CASH – AND HOW TO GET RID OF IT

Why does cash usage remain so successful while it is well known that cash handling places significant financial and social burdens on all economies? It may be because there are some less well-known incentives that keep cash alive. On the other hand, there are critical success factors for at least partial displacement of cash and technological innovations that can add value and lead to greater efficiency, lower costs and improved security in business and society!

At first sight, only 'normal' retail banks seem to suffer high costs from cash handling, whereas all other stakeholders seem to benefit from it in some way or another:

- Central banks: huge benefits from the large amount of cash in circulation, saving the banking system tens of billions of euros in interest per annum.
- National governments: considerable earnings through revenues from the production of notes and coins.
- Retail: real studies (see page 13-15) show surprisingly shorter check-out times at the POS for cash than for card payments – at least for classical mag-stripe or chip-and-pin types. In highly optimised large retail stores, cash transactions have also been shown to cost less than card transactions.
- Consumers: cash is 'free' (the actual societal costs of €100-300 per person are hidden and redistributed indirectly) and accepted everywhere; users feel more in control and do not necessarily need a bank account.
- Shadow Economy: large-denomination notes of €500 and €200 are never seen in wallets, but account for 60% of the cash in circulation. These notes are highly convenient for illegal cash transport, especially in euros.

EPC criteria for selection of online payment instruments

Common attributes
- Easy-to-use, secure, standardised, transaction based: clear when payment made (once only!)

For end-user
- Cheap (71% want it free!)
- Revocation option (62%)
- Good first, pay after (59%)
- Reputable e-Payment provider/brand
- Choice of underlying payment systems
- Integrates in user's workflow (e.g. use same payment method in web and real life)
- Integrates in user's environment (e.g. no card reader)
- Fast
- Anonymous
- Guaranteed delivery of service/refund on failure
- Allows access to good content/partners

For merchant
- Fast
- Integrates in company's workflow
- Integrates in company's environment
- Cost-effective
- Identify buyer in case of dispute
- Guarantee of payment (if end users want revocation!)
- Money asap
- Binds client to merchant
- Choose means of payment
- E-recognition
- Liquidity mgmt: certain date of payment

For bank
- Revenue (unlike paper-based, DD, online CT)
- Not excessive load on system
- Integrates in bank's workflow
- Integrates in bank's environment
- Business case
- CRM with PC/BC
- Customer satisfaction

Critical success factors for payment methods

Can these benefits be overcome to provide a less paper-based, more efficient, less illegal economy? In order to determine what the 'best' alternatives by electronic means would be, these should be measured against those factors that currently speak for cash. In an analysis by the EPC, the criteria that were deemed relevant were defined (see overview on this page).

Innovations that could displace cash

Selecting viable electronic payment instruments is not an easy task, as we are faced with a wealth of criteria, which must be tuned to balance the interests of the conflicting parties in different usage scenarios. Cash has been shown to score highly on almost all criteria and thus electronic/STP alternatives must perform better in all significant dimensions if cash is to be displaced. What are the options?

1. Substitution

Trying to wrest the stakeholders away from an instrument that they are very attached to is probably the most difficult course of action. However, we have seen a few selected successes. New developments such as biometrics and contactless cards will address remaining issues such as convenience and speed of payment even more effectively. Nevertheless, the euphoria about contactless cards must be seen in the context of market reality. One of the most developed contactless markets in Europe is the UK. Barclays' announcement of a 'milestone' of 1 million contactless UK payment transactions in 2010 is impressive until it is placed in context of the total UK card payment volume for that year, which was close to 10 billion.

2. Online/Mobile

Online payments are already the norm in the B2B world. For further development in the B2C market the EPC established the e-Payment framework that builds on the success of online-banking-based e-Payments. An example is iDeal, which has become the dominant payment method for all online purchases in the Netherlands. The EPC model connects the different European 'islands' (and methods) to form a pan-European e-Payment infrastructure where customers in one European member state can pay seamlessly to a merchant in another member state using their accustomed and secure online banking. Through the International Council of Payment Network Operators ICPNO this development is expected to spread beyond Europe throughout the world.

The nascent area of mobile payments is currently still very diverse and complex. Current initiatives which mainly focus on repackaging the contactless card in the shape of a phone may not satisfy the basic requirements. However, by employing some creativity, convincing new solutions may be possible. Consider, for example, using a mobile as a card terminal which opens up a huge new market of small and private merchants, or indeed individuals, who previously had no cheap and easy means of accepting card payments.

3. Integration

Integration is probably the option that will add the most value. A first step towards covering the complete financial value chain – rather than payments as an isolated element – is e-Invoicing.

In addition to electronifying larger stretches of the economic process, e-Invoicing will lead to 'pay-by-click'. In Finland, the banks already offer such a further level of automation: if an electronic invoice comes in from a known payee (e.g. the monthly electricity bill) and it is below a stated limit, then it is paid automatically ("pre-authorised credit transfer"). This reduces administration on the business side and for the end customer, and both sides can avoid the complexities of direct debit.

Online payments will cause the payment paradigm change

Consumers are so used to paying with paper and coins that any alternative will have to offer really significant advantages. Can a mobile phone as a card payment terminal – enabling everybody to become a merchant and accept card payments (one of the secrets of success of PayPal) – bring about such a paradigm shift? A paradigm shift has already been caused by the online revolution – which has drastically changed how we entertain ourselves, gather information, shop, work and live. Currently the biggest explosion is to be expected in online payments, especially when they are integrated into a complete experience and solution.

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Financial value chain

