

INTERNATIONAL MINT INDUSTRY ASSOCIATION

IMIA POSITION PAPER 2024/01

Pro-active Policies for Cash Payment Habit Key for Crisis-Resilience

- Due to its unique crisis-resilience and crisis-prevention attributes, euro cash infrastructure needs to be legally secured and uniformly supported, guaranteeing *easy-and-convenient access* and *widely applied mandatory acceptance*.
- Private electronic and digital payment methods and the potential digital euro *alone* are not sufficient in the digital age to support the crisis-resilience of the European economy and its citizens.

Crisis-resilient payments systems depend on the diversity of payment methods. It is therefore essential that cash legislation is in place that supports the formation of a cash payment habit in ‘good times’¹ to enable cash as an effective means of payment in crisis times and electronic payments outages. The current fragmentation in the EU cash policies and conditions effectively weakens the cyber and financial crisis preparedness of the community and its citizens.

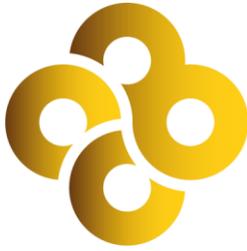
The cash payment habit cannot be quickly restored when it has been lost. Governments must act now to protect it – and harmonise efforts across the EU.

The IMIA does not mean to state that cash is the only crisis-prevention and crisis-resilience tool, but it is a key and unique pillar, a pillar that cannot stand unless it is supported by strong domestic as well as EU-wide cash access, deposit and mandatory acceptance policies. Governments must legislate to strengthen the cash infrastructure in countries where it has fallen behind, as well as legislating in jurisdictions with existing cash habit-supportive infrastructure to secure the status quo.

Equal support for euro cash as crisis-resilience policy

A basic principle of enterprise risk management is to diversify investments into assets with unique attributes, characteristics and qualities. The same principle, in the IMIA view, needs to apply to national payment-system-resilience risk management by diversifying investments equally into various payment methods, to support diverse payment habits.

¹ “It is difficult to get cash to work in the way it is intended in times of heightened alert and war, if cash is not used to a certain extent in normal times as well.” https://www.riksbank.se/globalassets/media/remisser/riksbankens-remissvar/engelska/2020/consultation-response-regarding-a-new-sveriges-riksbank-act-sou_2019_46.pdf



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In that sense, cash should be given the same protections as the EU envisages for the digital euro. To mirror the legal tender for digital euro proposal and its rationale:²

In the euro area, the establishment of a sound cash infrastructure for euro cash is a necessary – de facto indispensable – supplement to the digital euro once issued. Some key technological features of euro cash *will not be replicable by the digital euro* – personal data safety and privacy, universal inclusivity, unlimited store of value function, tangibility and physicality, and, above all, functioning as means of payment and store of value without any third-party involvement or any technical devices. These give citizens self-reliant autonomy and protection against device failure and electronic hacking – so that the euro can be used as a *single currency, in a uniform and effective manner across the euro area*.

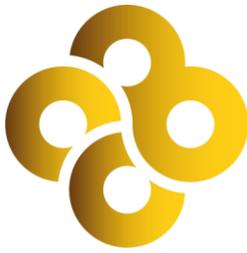
Euro cash must always be offered as a publicly guaranteed and tangible means of payment, *alongside the existing private digital means of payment and the digital euro*. *Euro cash alongside these non-cash means of payment* supports a stronger and more competitive, efficient and innovative European retail payments market. Euro cash also contributes further enhancing the resilience of the European retail payments market.

Need to support cash payment habit in ‘good times’

The legislative proposal for the digital euro and the project as such is trying to create and nurture conditions for a digital euro payment habit to develop, from zero demand and non-existent habit. The proposed conditions therefore are:

- Easy, free and widely available access
- Mandatory acceptance - for all use cases and pan-European harmonised user experience
- Charges or fees to be paid by merchants subject to limits
- Public authorities to actively raise awareness among the public about digital euro features

² “In the euro area, the establishment of a retail CBDC – the digital euro – is necessary to supplement cash and adapt the official forms of the currency to technological developments, so that the euro can be used as a single currency, in a uniform and effective manner across the euro area. The digital euro will also be offered as a public digital means of payment, alongside the existing private digital means of payment, supporting a stronger and more competitive, efficient and innovative European retail payments market and digital finance sector, and contributing to further enhance the resilience of the European retail payments market as well.” https://eur-lex.europa.eu/resource.html?uri=cellar:6f2f669f-1686-11ee-806b-01aa75ed71a1.0001.02/DOC_1&format=PDF



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In contrast, euro cash payment habit, which already exists, is *not* being supported, and in many cases is undermined. The legal tender for euro cash proposal *only* goes as far as calling for:

- Sufficient and effective access conditions
- Monitoring of non-acceptance levels (aka no mandatory acceptance)
- Not addressing merchant access conditions³
- Not seeking to guarantee a euro area wide payment experience – which is one of the most tangible element of the single currency.⁴

European policymakers often only call for adequate access levels to meet individual member states' national cash demand and cash payment habit. Yet, this approach has several risks and conceptual flaws.

Firstly, by denying a reliable uniform pan-European euro cash payment experience and choice it undermines the concept of EU citizens' free movement and the role of the euro as a common currency, currently the only form of central bank money accessible to citizens. As such, cash is a pillar of trust of the general public in our currency.

Secondly, it assumes an existence of a natural and immutable cash demand and payment habit.⁵ A recent survey conducted by the Finnish Ministry of Finance⁶ found that in Finland, which is the eurozone member state with the lowest share of cash payments, both per number and value of transactions⁷, 78% of private individuals said cash withdrawals and deposit services were neither sufficient nor affordable and 78% were dissatisfied with cash acceptance. This indicates that the cash payment habit in Finland has very likely the potential to be higher than the actual acceptance and access to cash conditions allow. The presence of easy, convenient and free access with wide acceptance conditions, or the lack thereof, impacts the cash payment habit.

³ With fears growing about the health and continued viability of city centre or out-of-town 'bricks-and-mortar' shops, why are resources spent on online-shopping, rather than community ecological strategy.

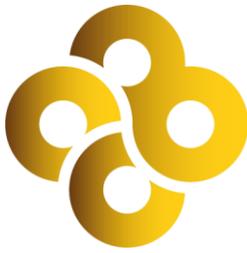
⁴ To paraphrase, there is no aim to guarantee, for example, that someone from Portugal will be able to pay with euro cash as easily and in the same way in Helsinki as they can back home in Lisbon.

(https://www.ecb.europa.eu/press/key/date/2024/html/ecb.sp240214_1~4bf1ab0319.en.html) This is also relevant for non-euro member states – EU citizens should also have the 'free-movement' and free payment-choice to choose between paying in non-euro (and vice versa) member states with national currency cash or to pay with private electronic methods plus foreign-exchange transfer fees.

⁵ This is far from reality for EU citizens. Recent developments in France for example, showed that cash payments went up due to the cost-of-living crisis.

⁶ Publications of the Ministry of Finance (2024): Evaluation of banking services and credit institutions legislation - Assessment report on the timeliness of regulation and the need for change

⁷ https://www.ecb.europa.eu/stats/ecb_surveys/space/html/index.en.html



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Thirdly, and relatedly, establishing access and acceptance rules and conditions based on essentially random time points and cash habit estimates ignores the need for a forward-looking and crisis-resilient strategy. Cash infrastructure must function in the ‘good-times’ to cope with areas of potential crises in the near and unforeseeable future.⁸

Rise in Fraud - Financial Crisis Resilience - Cyber resilience

Those citizens who choose to pay cash effectively demonstrate both cyber-risk and financial-risk prudent habits. In jurisdictions with policies not supporting or preventing cash payment choice online fraud is on the rise.⁹ The point being, that in nearly cashless societies citizens lose agency, with bank branch closures they are prevented to operate ‘analogue’ and are asked to move more and more to mobile banking.¹⁰ Furthermore, European countries elderly and care-reliant generations is growing, these citizens are losing short and free access to cash, giving them the only choice to hand out bank cards and PINs to their carers – institutional or family members.¹¹

Banks do fail and even though consumer deposits are protected up to €100k, the payout is in practice at the very best not possible faster than in a week, assuming the citizen holds another, or can quickly open a new, bank account and the bank is not failing during a systemic crisis. Cash payment habit and therefore a functioning cash infrastructure crucially supports the functioning and profitability of the banking system itself in the ‘good times’ and as such it effectively acts as banking crisis prevention.¹²

It is this aggregated risk-averse and prudent behaviour of individual citizens that increases risk-resilience of individual member states and the European Union as a whole. Citizens should have the democratic and autonomous choice to manage their personal risks and not

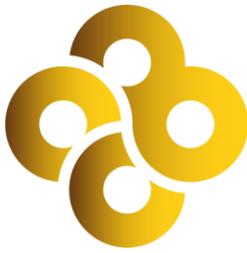
⁸ For the role of cash in various crises see, https://static1.squarespace.com/static/643fdacc489b59070d5d0881/t/644021682c79163097221352/1681924458129/IMIA+Position+Paper+2023-1_LEGAL+TENDER+STATUS+OF+EURO+CASH.pdf

⁹ “Recent years have seen a sharp increase in fraud, which risks undermining that trust. According to the Swedish National Council for Crime Prevention, fraud is the category of crime that has increased the most in 2023. Among fraud offences, card fraud and fraud via social engineering have increased the most. The number of card fraud cases increased by 44 per cent from 2022.” Sveriges Riksbank (2024): ‘Fraud is the fastest growing type of crime in Sweden’ <https://www.riksbank.se/en-gb/payments--cash/payments-in-sweden/payments-report--2024/safety-efficiency-and-accessibility/are-payments-in-sweden-safe/fraud-is-the-fastest-growing-type-of-crime-in-sweden/>

¹⁰ <https://www.bbc.com/news/articles/c897xlvgv2o>

¹¹ <https://www.thomsonreuters.com/en-us/posts/corporates/financial-elder-abuse/>

¹² “The ability to convert money in bank transaction accounts into safe and secure central bank money is particularly important to people in times of crisis. This was demonstrated in the significant increases in cash withdrawals at the beginning of the COVID-19 pandemic and by the rush of people to withdraw cash from stressed banks during the Global Financial Crisis that occurred in 2007-2008. The fact that privately issued money can be exchanged for central bank money at face value underpins its acceptance as a form of money. The convertibility of private money into central bank money is supported by policies aimed at creating a sound and stable banking sector (such as the prudential regulation of banks and liquidity support for banks facing short-term cash difficulties), as well as the network of bank branches, automatic teller machines and retail outlets that provide access to cash.” <https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/consultations/banks/future-of-money/stewardship-issues-paper.pdf>



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be pushed by authorities to manage risk in certain ways, such as by opening several bank accounts and holding several bank accounts and cards¹³. Not only is such policy recommendation not possible to follow for all citizens, it also pushes citizens to potential overspending and creates an overreliance on core settlement systems, which can and do fail. Such a nudging effectively occurs if easy and convenient access and wide usability of cash policies are absent or not sufficient.

Cash policies to secure good cash infrastructure at risk

Across the EU landscape, current cash usage and policies differ. Austria has the highest cash payment habit in the eurozone, and until recently largely easy and convenient access to cash conditions, with distance to ATMs averaging 0.6 km in larger cities.¹⁴ A recent survey of Brussels citizens and merchants revealed that 96% of private individuals and 97% of merchants want cash access within ten minutes' walking distance, which equates to an average distance of 667m.¹⁵

Yet, even in Austria the risk emerges that these conditions can worsen unless legislative policies are put in place to secure a cash payment habit not detrimental to the status quo. That's why the Austrian central bank, noting the decline in ATMs by almost 6% or around 500 machines since 2021, is taking pre-emptive efforts to maintain the existing good and resilient infrastructure in the long term.¹⁶ The Austrian banking sector is arguing for reduction of cash access points, not due to low cash payment habit, but to bring it closer to eurozone average.¹⁷

Fundamentally, easy and quick cash access creates trust in bank money and credit institutions themselves and furthermore, it is taxpayers' money that effectively grants banks their privilege of being able to create money. It is taxpayer's money that effectively grants banks their privilege of being able to create money. Even if we believe banks are no longer 'too big to fail' - a stretch given recent major bank failures - enormous state resources are expended on monitoring banks' resilience and trying to avoid bank failure. The state is always there as the ultimate backstop and will step in if depositors' money is threatened. A social contract between the state and banking institutions exists that should ensure central bank money is

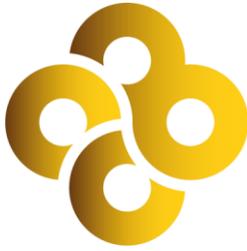
¹³ <https://www.nationalbanken.dk/media/isypwalp/offline-card-payments-as-a-payment-contingency-measure.pdf>

¹⁴ H Stix (2020): A spatial analysis of access to ATMs in Austria https://www.oenb.at/dam/jcr:45718d4f-78a3-460e-97f1-8232b93ce994/05_MOP_Q3_20_A-spatial-analysis-of-access-to-ATMs.pdf

¹⁵ <https://hub.brussels/en/atm-wanted-hub-brussels-surveyed-the-needs-of-merchants-and-consumers/>

¹⁶ https://www.oenb.at/Presse/Pressearchiv/2024/20240322.html?utm_source=mailworx&utm_medium=email&utm_content=presseausendung%3a&utm_campaign=oenb+kompakt+03%2f2024+-+created%3a+20240402+-+sent%3a+20240402&utm_term=n%2fa

¹⁷ <https://www.diepresse.com/18297785/bankomaten-werden-in-oesterreich-zur-mangelware>



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supplied and bank money is convertible into cash at will. The state has every right to demand easy and convenient access to cash be a precondition for a banking licence.

In the Netherlands recent access to cash draft legislation is seeking to secure a cash infrastructure that recognises the role of cash as the fall-back option in case of disruptions in electronic payments and its role in underpinning trust in the wider financial system. The draft aims at cash services being free for citizens and notably capping cash service fees for merchants.¹⁸ Hungary passed a law expanding ATM coverage and prohibiting bank institutions to close branches before ATMs are installed and functional in its place. In Norway, the country with most likely the lowest cash payment habit in the world, a mandatory acceptance law on all services and goods is being enacted as part of crisis preparedness policies in the event of cyber-attacks, massive power failures or other breakdowns in electronic payment systems.

These steps to preserve cash infrastructure are a critical part of ensuring convertibility into cash, allowing citizens exercise control over their money rather than ceding control to banks.

Conclusion

As the ECB stresses¹⁹, cash can play an important role in the event of contingencies, such as Hurricane Katrina in the U.S. in 2005, where alternative means of payment are temporarily not functioning or as the recent global outage demonstrated.²⁰ Cash is robust against cyber-crime, since cash payments do not require a functional technical infrastructure or related investment but are always available. And it can play an important role in the event of a disturbance in payment systems, even though cash machines and other service points may also be affected, as these are dependent on interaction with the account holding institutions. Keeping some cash easily protects against such contingencies!

¹⁸ <https://www.internetconsultatie.nl/chartaal/document/12193>

¹⁹ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52024AB0002>

²⁰ <https://www.cashmatters.org/blog/cash-to-the-rescue-in-global-it-outage>