

## Ardo Hansson: Availability of banking services in Estonia

Answer by Mr Ardo Hansson, Governor of the Bank of Estonia (Eesti Pank), before the Riigikogu (the unicameral Parliament of Estonia), Tallinn, 22 September 2014.

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### Interpellations raised by members of the Riigikogu concerning the accessibility of banking services

1. Why has Eesti Pank not set minimum requirements for the provision of cash and payment services in a decree alongside the technical requirements, in the context of the Emergency Act?
2. What solutions has Eesti Pank discussed for ensuring the equal accessibility of cash and payment services across Estonia?

### The principal position of Eesti Pank

**Banking services are important and they need to be accessible to people and companies across Estonia. It is reasonable for services to be provided efficiently and flexibly.**

***I understand that people are worried about the accessibility of banking services across Estonia. Eesti Pank does not prefer any one means of payment over any other. Cash is an official means of payment and so Eesti Pank believes that it should be available through flexible solutions everywhere in Estonia.***

***Eesti Pank works every day to supply Estonian companies and people with cash. We provide a flexible cash service to the commercial banks, giving cash out and taking it in every working day, and in exceptional circumstances we can be even more flexible. Our aim in this is to make sure that cash can circulate smoothly and without interruption and we also manage the state's cash reserves and test the quality of the cash in Estonia every day. Tomorrow Eesti Pank will release ten-euro notes of the second series into circulation, and these are more secure and longer-lasting than the notes of the first series, with better security features. As Governor of Eesti Pank I can confirm that cash is not going anywhere. I personally like to use cash and I am proud of the quality of the euro cash used in Estonia.***

Access to cash is important, and it is a complicated issue that doesn't have a quick and easy solution. This is why it needs to be discussed, and Eesti Pank is very pleased that we could be part of the working group set up by Minister of Economic Affairs and Infrastructure Urve Palo to look for solutions.

Eesti Pank believes that the issue of access to banking services across Estonia should not be handled under the Emergency Act, but this does not mean that it should be ignored. I will now answer questions about the Emergency Act first, and then questions about access to banking services.

Coming to the first question of the interpellation, as Governor of Eesti Pank I have set minimum requirements for the provision of cash and payment services in case of emergency. ***The Decree requires that the four largest banks in Estonia restore their normal services to 70% of their normal operational level within 12 hours in the event of an emergency.*** How the banks restore their services is up to them, but they must describe their recovery plan to Eesti Pank, who then passes the information on to the Ministry of the Interior.

***As I understand it, the purpose of the Emergency Act is to see that vital services are restored in the event of an emergency. It is not intended to cover cases where some***

**people do not have day to day access to some important services.** Neither is it intended for the purpose of guiding trends in urbanisation and marginalisation. That is an issue for regional policy, not one that requires solving under emergency powers.

**Regional policy lies within the domain of the Riigikogu, the government and local authorities. That said, cash circulation is an issue of importance for Eesti Pank, and we wish to be fully engaged in setting policy for cash circulation.** This brings me on to the second question in the interpellation, and the position of Eesti Pank on the accessibility of cash and payment services across Estonia.

**Eesti Pank's goals for cash are to supply the commercial banks with sufficient cash resources and to ensure the quality of the cash. The commercial banks distribute the cash among the people and companies of Estonia, in the same way that it is done around the world.** Eesti Pank is not aware of any country anywhere where the central bank is responsible for operating the cash network serving people and companies directly. It would require massive investment and fixed costs for Eesti Pank and the outcome would most likely be unwieldy and unclear for the public in their use of money. The commercial banks are much better able to do this and do it more efficiently. However, Eesti Pank is responsible for managing cash circulation, and we consider it important to engage in looking for ways of making sure services can be accessed across Estonia.

Access to banking services is a problem globally, this is not an issue that is unique to Estonia. A parliamentary commission in Australia looked into the matter ten years ago, and similar questions have been discussed in Canada and Sweden and other countries.

**The trend is for the number of bank branch offices and cash machines to be cut, and this is happening everywhere in the world in response to advances in technology, trends in demography and changes in consumer preferences.** To some degree this is a natural evolution against which it would be pointless to stand. **Equally it creates problems of access to banking services, and such problems need to be resolved.** Problems may arise particularly for the elderly or for people with impaired mobility, but they may also arise for small businesses or for those who live in the countryside or who do not use the internet. Services should not be provided exclusively to people who use the internet regularly, or only those who live in Tallinn or Tartu.

The advances in technology have led electronic payments and internet banking to become very popular, and this has reduced the need for cash and the need for people to actually go into a bank branch. This has been driven by both supply and demand. **Surveys in Estonia show that bank cards are ever more popular as a means of payment, while internet banking is increasingly used for banking transactions, and this trend shows no sign of abating.** This means that preferences of consumers themselves are changing, and bank customers need less and less to visit their local bank or to use cash. This is an inevitable consequence of technological progress, and it must be borne in mind throughout this debate.

Demographic changes specifically means urbanisation, and urbanisation is happening here in Estonia too, amplifying the effect of developments in technology. It is inevitable that the decline in customer numbers will be reflected in falling demand, and that falling demand will lead to reduced supply. This applies equally to all forms of service provision, not just banking services. Swedbank has released detailed data to explain why they are closing branches, and they show that the branches being closed were used by only 13% of the clients registered there prior to closure, and that the number of cash transactions in those branches has halved in five years.

The larger commercial banks in Estonia now provide services more efficiently, and one consequence has been the closure of branches and cash machines in rural areas. A comparison with Sweden can be useful here, as that is where the parent banks of our largest banks are based. **At the end of 2013 there were 1655 bank branches in Sweden, and a little over half of them were cash-free, which is more than twice the proportion in Estonia, where only 23% are cash-free.**

At the start of June I wrote to the leaders of the local government in Läänemaa that ***Eesti Pank finds that having a single network of cash machines for all the banks would not improve access to banking services in rural areas.*** This is because it would not be possible for any commercial bank to differentiate its services from those of other banks by offering higher quality if there were a single network. Furthermore, a single network dilutes the responsibility of each individual bank, making it harder for clients or the public to affect the decisions taken by the banks. Cost efficiency will probably become even more important, meaning there are no grounds to expect that access to cash services in rural areas will improve.

I do not conclude that the commercial banks ought to maintain an unnecessarily large network of branch offices and cash machines. There is no real difference here whether such a network is supported by the clients of the banks or by the Estonian taxpayer, in any case it is an unreasonably expensive solution.

That said, the commercial banks do need to explain their vision for access to banking services more clearly than they have done so far, and they should themselves arrive at a solution that is acceptable to society.

***In short, the position of Eesti Pank is that the guiding principle for the provision of cash and banking services across Estonia is that it should make economic sense. At the same time, every person in Estonia must have access to banking services, and so we must find alternative flexible solutions in Estonia.***

The next question is how those flexible solutions should be supplied. Although this topic is under discussion in the Minister's working group, I can suggest ***some options drawn from the experience of other countries, which the banks and the government may want to consider during their discussions on the accessibility of banking services:***

- ***A cashback system in shops*** – when paying for their food in shops by card, people can add some extra to the total amount paid and then get that in cash from the shop. For this to work, the commercial banks need to allow shopkeepers to offer this service without charging them any percentage of the cash that is withdrawn. The banks would gain by having a more efficient cash network, shopkeepers would gain additional clients in their shops, and those clients would benefit by being able to withdraw cash more conveniently and securely.
- ***State service points*** – offices providing a wide range of services from the state, the banks and other enterprises, all in one place. This would allow people in rural areas to make payments at regular intervals, and get cash, medicines, letters and newspapers and other services. Cash and medicines would probably need to be ordered in advance, but this would bring the services closer to people. This would make more sense for the state and for companies than maintaining separate offices, each dedicated to only one service.
- ***A state tender for services*** – the state can use a joint tender run by the central government, a state company or local government for provision of banking services in rural areas. The Swedish post and telecoms operator PTS used this approach by running a state tender in 2008 at the request of the government to supply 15 local authorities and 73 districts around the country with cash.
- ***Requirements, or best practice guidelines that are generally adhered to, for the closure of bank branches, especially in rural areas*** – Canada has requirements for closing local bank branches and the banking association in Australia has set out the best practice for closing branches there.
- ***Joint work by local governments and banks to train people*** – this is where banks offer regular training in the use of internet banks in the style of the Vaata Maaailma project that ran earlier. Local authorities help in deciding who needs

training and bring together everyone interested, and the banks provide the people, computers and knowledge for the courses.

- **Joint work by local governments and banks to provide cash** – the commercial banks help local authorities provide cash and payment services to people who have impaired mobility or difficulty using a computer. This could be particularly useful in helping elderly people or people with impaired mobility or vision. Local authorities can establish who in their area has such difficulties and then they can provide help by delivering cash to homes or help with paying electricity bills and so on.

The experiences of other countries can't simply be copied straight across here, but it is worth discussing them to see whether we could use them in some way to provide cash and payment services to people all across Estonia. ***I am certain that the commercial banks in particular, though also the state, should be able to provide better solutions than has been the case so far,*** and I would invite the banks, state institutions and local authorities to take an active role in the discussions about access to banking services. Eesti Pank is of course ready to join the discussion and I do not believe that any solution should be ruled out. Thank you for your attention and I am quite happy to answer any questions you may have.