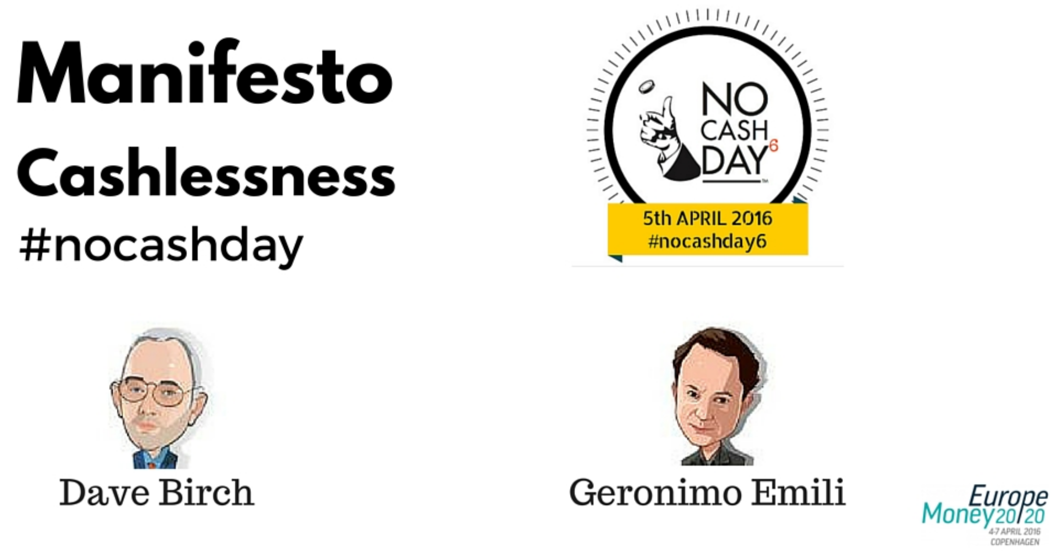

press release

A Manifesto for Cashlessness

Announced in Copenhagen at Money2020 Europe fintech congress

Copenhagen, 6 April 2016 - **Geronimo Emili**, president of the Italian association CashlessWay, invited the UK payments expert, **Dave Birch** to deliver a manifesto for cashlessness in Europe to advise European politicians to take cashless seriously and put forward concrete and reasonable plans to achieve effective cashlessness

They presented the document at **Money2020 Europe**, the fintech congress held in Copenhagen from 4 to 7 April.

The initiative is under the 6th edition of No Cash Day, 5 april, this year in all Europe for the first time.

The Manifesto for Cashlessness

Money supply

Governments are responsible for managing the money supply, but they presumably want to the system to deliver an efficient money supply for the modern age. But right now, European money is really, really inefficient. Jack Dorsey of Twitter and Square fame once tweeted that “In general, the shift toward a cashless society appears to improve economic welfare.” He is, of course, correct and we must “nudge” consumers toward this future. The European Central Bank has published a detailed analysis of the costs of retail payments instruments (Occasional Paper no. 137, September 2012) with the participation of 13 national central banks in the European System of Central Banks (ESCB). It showed that the costs to society of providing retail payments are substantial, amounting to almost 1% of GDP for the sample of participating EU countries. Half of the social costs are incurred by banks and infrastructures, while the other half of all costs are incurred by retailers. My friend Professor Leo van Hove, Europe’s foremost expert on such matters has long held that cross-subsidising cash is not a welfare-maximising strategy. The social costs of cash payments represent nearly half of the total social costs and as the proportion of retail payments made in cash falls, so in some countries cash already does not have the lower cost per transaction. These social costs of payments systems have only recently been studied to any degree of accuracy by, for example, the Dutch and Belgian central banks (who found the social cost to be .65% and .74% of GDP respectively). In both of these countries, which have well-developed debit infrastructures, cash accounts for three quarters of the total social cost. (In other words, each family in the Netherlands pays about 300 Euros per annum to use cash.) Dr Laura Rinaldi from the Centre for Economic Studies at Leuven University, carried out some research which confirmed that customers see cash as being “almost free” despite the costs. She concluded that proper cost-based pricing would shift debit cards from being 4% of retail transactions in Europe to a quarter, a change that would add 19 basis points to the European economy.

Manifesto Commitment 1: we will halve the total social cost of the payment system in the next decade, starting by allowing retailers to surcharge for all forms of payment including cash, except for "card present / cardholder present" debit.

Criminal activity

The high-value notes account for more than half the outstanding currency in many OECD nations, are mainly held for stashing, hoarding and exporting. The non-utility of these notes was highlighted in a 2011 ECB survey among households and companies that estimated that only around one-third of the €500 notes in circulation were used for transaction purposes and that the remainder were hoarded as store-of-value in the euro area or held abroad. Recent figures from the Bank of England show a similar pattern, with about a quarter of the cash in circulation used for transactions. High-value notes no longer support trade and industry. Dr. Rinaldi's research mentioned above further concluded that shifting European economy away from cash would grow it an additional nine basis points because moving to electronic money would shrink the cash-based "shadow economy". The European Commission has already said that it wants to investigate the connection between cash (specifically €500 notes) and terrorism. Cash, however, is desirable for all sorts of criminal purposes, not merely terrorism. Now, clearly, removing cash won't end crime. The reason to make electronic money a firm policy goal is to raise the cost of criminal activity. Whether that crime is drug dealing or money laundering, bribing politicians or evading tax, cash makes it easy and cost-effective.

Manifesto Commitment 2: We will remove €100, €200 and €500 notes from circulation within five years and €50 (and £50) notes from circulation in a decade.

Social policy

UK research indicates that families who use cash are around hundreds of pounds per annum worse off than families who don't. The reasons are multiple: the cost of cash acquisition, the inability to pay utilities through direct debit, exclusion from online deals and a variety of losses. There's something unfair about this. People who choose to exist in a cash economy to avoid taxes (e.g., gangsters) are cross-subsidised by the rest of us. People who have no choice but to exist in a cash economy are not cross-subsidised at all. Those Europeans trapped in the cash economy are the ones who are most vulnerable to theft and extortion, most likely to lose their hard-earned notes and coins or have them destroyed by monetary policies, paying the highest transaction costs, lacking credit ratings or references and (in an example I once heard from Elizabeth Berthe of Grameen at the Consult Hyperion Forum back in 2011) most likely to have their life savings eaten by rats. So what should be done? Well, the answer is clear. Make electronic payment accounts, capable of supporting account-to-account push payments available to every European citizen at no cost. Notice that I do not say "bank accounts". Bank accounts are an expensive route to inclusion. Now, financial exclusion is often associated with an inability to provide a proof of identity or address (e.g. immigrants, homeless people), unemployment or financial distress in general and low educational attainment. Electronic money itself does not attack any of these issues hence we must have relaxed KYC for low-maximum balance accounts.

Manifesto Commitment 3: We will regulate for an on-demand electronic payment account capable of holding a maximum of €1,000 without further KYC other than unique recognition (e.g., a mobile phone number).

Control and regulation

With electronic payment accounts available to all and no necessity for cash in day-to-day transactions, we must be sensitive to privacy of transactions. Regulatory authorities ought to be able to monitor economic activity and the advantages of knowing in near real time what is happening in the real economy ought to be substantial for national economic management. However, there is a world of difference between the Minister of Finance knowing that people spent €1,548,399 in restaurants yesterday and knowing that I spent $8.47 on a burrito in Chipotle. Most of the concerns that reasonable people have about moving away from cash are to do with privacy and security. Since we will have to have security in order to have privacy, we should set our goals around privacy as the central narrative to address these concerns. We have all of the technology that we need to deliver payment systems with the appropriate degree of pseudonymity for a democratic and accountable society.

Manifesto Commitment 4: We will create a privacy-enhancing infrastructure for transactions and for the sharing of transaction data, beginning with a law preventing payment cards from displaying the cardholder name either physically or electronically.

No Cash Day™ *is an idea from the mind of* ***Geronimo Emili****, founder and current president of the Italian CashlessWay Association, set up in November 2013, the first association to develop initiatives focused on the study and promotion of alternative expenditure instruments to cash.*

No Cash Day™

www.nocashday.org

#nocashday6

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