

## **Stefan Ingves: Cash management - an important social issue**

Speech by Mr Stefan Ingves, Governor of the Sveriges Riksbank, to the first meeting at the Sveriges Riksbank of the cash management advisory board, Stockholm, 26 April 2006.

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I would like to welcome you all to the first meeting of the new cash management advisory board. All of you sitting at this table are in some way concerned with cash management in the economy: banks, cash-in-transit companies, representatives of the retail trade, trade unions and authorities such as Finansinspektionen (the Swedish Financial Supervisory Authority), the police and the Swedish Work Environment Agency. My hope is that the advisory board will function as a forum for identifying and discussing issues in the field of cash management. The idea is that we should meet once or twice a year, and I look forward to fruitful discussions.

Before opening the debate, I would like to mention two questions that I believe can form a starting point for our discussions:

- The process of change undergone by cash management in recent years and the new structure for cash management that the Riksbank is establishing together with the banks.
- The social problem comprised by the many and increasingly violent robberies of cash transports.

### **Towards a more expedient structure for cash management**

One of the Riksbank's tasks is to promote a safe and efficient payment system, and we are responsible for issuing banknotes and coins. These are important functions with regard to cash management in the economy. At the end of the 1990s, the Riksbank began work on achieving greater efficiency in cash management. We observed in the surveys made then that there were deficiencies in the system. This was partly due to the way the Riksbank organised its work. By offering a service to the banks without charging in full for it, the Riksbank had contributed to the preservation of an outdated cash management structure and inefficient methods of working, which included extensive cash-in-transit transports to and from the Riksbank for the sole purpose of avoiding interest costs overnight. This system was very costly, while it led to unnecessary risks for cash-in-transit companies. The Riksbank therefore wanted to make the cost of cash management more visible and allow the banks and other participants to bear the costs, which would give them a clear motive to make operations more efficient. The aim was to stimulate greater competition and increased product development for services all along the cash management chain, even outside of the banks.

However, there were not merely economic reasons for reviewing the cash management system. The Riksbank's own office network, its depots and working methods were considered too costly, for instance having overly large premises and surplus capacity. By allowing the banks to take greater responsibility for cash depots, for instance, the Riksbank can focus on its own core activities: maintaining low and stable inflation and promoting a safe and efficient payment system.

I sometimes come across the description that the new structure for cash management has resulted in irresponsible privatisation and outsourcing. This is not true. Instead, it is a question of achieving the greatest possible economic efficiency, not least by creating a sound incentive structure.

Those of you who have followed this work know that the path to greater efficiency proved to be more winding than we had initially estimated, and a good deal more challenging. However, we now appear to be well on the way to attaining a more efficient organisation for cash management, together with the banks.

With the old organisation, where the Riksbank determined where the depots would be located, there were many transports to the Riksbank's depots to retrieve and deposit banknotes merely for the purpose of avoiding the cost to the banks of holding banknotes. The new model, which is being launched at present, means that the banks will open their own cash depots and that they will receive interest compensation for the banknotes they hold in these depots. The banks can now establish as many depots as they themselves consider necessary, taking into account, for instance, security and

efficiency aspects, and locate these depots in regions they consider suitable. This should lead to a reduction in the number of cash transports to and from the Riksbank's offices.

So far, three pilot cash depots have been set up to test different systems. These are located in Härnösand, Malmö and Kristianstad. The cooperation between the Riksbank, the banks and the cash-in-transit companies is now made easier by the fact that two bank concerns have each built their own company – Bankernas Depå AB and Bank Service Syd AB – which represent their members. In this way, the establishment of cash depots can be speeded up and we can achieve a well-developed structure relatively soon.

The Riksbank is also investigating the possibility of being able to destroy old and worn banknotes at the new depots in the future, in order to further reduce the number of cash transports. This would of course be done under our supervision. At present these banknotes are transported to the Riksbank for destruction, which gives rise to additional transports. We are also investigating whether, as a temporary solution, it would be possible to make banknotes unusable prior to transportation to the Riksbank for final destruction.

I believe that the new structure will give us more economically-efficient cash management, where costs and income will more visibly fall to those who participate in the market. The banks and cash-in-transit companies will find new forms for their operations and develop their own cash management in a better way than an authority can. I also believe that these measures will help us achieve a higher level of security for the provision of cash in Sweden.

### **Cash transport robberies – a social problem**

The large number of robberies of cash transports in Sweden comprises a major problem for all of us – each of us is affected in some way by cash management in our society. Developments have become even more troubled over the past years, as we have unfortunately seen an escalation in the violence used during the robberies and attempted robberies, through the use of explosives and heavy weapons. I regard these recent developments with great concern and hope that this forum will enable us to improve the security of cash transports and cash management in general.

The number of robberies of cash transports doubled from the already high figure of 30-40 robberies a year to 70-80 robberies a year in 1998 and 1999 and has since then remained at this very high level. Statistics from the European Security Transport Association, ESTA, show that Sweden holds a scarcely honourable third place with regard to the number of cash transport robberies in relation to the population. We had a total of 224 cash transport robberies between 1998 and 2004, while the corresponding figure for Denmark was 93, for Norway 42 and for Finland only 4. Equally alarming is the fact that Sweden accounts for one tenth of the total capital losses in cash transport robberies in Europe; if one takes into account the size of the population, we were the country that lost the second highest amount of money, after Ireland.

It is sometimes claimed in the media that there is a link between the Riksbank's closure of its depots and the increase in cash transport robberies. I would doubt that claim. First and foremost, it must be remembered that approximately 85 per cent of the cash transports that are attacked are on their way to ATMs, and the Riksbank has never been involved in these transports. Only a very few transports to or from our offices have been the target of robberies. Furthermore, the large increase in the number of robberies took place while the Riksbank still had a network of cash depots throughout Sweden.

One possible explanation for the increase in the number of cash transport robberies, which has been suggested by the Swedish National Council for Crime Prevention (BRÅ), is that criminality may to some extent have been transferred from robbing banks and post offices to robbing cash transports. Other possible explanations, according to BRÅ, are that cash transport robberies yield much larger amounts than bank and post office robberies, while increased security in post offices and banks may have discouraged prospective robbers.

I think that we should ask the question of why Sweden has so many more cash transport robberies than other countries, not just other Nordic countries, but the majority of European countries. There have occasionally been suggestions put forward in the general debate that if one tried to reduce the use of cash in society, the number of transports to ATMs could be reduced. Given this, it is interesting to reflect on why we Swedes prefer to pay by cash rather than by card more often than our Nordic neighbours. The number of card transactions per inhabitant in 2003 was around 130 in Norway, just over 100 in Finland and Denmark and just over 80 in Sweden. There is no clear explanation for this,

but one clue may lie in pricing. In Sweden, cash withdrawals from all ATMs are free of charge, despite the large costs entailed in cash handling. In the other Nordic countries, cash withdrawals are only free of charge from the customer's own bank's ATMs, which has led to a reduction in the use of cash.

The Riksbank's opinion is that to achieve the best possible efficiency with regard to payments, the respective means of payment should bear its own costs and those who make the payments should be aware of these costs in order to make rational choices.

However, it is important to be aware that increased card usage would only have a marginal effect on the number of cash transports. It would therefore be no solution to the problem of cash transport robberies.

I hope that we can together bring up these issues onto the agenda and contribute to constructive solutions. The security surrounding cash transports can itself be improved in various ways, but it should be emphasised that this entails much more than security cases and bullet-proof glass.

Cash transport robberies are a major problem in our society and this serious crime must be combated with a number of measures by both the government and private sectors. This goes beyond the Riksbank's area of responsibility, but we are happy to take part in discussing issues that affect our field of operations and where we can contribute constructively. The establishment of this cash management advisory board – which is the reason we have gathered here today – should, among other things, be regarded as such. It is important that we continue to have a dialogue on these issues and contribute to greater breadth and depth in the discussions of cash management.

Thank you for listening, and let us now open the debate!