SwissBanking

September 2019

Does anyone still use cash?

SBA discussion paper

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The launch of the crypto currency Libra by the Geneva-based Libra Association recently announced by Facebook has made waves and once again fuelled the discussion about the elimination of cash in Switzerland, where convenient digital payment options have long become the norm. In the future, these options will become even more important. Together with other Scandinavian countries, Sweden is regarded as leading the way to a cashless society. Switzerland ranks in the mid-range of this development. But is this even a competition that should be won? Is less cash automatically better and more progressive?

Background of our monetary system

- Money is not only a method of payment, it also serves as a store of value and as a measure of value or unit of account. Money exists in both tangible and non-tangible form.
- In its tangible form, money is represented by banknotes and coins. In terms of its physical production, money is produced in most countries by the central bank. In Switzerland, banknotes and coins are issued by the Federal Government through the Swiss National Bank (SNB).
- Intangible money is referred to as "book money". Book money is created when cash is paid into a bank account, but mainly comes in the form of loans granted by lending institutions which thereby engage in money generation.
- In Switzerland, cash can be used almost everywhere. Unlike book money and electronic money, it is not possible to closely monitor and check the circulation of cash.
- Cash is a legal means of payment. Businesses, for instance retailers, are obliged under Switzerland's Federal Act on Currency and Payment Instruments (BZG) to accept Swiss banknotes and coins.
- However, this is a non-mandatory rule, which means that the obligation to accept cash only applies if the parties have not concluded any other agreement. Consequently, every business can decide for itself whether, for instance, to refuse to accept 1,000-franc notes, small coins or cash in general. This must, however, be communicated to the customer before the transaction is concluded.

Is cash really on its way out?
The use of cash is not in decline in Switzerland but is actually increasing. In fact, since 2000, the value of the cash in circulation has almost tripled.

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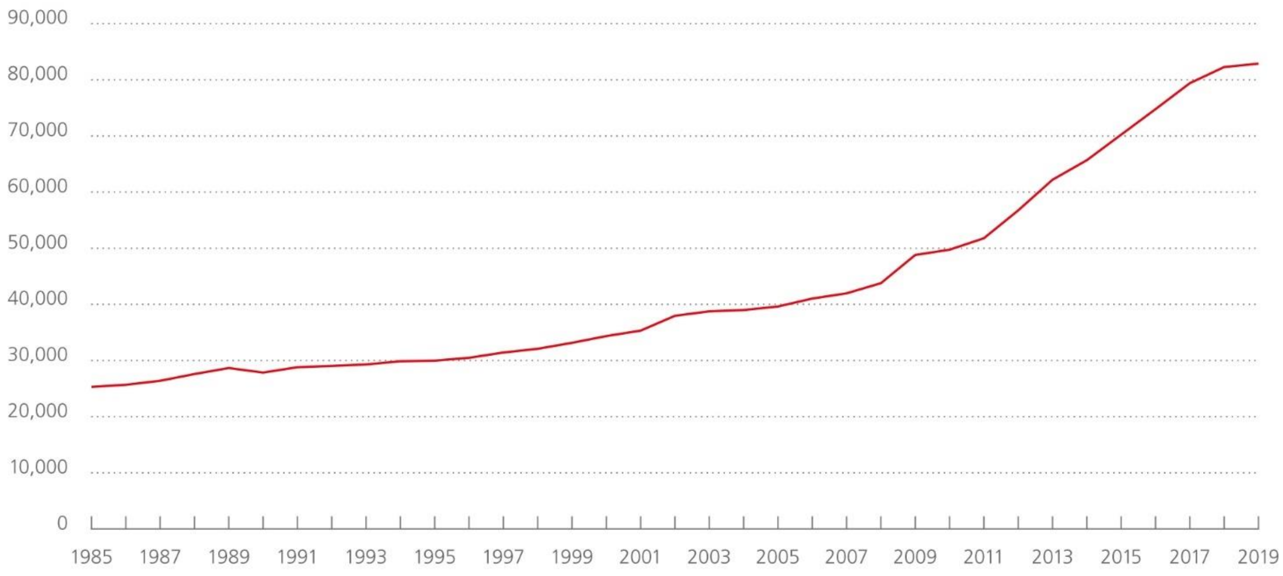
Fig. 1

Total cash in circulation

in CHF m



Source: Swiss National Bank

The Swiss Payment Monitor 2018 published by the University of St. Gallen (HSG) and the Zurich University of Applied Sciences (ZHAW) finds that around half of all transactions are still settled in cash. At the same time, however, the Monitor also shows that only around 20 percent of revenues are generated through cash transactions, i.e. larger expenditures are increasingly being paid without cash. Consumers and businesses obviously select the payment services that best fit their needs depending on the situation.

Cash is expensive – and is becoming even more so!

The trend towards cashless payment transactions is also encouraged by the retail trade and services sector. Cash is a cost factor that ultimately increases the cost of providing a service or a sale price. These costs are hardly appreciable on a day-to-day basis, but they are manifold, whether it be in retail for transport, the filling of ATMs, storage, insurance or the provision and acceptance of cash by banks. The printing of banknotes also gives rise to costs. According to the SNB, the production costs for one banknote is on average around 40 centimes, i.e. for one ten-franc note the production costs are four percent.

Cashless payment transactions are of course not free either. And there are innovative companies trying to make the provision of cash in Switzerland more economical and flexible. Ultimately, the entry of new providers, such as Libra, to the market for digital payment transactions will lead to further cost advantages for non-cash payment transactions. The more cashless payments become established in the future and the fewer payments are made in cash, the more expensive it will become in relation to cash turnover to maintain the cash infrastructure for the various actors such as retailers or banks. These costs will ultimately influence the corresponding sale prices.

The call for a legal obligation to accept cash, as advocated by some politicians, is therefore backward-looking. It would also mean that bricks and mortar retail businesses would be at a significant disadvantage compared to online retailers, which are by definition cashless. Efforts to establish an obligation to accept cash in Switzerland should therefore be rejected.

Instead, consumers should be able to pay in cash, by card or digitally depending on their individual preferences. This freedom of choice should, however, apply not only to consumers but also to retailers and the service industry. A price difference in retail depending on the payment method selected could therefore make sense. The costs incurred by cash payments should be assumed by the consumer paying in cash and not subsidised by digital customers. Technology-dependent price differences are nothing new in Switzerland: while postal and thus physical delivery incurs a fee (stamps), digital communication by e-mail is largely free of charge. What is key is that retailers remain at liberty to set prices at their discretion.

Sweden as a warning

The rejection of an obligation to accept cash is not, however, also a vote to abolish cash. It is of course the digitalisation of monetary transactions that has actually enabled large sections of the population across the world to participate in formal commercial life – thus representing an important step towards escaping poverty. But the more relevant aspect for Switzerland runs contrary to this. Fears that older segments of the population or those with no digital affinity will be excluded from new payment methods and ultimately also from society are justified. For instance, some older people may find it difficult to read on a smart phone. A look at Sweden, the forerunner in cashless payments in Europe, confirms this. Shortly before a complete abolition of cash, politicians, economists and the Swedish Central Bank are applying the emergency brake and warning of the consequences of abolishing cash and the associated exclusion of certain segments of the population from engaging in commercial life.

Cash protects from expropriation

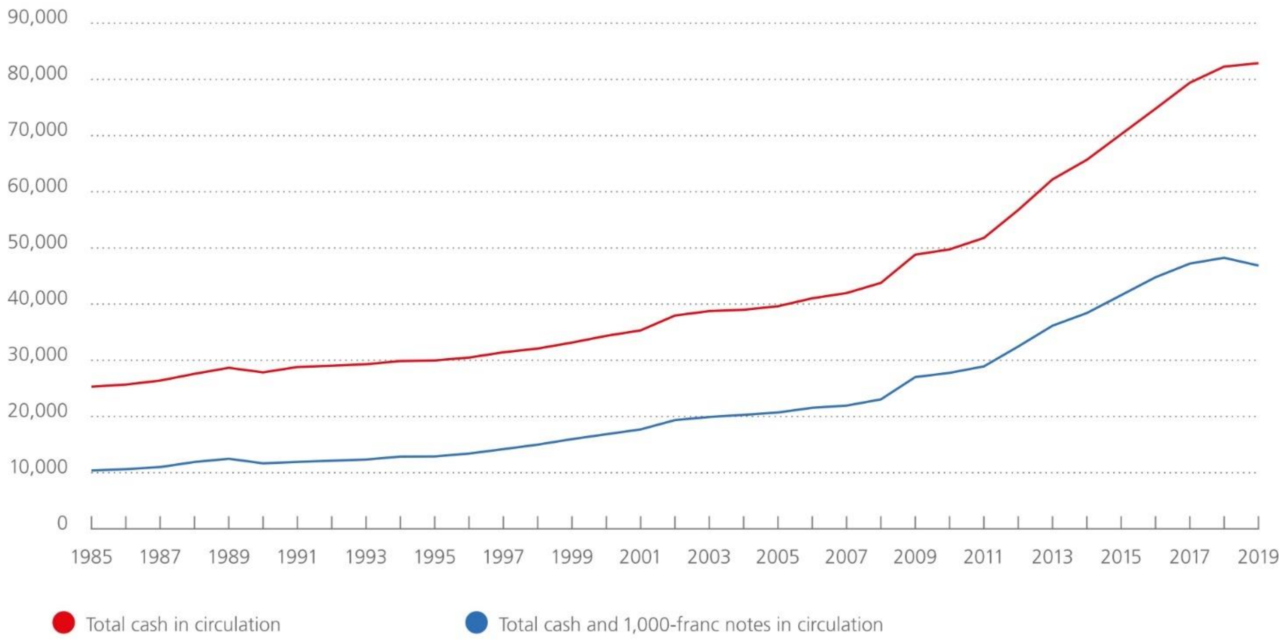
But cash is not only used as a means of payment. Its function as a store of value is another important attribute of cash. There is a reason for the popular saying “cash is king”. At first glance, it is not easy to discern the benefits of holding cash for investment purposes: there are inherent risks of loss or theft and in order to protect against these, costs for safes or bank deposit boxes are incurred. Moreover, cash generates no interest and loses value through inflation.

However, cash is secure national bank currency which – unlike book money – is not subject to any bank default risks. The significance of this for the demand for cash was highlighted for instance in autumn 2008, when during the course of the financial crisis and the associated general uncertainty, the demand for large banknotes increased substantially within a short time.

Fig. 2

Total cash and 1,000-franc notes in circulation

in CHF m



Source: Swiss National Bank

As long as cash exists and can be used as a store of value, the scope for negative interest rates is limited. The more negative the interest rate, the greater the incentive not to leave savings in the bank but rather convert them into cash. In the case of cash, a central bank's negative interest rate policy does not have the desired effect. This may be a thorn in the side of institutions like the International Monetary Fund (IMF) or renowned economists like Ken Rogoff, but their criticism underlines the important role cash plays as natural protection against a potential erosion of assets.

Personal freedom or a lack of transparency?

However, cash is not just about costs, convenience and payment habits, it is also a question of personal freedom. Dostoyevsky wrote in his memoirs from a Siberian prison camp: "Money is coined liberty."

When making a digital payment, the consumer inevitably leaves traces; individual consumer habits can be electronically tracked and stored. There are people for whom protection of privacy is the highest priority, others value the simplicity and convenience of digital means of payment more highly. Personal attitudes – and the ensuing choice of payment method – ultimately remains a private matter.

Advocates of the abolition of cash transactions, on the other hand, see the lack of anonymity in non-cash payment transactions as an important way to counter money laundering and criminality. This approach is not expedient in Switzerland. Larger cash payments here are already subject to the Swiss Anti-Money Laundering Act and require not only identification of the counterparty but also the identification of the source of the funds.

These power struggles between people in favour of protecting privacy and advocates of transparency will go on for some time yet. In principle, it is not the task of the state to regulate and restrict payment options. The Federal Council even stated this unequivocally in February 2019: “The choice of payment method is a matter for private households and businesses.”

Conclusion

Digital forms of payment will in future play an even more important role. However, this certainly does not mean that cash should be abolished, and even in Switzerland, it will for the foreseeable future remain a relevant payment method and store of value. A free society needs contractual freedom, the ability to choose and respect for personal privacy. Calls for the regulation and restriction of payment methods should therefore be roundly rejected. A liberal economic order does, however, also require full cost pricing. If different forms of payment lead to different costs, then this should also be reflected in the price.

Are you interested in this topic and have your own opinion on it? Our experts look forward to hearing your thoughts and would be happy to exchange their views with you.

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