments are plausible, e.g. costs of cash handling (transportation, storage, security measures) but can be further optimized.

The card schemes are the main beneficiaries of the society without cash. They are at the origin of this movement. In some countries, they even create pseudo consumer associations for the promotion of cashless society.

When a consumer pays in a shop with a card, the bank of the retailer will pay a fee (interchange fee) to the bank of the consumer. When a consumer makes a cash withdrawal the bank which owns the ATM receives an interchange fee from the bank of the consumer. We observe on the market a gradual decrease of interchange for ATMs. The consequence is that it is less and less profitable for banks to manage ATMs. For example, Sweden has the lowest interchange fee for ATMs and the lowest number of ATMs per inhabitant.

Most ATMs in UK are managed by a single company called LINK. LINK has last year decreased the amount of the interchange *from* 25 to 22.5 pence. As a result, several independent ATM operators (Cardtronics, Notemachine) have introduce direct fees for cash withdrawal. In addition, as the interchange fee by Visa and MasterCard is of 18 pence, the card issuing banks threaten to leave LINK.[11] The UK situation will probably be replicated in many other countries.

A recent discussion paper by the UK Payment Systems Regulator (PSR) provides that "*We are working to protect the current geographic spread of free-to-use ATMs*" and adds immediately *"This paper is specifically focussed on the structure of interchange fees."* That shows clearly that the number of ATMs and their geographical distribution is directly related to interchange fees. These fees for ATMs are not regulated but decided by banks and card schemes. The decrease of interchange fees looks like a strategy to eliminate ATMs.

It is often said by the cashless society advocates that cash is the instrument for tax evasion, money laundering and financing of terrorism. This argument is not acceptable, these criminal activities, as shown by recent inquiries such as Panama Papers and the recent Danske bank case are possible due to the complexity of the financial circuits. Money laundering is not necessarily based on cash. Even the Central Bank does not accept this argument as declared last year by Yves Mersch, Member of the ECB Board: *"No particular link can be established statistically between cash and criminal activities. The focus must be on the fight against crime. Cash must not be made the scapegoat".*

END

[11] Which? Money magazine, April 2019.

This publication is part of an activity which has received funding under an operating grant from the European Union's Consumer Programme (2014-2020).