

Carl-Ludwig Thiele: Cash payments from the Bundesbank's perspective

Welcome address by Mr Carl-Ludwig Thiele, Member of the Executive Board of the Deutsche Bundesbank, at the ESTA conference 2015 "An evolving cash market", Berlin, 1 June 2015.

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Mr Lebeaux

Dr Olschok

ladies and gentlemen

I am delighted to have been given the opportunity to talk to you at this year's ESTA conference about the topic of cash and cash payments from the Deutsche Bundesbank's perspective. But before I move on to that, let me first say a few words on monetary policy and the sovereign debt crisis.

1. Monetary policy and sovereign debt crisis

As you are all aware, the Eurosystem is committed to its objective of ensuring price stability. For some time now, the inflation rate has fallen short of its target of below, but close to, 2% over the medium term. This is largely due to the sharp decline in oil prices. In March, the inflation rate in the euro area was, at -0.1%, again slightly negative, and in April euro-area inflation stood at 0.0%. In order to restore price stability over the medium term, the Eurosystem is pursuing a highly expansionary monetary policy, which has led to negative interest on commercial banks' credit balances held with central banks.

In light of the very low interest rates in the euro area, many consumers are concerned and are asking themselves what this will mean for them. Generally speaking, however, households have not yet been affected by negative deposit rates. That is why we have not seen large-scale portfolio shifts into cash holdings as a way of avoiding negative interest rates. However, should banks decide to pass the negative interest rates on to private customers after all, they could react by stepping up their cash holdings. The Bundesbank rejects any calls for restrictions on cash holdings, which have been voiced by some in light of this situation.

In addition to its interest rate policy, the ECB Governing Council has decided to increase the expansiveness of monetary policy once again by means of extensive government bond purchases in order to tackle the risks that arise when inflation is too low for too long. The longer the period of extremely low inflation rates continues, the greater the risk of second-round effects – in other words, falling wages – which would then exert further deflationary pressure. And the longer monetary policy continues to miss its target, the more likely it is that its credibility will be called into question. Against this background, the ECB Governing Council was without a doubt confronted with a difficult situation.

As you are aware, the Bundesbank takes a sceptical view of the government bond purchases. After all, the low level of inflation in the euro area is primarily the result of the drop in energy prices. Lower energy prices can only be expected to dampen inflation rates temporarily. They are also clearly boosting growth in the euro area because its member states are net importers of oil on balance. The risk of a deflationary spiral driven by falling prices and wages, which the Bundesbank and other institutions already considered to be low even before the start of the purchase programme, is now even lower. However, the risks associated with the purchase programme and those which result from the increasing fusion of the boundaries between monetary and fiscal policy, together with potential risks to financial stability that could result from a very loose monetary policy are, in our view, higher. This could result in the urgently needed consolidation of public finances in the crisis countries

being put on the back burner. The associated danger of monetary policymakers being pressured into maintaining the expansionary course for longer than necessary should not be underestimated.

2. Cash cycle and recycling

Ladies and gentlemen

You can see that monetary policy in the euro area is in somewhat of a predicament. Against this backdrop, the Bundesbank's cash department also has to address the subject of "crises and crisis prevention". For us, it is important that we are able to react to external shocks independently. To do so, we need an infrastructure and a level of involvement in the cash cycle which gives us the necessary degree of flexibility to respond accordingly. That is why we do not promote an unlimited amount of cash recycling outside of the Bundesbank. Rather, the Bundesbank always ensures that it assumes an adequate level of involvement in the cash cycle. The processing of 15 billion banknotes per year, as is formulated in our strategy, and the corresponding branch network, which will comprise a total of 31 branches in future in line with a decision by the Executive Board, are indispensable in order to ensure a functioning provision in the event of crises and emergencies.

However, the cash cycle not only faces challenges from external shocks. The creation of the Eurosystem alone has inevitably led to the commingling of different cultures and customs in the national cash cycles. In addition to this, increasing automation in the form of cash recycling devices and the progressive transfer of transport and processing tasks to cash-in-transit companies have contributed to changes in cash payment transactions. This has been in pursuit of the aim of achieving ever more efficient cash management processes.

Striving towards greater efficiency sometimes clashes with the aim of increased quality and security, which come at a price. This intention was, for instance, pursued with the EU regulation on coins from 2010. This regulation was, however, also criticised, in particular with regard to its partially impractical stipulations. However, market participants themselves did not make use of the long transitional periods – which ended on 31 December 2014 – to overcome the difficulties they had in meeting the requirements.

The Bundesbank will address the concerns and reservations of market players to the European Commission and will continue to seek to ensure that conditions concerning private coin recycling are easier to implement in practice. Yet, everyone must be aware that should adjustments be made by the Commission, these cannot be put in place overnight. It goes without saying that the Bundesbank will implement the legislators' wishes. In connection with this, I would like to draw your attention to the Deutsche Bundesbank's online training portal for coins and banknotes. With this platform, we offer cash handlers a pragmatic instrument to help them to comply in a legally sound manner with their obligation to employ "trained staff" only.

The Bundesbank therefore takes its mandate on cash payment transactions in Germany seriously and assists other cash handlers in fulfilling their tasks. If all participants in the cash cycle are continuously prepared to rise to new challenges, cash payment transactions will continue to function securely, efficiently and smoothly for the good of all economic agents.

3. Third study on "Payment behaviour in Germany"

To ensure that the Bundesbank is able to assume an appropriate level of involvement in the cash cycle and react flexibly, it is important to watch market developments very closely. The cash cycle and payment behaviour are changing in many ways, for example through new business models and new behavioural patterns of the parties involved. In order to help shape these changes and to be able to react to them, we require information on current developments. Our study on payment behaviour in Germany, which was published recently

for the third time, is an example of one of the ways in which the Bundesbank obtains this information. I would now like to present to you the main findings of our study.

On balance, cash is still the number one means of payment at the point of sale. Cash is used for almost 80% of all transactions, although the trend has declined slightly since the last study in 2011. The share of cash by value has remained constant and, at 53%, accounts for more than half of the amounts spent. This is especially true of smaller amounts. Amounts of €50 upwards are mostly paid on a cashless basis. The average amount of cash that people carry on them has also remained unchanged since the previous study at €103. This apparent inertia may seem unspectacular at first glance, yet it implies that citizens have relatively stable preferences with regard to the payment instruments that they use.

But even though consumers in Germany show only little willingness to experiment, changes in payment behaviour are certainly taking place, in small steps. Today, virtually every adult owns a girocard, which is now used to pay for around 30% of turnover at the point of sale; in 2011, this figure was around 28%. The girocard has replaced cash as the most popular payment instrument for payment amounts between €50 and €100. Internet payment methods such as PayPal are also being used more frequently as consumers are buying more and more goods and services online. According to our study on payment behaviour, nearly two-thirds of respondents have made purchases online. E-commerce transactions already account for around a tenth of retail turnover in Germany. Thus, changes in purchasing habits are automatically reflected in payment behaviour, since using cash to pay for internet orders is hardly possible.

Mobile and contactless payment methods, too, are becoming increasingly well known, yet are still seldom used. Particularly the young members of society are open to mobile and contactless payment methods. The smartphone has become a constant companion for young people. It therefore stands to reason that it should also be used to make payments. There is, however, still a lack of possibilities for use nationwide. For example, only around ten per cent of terminals in German retail outlets are able to accept contactless payments by card or smartphone. On the other hand, many people do not see a need for or have subjective security concerns regarding new kinds of payment methods that they are not yet familiar with.

The perceived level of security in particular is a key criterion when deciding for or against certain payment instruments. This was already evident in our first study on payment behaviour. Counterfeits, skimming, phishing, credit card fraud – these are just some of the buzzwords associated with the security of payment transactions which are relevant for consumers. As regards counterfeits, the Bundesbank offers training sessions, information material and study programmes, for example, free of charge, with the aim of combating counterfeits. Both the Bundesbank's active involvement in the cash cycle and the issuing of new banknote series also serve this objective, among others.

Moreover, when we introduced the new €5 and €10 banknotes, we found that the old banknotes that were still circulating were quickly replaced by the new notes. Nevertheless, it should be noted that the loss arising from counterfeits – which amounted to €3.3 million in Germany in 2014 – is only a fraction of the loss which results from card fraud.

Alongside possibilities for use and security, cost evidently also plays an important role in payment transactions. As we are all aware, payment transactions are not available for free. The costs are a somewhat complicated business. Charges for one party mean income for another. Hence, the interests of the different parties involved in payment transactions constantly diverge. The end consumers ultimately have to bear the costs of payment transactions, since the other parties take these into account in their price calculation and pass them on to the customer. It is extremely difficult to quantify whether notes and coins or cashless payment instruments are cheaper from a macroeconomic perspective. Research on this has, to date, not arrived at a clear conclusion. The only thing that is certain is that the willingness of consumers to pay for payment services is extremely low. New services on the

payment services market must either be very competitively priced for users or provide an additional benefit compared to existing services in order for them to become established. In addition, from a retail perspective, cash, in particular, which is often perceived as being expensive, is among the cheaper payment instruments.

Yet cash is not only positive in terms of cost aspects; consumers regard cash highly because they can keep a check on how much they are spending, it's easy to use, and they can remain anonymous. That is why cash will continue to play an important role in the portfolio of payment instruments in future.

Nevertheless, we expect the share of cash payments at the point of sale to slip below the 50% mark over the medium term, given that cashless payment instruments are slowly but steadily gaining ground. This not only applies to mobile and contactless methods as well as internet payment methods, but also to regular debit card payments.

So how does the future of payments look? In my opinion, diverse and multifaceted. In the past, paying in cash was virtually the only option, and cash is still going strong even today. The volume of euro banknotes in circulation, which increases by around 5% a year and has been in excess of €1 trillion since the end of 2014, clearly demonstrates this. But nowadays, there is also a wealth of cards – ranging from prepaid cards to contactless cards. Moreover, smartphone and e-mail-based methods offer new channels to existing payment procedures. Everyone should be able to pay as he or she wishes; the Bundesbank takes a neutral stance and leaves citizens to decide how they would like to pay.

Thank you very much for your attention.