Analysis

# The future of cash in Finland - a basic service secured by law?

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Cash, banknotes and coins, is a familiar means of payment for everyone. The use of cash as a means of payment has declined and the use of cards has increased over the last twenty years. The coronavirus crisis has further reduced the use of cash, perhaps permanently. Even so, cash is still an important means of payment for many Finns. Cash also has some special features that electronic payment methods lack. In addition, cash is required as a fall-back in the event of disruptions in payments. Cash must be available and it must be possible to use cash for as long as people need and want it.



In Finland, the central bank, deposit banks, ATM companies, cash management companies, cash in

transit companies, cash centres and retail outlets participate in the handling and transport of cash – i.e. cash supply. Cash supply is therefore dependent on many actors, and it is an example of a sector in which cooperation between the public and private sectors plays a key role. The division of responsibilities between the central bank and the private sector has changed over the years. The objective of the Bank of Finland and other cash supply actors is to ensure that genuine cash in good physical condition is available throughout Finland in line with demand.

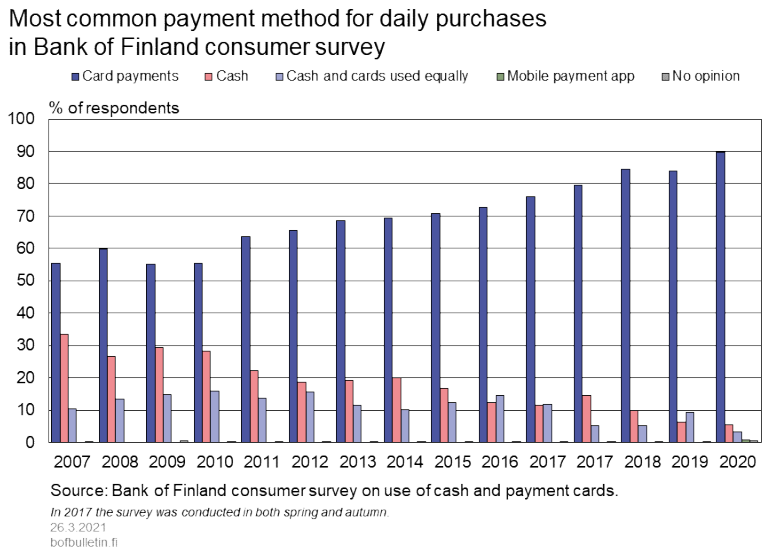
The decline in use of cash as a means of payment is further advanced in Finland than in many other euro countries, so Finland is also among the first countries to consider the level at which cash services must be secured in society. It is a statutory task of the Bank of Finland to contribute to maintenance of the currency supply and issuance of banknotes. An additional task of the Bank of Finland is to participate in maintaining the reliability and efficiency of the payment system and overall financial system, and participate in their development. It is essential to maintain public confidence in cash as a means of payment, thereby reinforcing public confidence in the euro. In addition, it must be ensured that the cash cycle remains efficient and also sufficiently extensive to maintain the level of service required by society in all circumstances.

## Cash issuance increased, even though payment transactions declined

Finns should be on an equal footing in terms of payment methods and be able to choose the payment method most suitable for them in different situations. Although cards and credit transfers are frequently used for payment in Finland, cash remains a significant method of payment for a considerable number of Finns.

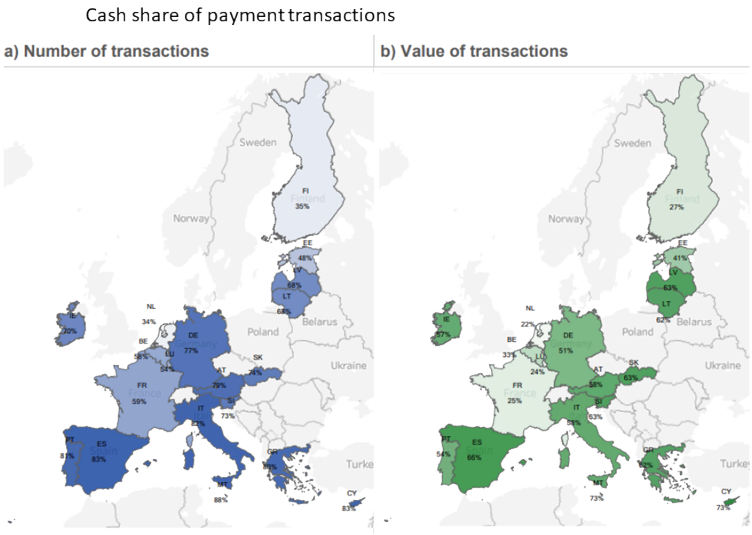
No complete statistical data is directly available on the use of cash, unlike for card payments, but consumer surveys (Chart 1) and the development of ATM withdrawals, for example, show that the use of cash as a means of payment has declined significantly in this millennium. Cash is also used for savings purposes, and some of the cash issued in Finland ends up abroad with tourists. As a result of these different uses, the issuance of cash in Finland has been growing steadily throughout the euro period, even though fewer payment transactions are being settled with cash.

Chart 1.




At the end of 2020, the European Central Bank (ECB) published a study on the payment attitudes of consumers in the euro area (SPACE)[1]. The study showed that cash remains the most common payment method in the euro area at points of sale and in payments between individuals. There are considerable national differences in payment behaviour, however, and in Finland the proportion of all point-of-sale payments accounted for by cash payments is one of the lowest in the euro area (Chart 2)[2]. The same ECB report also examined the impact of the coronavirus pandemic on cash payments. Based on the results, payments in cash declined. According to the survey, a large proportion of consumers also said they would continue to pay in cash less often when the coronavirus crisis is over. According to the Bank of Finland consumer survey, conducted in October 2020 (Chart 1), the proportion of consumers using cash and cards equally has particularly decreased, and these consumers have switched to using payment cards more often.

Chart 2.




Sources: ECB, De Nederlandsche Bank and Dutch Payments Association and Deutsche Bundesbank

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## Acceptance and availability of cash are decisive features

For the use of cash as a means of payment, how widely cash is accepted as a payment method is decisive. There are many companies and merchants, but there is a risk that cash payments will start to be rejected in society. Indications of this were perceptible at the onset of the coronavirus crisis in spring 2020. Although, based on laboratory findings, cash is not a particularly significant spreader of disease, many retail outlets campaigned in favour of card payments and encouraged people not to pay in cash. It remains to be seen to what extent the use of cash will recover after the coronavirus crisis.

In terms of availability, cash is a different payment method than, for example, a payment card. Consumers obtain a payment card once, after which they are able to access their bank deposits for purchases with the same card, typically for several years. Cash, on the other hand, must be constantly available as the payment medium involved, i.e. a banknote or coin, changes ownership physically in connection with every payment.

The cash suppliers – for example deposit banks and ATM companies – who serve consumers and merchants, decide where cash can be withdrawn or where it can be deposited. In addition to availability, they decide on the pricing of consumers' and merchants' cash services.

In recent decades, the number of deposit bank branches offering cash services has decreased significantly, and the availability of cash services at branches has been curtailed, for example to

only certain days of the week. The number of ATMs had been declining for a long time, but in recent years it has started to increase once again with the arrival of ATMs from a new actor. This will not necessarily improve the availability of cash everywhere in the country, as the new ATMs are appearing mainly in densely populated areas. In Finland, ATMs are not owned by the deposit banks. All ATMs are in joint use, namely the customers of all of the deposit banks can withdraw money from them. There are differences[3] in prices between the banking groups. Some ATMs both distribute cash and accept deposits. These cash recycling machines have increased opportunities to deposit cash, in addition to branches and night safes. Adequate cash deposit and return facilities are essential for businesses that accept cash. Businesses may also arrange their cash management with cash in transit companies.

## Eurosystem cash strategy and Bank of Finland guiding principles regarding cash services

Both the Eurosystem and the Bank of Finland have outlined their positions on the status of cash. The Eurosystem cash strategy[4] was published at the end of 2020, and it emphasised the importance of the availability and acceptance of cash also in the future. The Eurosystem ensures that banknotes and coins are available according to demand. The Eurosystem central banks offer free-of-charge cash services, while working to make the cash cycle as cost efficient as possible. In addition, credit institutions must ensure adequate cash services for both citizens and businesses. The Eurosystem also emphasises that cash must be accepted as a means of payment everywhere. People must be free to choose how to pay. The Eurosystem is constantly working to develop banknotes that are secure and as difficult as possible to counterfeit. Likewise, the Eurosystem also ensures that banknotes are safe to use. Environmental considerations are also central, and euro banknotes and their production processes are made as environmentally friendly as possible.

The Bank of Finland published its guiding principles for the maintenance of cash services[5] in autumn 2018. In the Bank of Finland's view, cash must be available in society at a reasonable cost and it must be possible to use cash at least for the most important everyday purchases. The deposit banks must ensure that their customers have adequate opportunities to withdraw and deposit cash, and customers must have the right to make a reasonable number of cash withdrawals from their account free of charge. In addition, cashback services at retail outlets should be equally available for all customers. Furthermore, small businesses and associations should be viewed as private customers with regard to their use of cash services. (Chart 3)

Chart 3.




In September 2020, the European Commission published a Retail Payments Strategy for the EU[6], which likewise emphasises the importance of the availability and acceptance of cash as well as the legal tender status of cash. The Commission may decide to take appropriate action at the end of 2021.

## How does cash supply work in Finland?

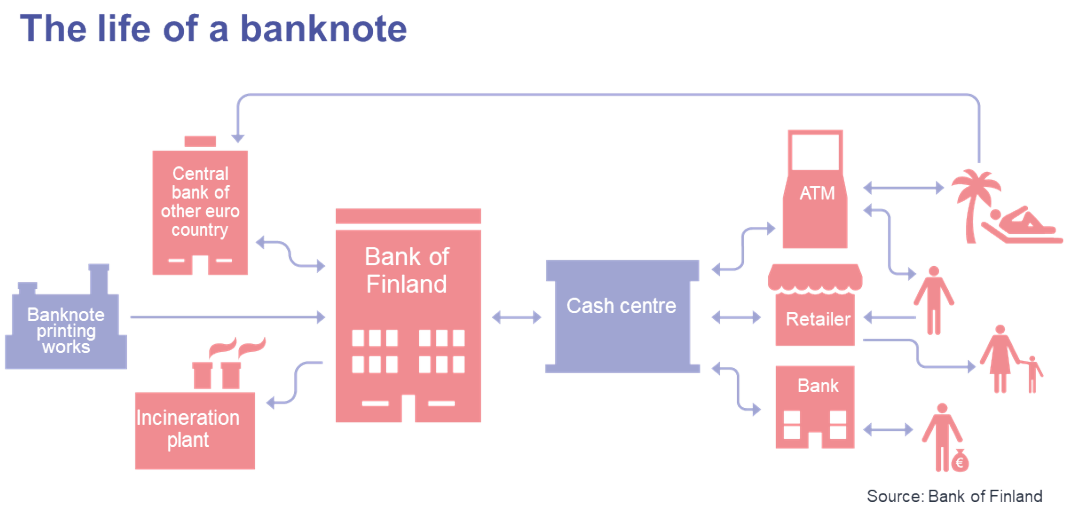
Efficient cash services require much physical handling and transfer of banknotes and coins that is invisible to the end customer. There follows a brief overview of the roles of the various actors in the cash chain.

As Finland's national monetary authority, the Bank of Finland issues new banknotes and coins, and withdraws from circulation and destroys unfit banknotes. In addition, the central bank monitors professional cash handlers and the operation of their equipment. The Bank of Finland also participates in the work of the Eurosystem's Banknote Committee. In the euro area, banknote production is the joint responsibility of the central banks. Finland is part of a cooperation group that arranges the competitive tendering of banknote production, and orders, in accordance with forecast demand, new banknotes from printing works approved by the ECB. Banknotes are stored and transported between euro area central banks as required.

The Bank of Finland's wholesale customers, namely cash management companies and deposit banks, can submit cash orders and return cash to the Bank of Finland. Cash in transit companies

handle the distribution of cash to ATMs, retail outlets and deposit bank branches, where consumers either withdraw cash or receive it as change when making purchases. Consumers use cash both in Finland and in other euro area countries. Both consumers and businesses also need cash deposit facilities. Cash is returned, for example from shops and deposit bank branches, using cash in transit companies to private cash centres. The cash centres check the authenticity and physical condition of the cash using their sorting machines, and banknotes in good physical condition are returned to circulation. The cash centres return surplus cash and unfit banknotes to the Bank of Finland. The Bank of Finland also sorts banknotes with its own sorting machines. In sorting, unfit banknotes are shredded mechanically and the shredded notes are destroyed in an incineration plant. Bank of Finland wholesale customers' cash orders include both new banknotes and recycled banknotes in good physical condition. (Chart 4)

Chart 4.




## Development of cash services in recent decades

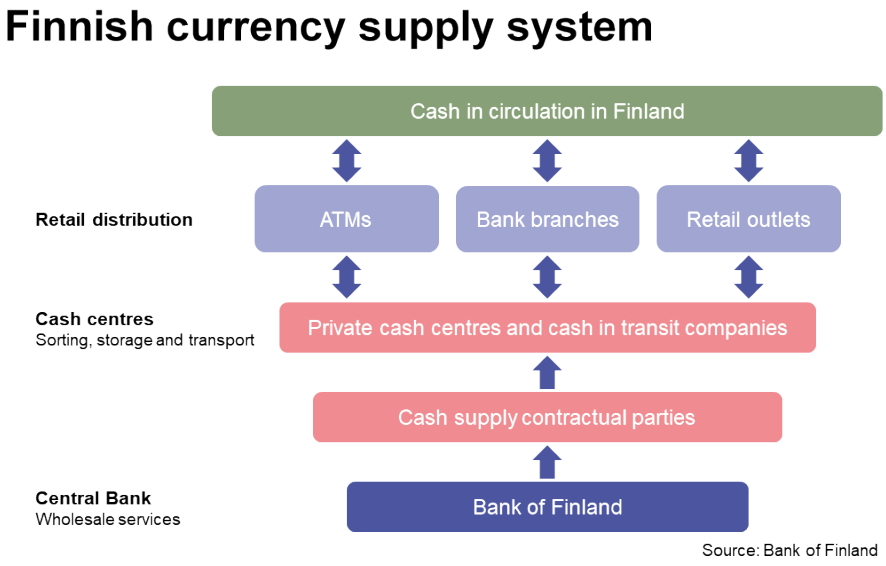
The Bank of Finland's customers in cash supply can be professional cash handlers, i.e. deposit banks and cash management companies, and the Bank of Finland focuses on wholesale cash supply. There are currently three customers and they have entered into agreements with the Bank of Finland. Individuals or retail outlets that accept cash as a means of payment cannot be customers of the Bank of Finland. Since spring 2019, the Bank of Finland has provided cash supply services only through its Vantaa branch, and branches located elsewhere in Finland have been closed. In 1988, for example, the Bank of Finland still had around a dozen branch offices around

Finland.

Under the Credit Institutions Act, deposit banks have an obligation to provide their customers with sufficient cash withdrawal and deposit opportunities as part of basic banking services. Although the deposit banks are responsible for providing the services, they and other parties involved in supplying cash may outsource the handling of tasks. ATMs, for example, are owned by actors other than the deposit banks. Similarly, cash handling tasks in cash centres and cash transports to different parts of Finland have been outsourced. Cash in transit companies may handle either the mere transport of money or also cash centre services, i.e. the counting and packing of cash and its delivery to customers.

In a country of long distances like Finland, transporting banknotes and coins requires many kilometres to be driven. Finland's cash supply model has gradually moved to one in which the central bank performs only its basic duties in wholesale cash supply. Consumers and merchants are served by private actors that provide cash supply retail services. (Chart 5)

Chart 5.




Cost-sharing and transport of cash have come to the fore as the central bank has contracted its branch network and the private sector has begun to handle more cash services. Costs have been reduced and transport distances shortened significantly by the Bank of Finland's expansion of its custodial system, Notes-Held-To-Order (NHTO), in which cash in cash centres is placed in the central bank's custody for the night, even though it is not physically transported for the night to the Bank of Finland. This means that the parties involved incur no interest losses from holding

cash, because the cash is transferred to the central bank's ownership, even though it is deposited in a private cash centre. The arrangement significantly reduces unnecessary driving, as otherwise surplus cash would have to be driven in vehicles from all over Finland to be deposited for the night on the Bank of Finland's premises in Vantaa and picked up the next morning.

Prior to the custodial system provided by the Bank of Finland, the DEPO custodial system was in use in Finland. In this, the Bank of Finland contributed to the cash supply costs by covering part of the interest income lost by the parties.

## Special features of cash

Payments and payment methods are constantly evolving. For example, in Finland the popularity of contactless payments has grown significantly in recent years. The rapid growth of mobile payments has also been anticipated for at least twenty years, and gradually consumers have started to pay using mobile phones as well. Cash has, however, a number of special features that are difficult for other payment methods to replace.

First, cash is the only method of payment provided by the central bank to the general public. It would be a major change if ordinary citizens had no alternative but to keep their money in deposit banks and only use the means of payment offered by deposit banks. Currently under discussion around the world are central bank digital currencies that would allow consumers to use central bank money in a virtual form. Studies are still under way, however, and it will take time for a central bank digital currency to emerge. If a central bank digital currency is introduced in the future, it will live side-by-side with banknotes and coins.

A second key feature of cash is that it is the only method of payment that has the status of legal tender. According to a Commission recommendation[7] issued in 2010, this means, for example, that it should always be possible to discharge a payment obligation in cash. In practice, however, freedom of contract with regard to payment method is strong in Finland, and the practice is that merchants, for example, may refuse to accept cash if the consumer is informed of this sufficiently clearly in advance.[8] The Retail Payments Strategy for the EU states that the Euro Legal Tender Expert Group (ELTEG) will take stock of the latest developments regarding the acceptance and availability of cash.

Third, a cash payment is immediately final, i.e. the payment is made in real time. Cash payments do not require underlying settlements or systems, as are required in card payments or credit transfers. In those payment methods, moreover, the money is transferred immediately from the payer, but the payee often receives it after a delay. In cash payments, recipients can use the cash immediately for their own payments. Cash also works without electricity in transactions between

individuals. Fourth, cash also acts as a fall-back, for example in the event of disruptions to the systems required for card payments. It is essential to maintain an adequate network for the availability and acceptance of cash in normal times, because without this cash will not be an option in times of crisis. If the network is allowed to deteriorate, it will be difficult to restore it in the event of a disruption to other payments.

Fifth, cash is a private method of payment. In other words, no trace of the payer's identity is left in records, as when paying by card or credit transfer. Data on consumer behaviour involving cash cannot therefore be used as a commodity, and cash is not susceptible to cyber attacks, for example. Of course, an anonymous payment method also has its downsides, enabling cash to be used for criminal purposes. According to a Bank of Finland study [9], use of cash in the shadow economy is minor in Finland. Anti-money laundering measures are also constantly evolving, and the origin of cash is being verified in many contexts.

It may be possible to discontinue cash when a digital payment method can adequately replicate the specific features of cash, and there is no longer any demand for cash. The network for using cash may, moreover, shrink and become too small if the costs for cash supply actors or merchants grow too great and they incur more costs than benefits from handling cash. The price levied on end customers may also rapidly reduce the use of cash, and this may also happen if cash cannot be obtained sufficiently easily from an ATM or a bank branch, for example. Furthermore, a loss of public confidence in cash – for example as a result of counterfeiting or a wave of robberies – might also quickly reduce demand for cash and opportunities to use it.

## Future outlook

Cash supply requires close cooperation between the central bank and private actors. Based on surveys, it has been possible in Finland to date to offer more or less adequate cash services to both consumers and merchants, but there are numerous issues related to future development. Will, for example, sufficiently comprehensive maintenance of ATMs, cash in transit companies and cash centres remain a profitable business for private companies – and for an adequate number of companies to ensure well-functioning competition – if the use of cash continues to decline? At present, these key actors for cash distribution are owned in Finland by parties other than the deposit banks that operate in Finland. In a shrinking market, the risk is monopolisation, which may impact availability and pricing of services. The deposit banks, however, still have a basic banking service obligation to ensure cash distribution to consumers. Based on authorisation, the deposit banks have been granted the right to accept deposits from customers and they are subject to an obligation to provide basic banking services, which include, for example, the right to withdraw and deposit cash. Likewise, the fees levied on customers for these services must be reasonable.

The role of the central bank in retail payments has also changed over time. The significance of the central bank and cash in retail payments was much greater when people generally did not have a bank account and, for example, salaries were paid in cash. The central bank is constantly evaluating its own operations and how it contributes to maintaining cash supply as a nationwide service equally for all citizens. It may also be the case that the role of the central bank in cash supply will be greater in the future than at present. In Sweden, for example, requirements for central bank cash services have been proposed in amendments to the Central Bank Act.

If the availability and acceptance of cash were to collapse, it would be necessary to consider how great the need is in society for well-functioning cash services. According to the Bank of Finland's guiding principles for the maintenance of cash services, it must also be possible to obtain with cash at least those services that are critical for the daily wellbeing of citizens. These important services include, above all, the acquisition food, medicine and fuel, which are also classified as critical services for security of supply. The Bank of Finland is also highly committed to the Eurosystem's cash strategy, which emphasises the importance of the availability and acceptance of cash. If the availability and acceptance of cash are critical services in society, they must ultimately be protected by legislation. The central bank has no need to forcibly maintain cash services in society. If, at some point, people no longer need physical cash, it will be time to abandon it. But, at the same time, care must be taken to ensure that other payment methods function securely and reliably, even in difficult crisis situations. As long as consumers and businesses need and want to use cash, this must be possible at a reasonable cost.

## Notes

1. ECB report (2020). ↑
2. Kari Takala's blog of the ECB report (2020) (in Finnish only): Tuoreen SPACE-tutkimuksen mukaan käteinen yhä suosituin maksutapa euroalueella – korona muuttanut maksukäyttäytymistä – Euro ja talous ↑
3. Pricing of ATM withdrawals varies between banking groups. Typically, customers can withdraw money for free from their account a few times a month. Prices can be compared on the payment account comparison website: https://maksutilivertailu.fine.fi/#. ↑
4. The Eurosystem cash strategy (europa.eu). ↑
5. See https://www.suomenpankki.fi/en/media-and-publications/speeches-and-interviews/2018/tuomas-valimaki-maksamisen-murros-helsinki-28.11.2018/. ↑
6. See https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020DC0592&from=EN. ↑
7. Commission Recommendation (2010/191/EU). ↑
8. See https://www.kkv.fi/ratkaisut-ja-julkaisut/julkaisut/kuluttaja-asiamiehen-linjaukset/aihekohtaiset/maksaminen-ja-laskutus/#4.1 (in Finnish). ↑

9. Kari Takala (2020) Käteisen käytöstä harmaassa taloudessa Suomessa. Bank of Finland expository studies, A 123 (in Finnish). ↑

The opinions expressed in this article are those of the authors and do not necessarily represent the views of the Bank of Finland.

## Keywords

cash, cash strategy, COVID-19, COVID-19 crisis, Finland, maintenance of currency supply, money