



# Efficient payment systems and the Riksbank's approach to cash distribution

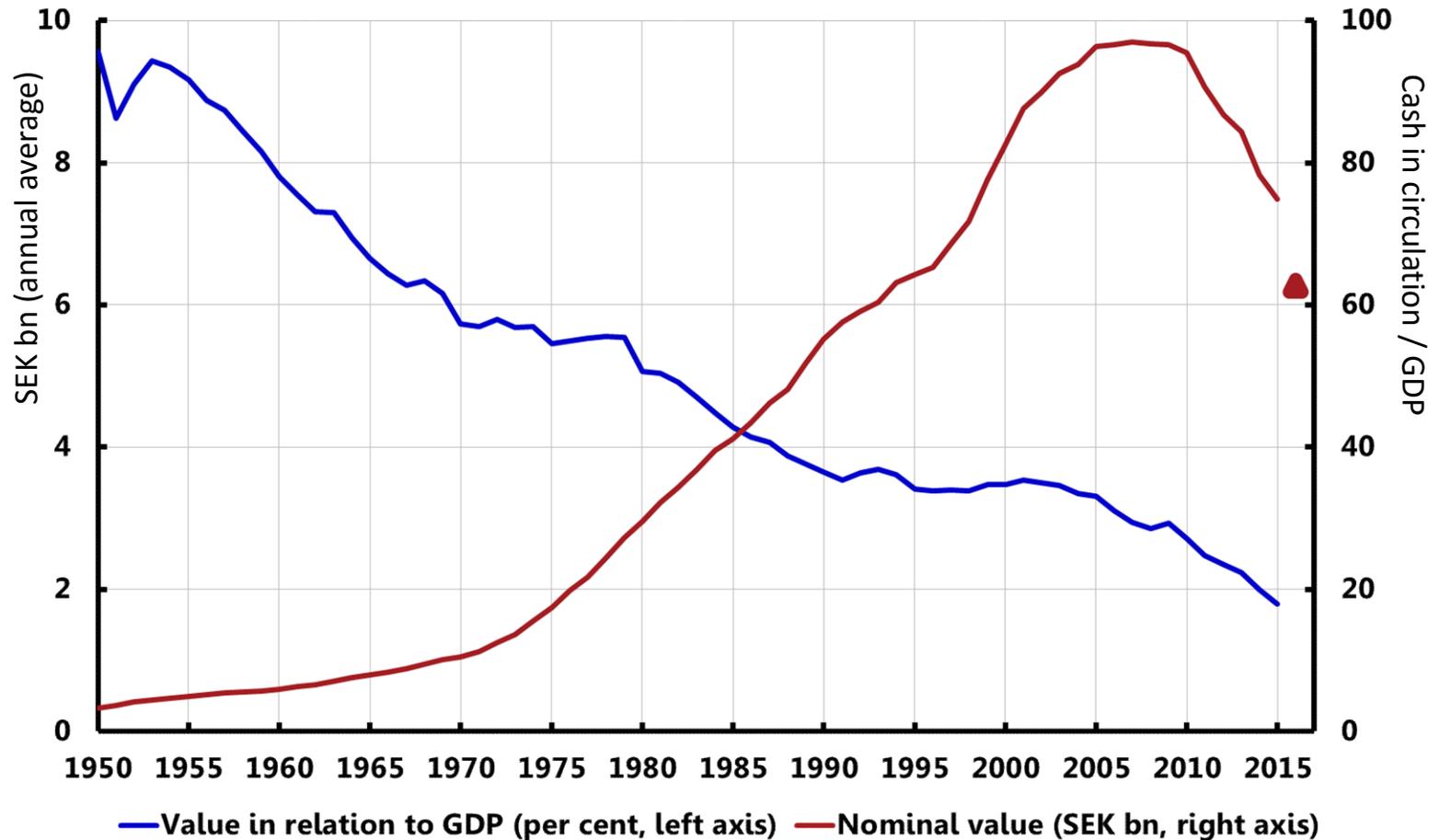
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S V E R I G E S R I K S B A N K

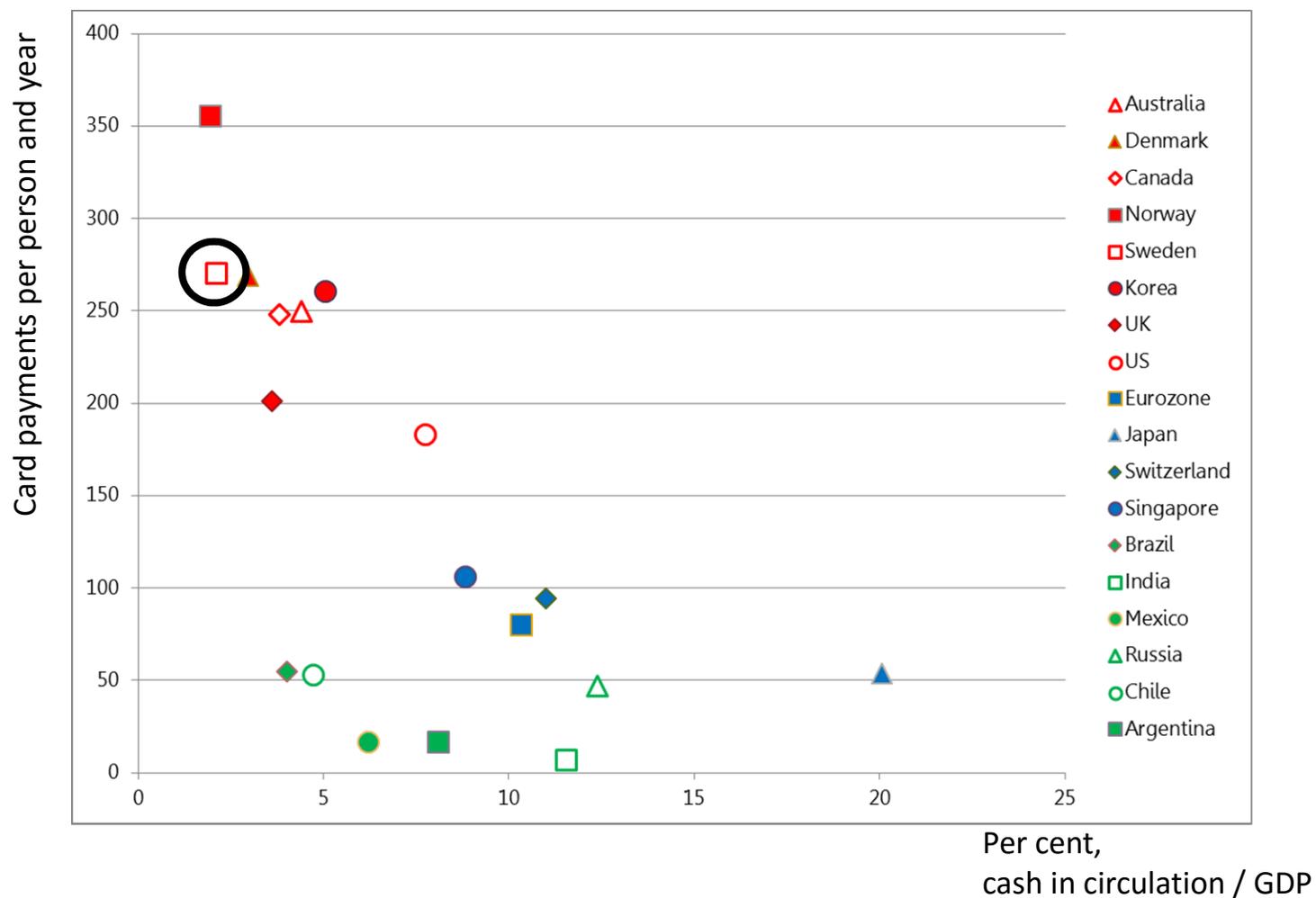
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Governor

# The demand for cash in Sweden



Source: Statistics Sweden and Sveriges Riksbank

# Cash and cards in selected countries (2014)



Source: BIS, ECB, Norges Bank,  
Banco Central de Chile and Banco Central de Argentina



# The Post- and Bankgiro systems

- 1925: The Postgiro is founded.
  - Part of a bank owned by the Swedish Post Office
  - In-house credit transfers
- 1950: Standardized paper form for bank credit transfers - the Bankgiro credit transfers
- 1959: Creation of Bankgirocentralen



# Cooperation among banks other than the Bankgiro

- Card payments
  - Only one network and only global brands
- ATMs
  - One company (Bankomat) owns and operates the banks' ATMs
- Bank-ID
  - One company that provides electronic identification services used by banks, businesses and authorities
- Mobile real-time payments
  - One mobile payment application (Swish) and infrastructure
- Cash distribution
  - One company acts as wholesale actor between the banks and the Riksbank

# The Riksbank's role in cash distribution



- Prior to the 1980s.
  - One branch in each province (20-odd branches)
  - Supplied several cash management services without full cost recovery
  - In the 80s additional commercial activities for a fee
    - Counting and sorting daily takings from stores



# Problems with cash management in the 1980s



- Price mechanism distorted
  - the banks did not bear the full costs of transporting cash implying a lack of transparency of costs about, and an implicit subsidy of, cash
- Unnecessary transports
  - the banks had incentives to deposit cash at the Riksbank's depots every night in order to receive interest payments
- Inefficiencies and competitive distortions
  - the Riksbank performed services the market could do more efficiently and in some cases also competed with the market
- The Riksbank embarked on three decades of reforming cash distribution



# Reforming cash distribution (1)

- The late 1980s and early 1990s: Gradual downsizing to 11 branches
  - Larger share of the costs of transportation shifted to the market
  - More costly to deposit cash at the Riksbank each night
- The late 1990s: The Riksbank wanted to make costs more transparent
  - Aim: The market must bear the costs and have the means to influence them
  - All cash handling was organized in a company owned by the Riksbank with the aim to sell the company to a market participant
  - Low value of the company prevented a sale of the company



## Reforming cash distribution (2)

- 2003-2004: study on future cash distribution
  - How to avoid that the banks come to the Riksbank with their cash unnecessarily?
  - Give banks interest compensation for cash held in private depots overnight.
- Downsizing of the Riksbank's depots continued and since 2014 the Riksbank only operates one cash centre



# The Riksbank's role in cash distribution today

- **General idea:** The Riksbank should not do what the market can do more efficiently, costs should be transparent and the market should bear the costs and be able to influence them
- One cash centre
  - Staff: About 8 people (after the notes and coin exchange)
- Limited role
  - Procurement of notes and coins
  - Transportation from printing facility to Riksbank cash centre
  - Destruction of defect and obsolete notes and coins
- Limiting services to core central bank role - free of charge



# Innovation and technology

- Swish
  - Real-time person-to-person mobile 24/7 payments
  - Facilitated by the Riksbank
    - Banks hold money in a special account overnight
- Other examples of innovative payment services
  - iZettle
  - SEQR
- Electronic identification is key
  - BankID
  - Mobile BankID



# Cash in Sweden

- Less cash is the outcome of a market-driven process
- The shift away from cash is surprisingly fast
  - Estimated share of cash payments at the point of sale (number)
    - 2010: 39%
    - 2014: 23%
- Sweden: The legal-tender status of cash does not in practice require merchants to accept cash



# Is there a tipping point?

- Accepting cash payments is associated with a cost
  - e.g. cash registers, back-office work, depositing cash, etc.
- Is there some critical level of cash-based revenue below which it is rational to stop accepting cash?
- Accelerating decline?
  - As some stores stop accepting cash, it will become less attractive as a payment method and less used...

# Digital Cash – The Future?

