Going Cashless

The governor of the world's oldest central bank discusses his country's shift toward digital money

Stefan Ingves

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SWEDEN IS RAPIDLY moving away from cash. Demand for cash has dropped by more than 50 percent over the past decade as a growing number of people rely on debit cards or a mobile phone application, Swish, which enables real-time payments between individuals. More than half of all bank branches no longer handle cash. Seven out of ten consumers say they can manage without cash, while half of all merchants expect to stop accepting cash by 2025 (Arvidsson, Hedman, and Segendorf 2018). And cash now accounts for just 13 percent of payments in stores, according to a study of payment habits in Sweden (Riksbank 2018).

Digital solutions for large payments between banks have existed for some time; the novelty is that they have filtered down to individuals making small payments. And my country isn't alone in this regard. In several Asian and African countries—for example, India, Pakistan, Kenya, and Tanzania—paying by mobile phone instead of cards or cash is commonplace.

Given that the role of a central bank is to manage the money supply, these developments potentially have wide-ranging consequences. Are central banks needed as issuers of a means of payment in a modern digital payments market? Are banknotes and coins the only means of payment for retail payments that should be supplied by a central bank? Is there a risk of future concentration in the payments market infrastructure that central banks should be monitoring?

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In Sweden, clearing and transfers between accounts are concentrated in one system, Bankgirot. Once the payments market infrastructure is in place, the marginal costs for payments are low and positive externalities are present. What do we mean by "positive externalities"? A classic example is the telephone. Having the first telephone is not very valuable, as there would be no one to call. However, as more people eventually connect to the telephone network, the value of the phone increases.

The same is true for the payments market—the value of being connected to a payments system increases as more people join. Moreover, payments can also be regarded as collective utilities. Considering this, my view is that the state does indeed have a role to fill in the payments market—namely, to regulate or provide the infrastructure needed to ensure smooth functioning and robustness.

Citizens can expect a payments market to meet a few basic requirements. First, its services should be broadly available. Second, its infrastructure should be safe and secure. Sellers and buyers should be convinced that

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the payment order will be carried out—a necessary condition for people to be willing to use the system. Third, it should be efficient: payments should be settled fast, at the lowest possible cost, and the system should be perceived as simple and easy to use.

Do we fulfill these requirements? I am becoming increasingly uncertain whether we can respond with an unequivocal yes.

If banknotes and coins have had their day, then in the near future, the general public will no longer have access to a state-guaranteed means of payment, and the private sector will to a greater extent control accessibility, technological developments, and pricing of the available payment methods. It is difficult to say at present what consequences this might have, but it will likely further limit financial access for groups in society that currently lack any means of payment other than cash. Competition and redundancy in the payments infrastructure will likely be reduced if the state is no longer a participant. Today, cash has a natural place as the only legal tender. But in a cashless society, what would legal tender mean?

In this regard, one might ask whether central banks should start issuing digital currency to the public. This is a complex issue and one central banks will likely struggle with for years to come. I approach the question as a practical, not a hypothetical, matter. I am convinced that within 10 years we will almost exclusively be paying digitally, both in Sweden and in many parts of the world. Even today, young people, at least in Sweden, use practically no cash at all. This demographic dimension is also why I believe that cash's decline can be neither stopped nor reversed. While the Nordic countries are at the forefront, we are not alone. It is interesting to see how quickly the Chinese payments market, for instance, is changing.

And then there is the emergence of crypto assets. I do not consider these so-called currencies to be money, as they do not fulfill the three essential functions of money—to serve as a means of payment, a unit of account, and a store of value. This view is shared by most of my colleagues. Crypto assets' main contribution is to show that financial infrastructure can be built in a new way with blockchain technology, smart contracts, and crypto solutions. Although the new technology is interesting and can probably create value added in the long run, it is important that central banks make it clear that cryptocurrencies are generally not currencies but rather assets and high-risk investments. The clearer we are in communicating this, the greater the chance that we can prevent unnecessary bubbles from arising in the future. We may also want to review the need for regulatory frameworks and supervision for this relatively new phenomenon.

It is worth mentioning that digitalization, technical improvements, and globalization are positive developments that increase our collective economic welfare. We can only speculate on what new payments services may be developed in the future. But there are several challenges ahead. One key issue we face is whether central banks can stop supplying a state-guaranteed means of payment to the general public. Another is whether the infrastructure for retail payments should be transferred to a purely private market. The state cannot entirely withdraw from its social responsibility in these areas. But exactly what its new role will become remains to be seen. FD

STEFAN INGVES is the governor of Sveriges Riksbank, the central bank of Sweden.

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