

Board Member Tuomas Välimäki: The payment revolution — change, challenges, and solutions. Helsinki 28.11.2018.

Bank of Finland Board Member Tuomas Välimäki

Bank of Finland

Visit by the Financial Journalists' Association to the Bank of Finland

Helsinki, 28 November 2018

[\(slides\)](#)

The payment revolution — change, challenges, and solutions

Ladies and gentleman, esteemed financial journalists, please allow me to welcome you to the Bank of Finland. We at the Bank have a brand-new line-up, where, we, the three Members of the Board of the Bank of Finland — took up our new responsibilities as recently as in July, or soon afterwards. Together we wish to build on the exemplary work of our predecessors and keep the Bank on its long successful path; however, at the same time it is our desire to encourage and cultivate a sense of newness within our venerable organisation. Moments of change should be received as opportunities for shaking up conventional wisdom and injecting new life into established practices. The walls of a stagnant central bank most certainly risk gathering moss.

In our strategy planning over the course of September and October, it became clear that the relentless pace of digitalisation has brought with it new demands on the Bank's operations — a situation unlikely to change in future — and that the Bank's functions most affected by digitalisation were in need of fresh ammunition.

It was decided that the Bank's data resources and ICT systems should be brought together to be developed and managed in synergy, and that a new ICT and Information Management department would be established for this purpose. I do not wish to imply that “rallying up the nerds and throwing away the key” is our be-all and end-all answer to the challenges, and opportunities, presented by digitalisation. Not in the least. Instead, with the new department, we wish to ensure that our pool of talent and expertise reaches a critical mass where it might provide the technical and visionary support needed to transform the Bank, and all its operations, to content with an era defined by exponential data growth and in want of new, meaningful tools for analysis.

If you will forgive my use of kitchen metaphor, far be it our desire to draw unwarranted attention to our cooking utensils of choice, nor do we wish for even more pots and pans to make a mess with. Instead, as with any change made at the Bank, it is simply our aim to serve a better broth. That is to say, in future, when we look back and consider the success of the changes I wish to share with you today, we should apply the same yardstick used to measure the success of any of the Bank's activities: that we produce better economic and monetary policy analyses, and are better aware of threats to financial stability.

The second major change I am pleased to discuss is related to the shifting landscape of payment — the introduction of real-time transactions, supporting new methods for payment using central bank money, and guaranteeing the availability of cash services. To better address these challenges and more, we are concentrating all of our functions related to the oversight and development of payment systems and cash supply under a single new Payment Systems department.

Payment is a basic function of human society, and it essentially underlies all economic activity. With the rise of mobile internet connectivity, software applications and appropriate regulatory reforms, the

future of payment has never boasted so many different avenues. It is, however, absolutely crucial that we study these avenues with great care in our capacity as overseers of payment systems. Signs of trouble need to be addressed swiftly, so that our payment and clearing systems may continue to operate efficiently and without interruption.

At the same time, a central bank must not neglect its responsibilities related to the issue of banknotes and coins and maintenance of currency supply. As electronic payment solutions have continued to gain foothold over the past two decades, so has the demand for cash-related services declined.

This has subsequently been met by a reduction in the supply of cash services. While this is hardly surprising, it has also been brought to our attention that the reduction of cash services has, in many places, been too rapid. Many citizens feel that they have been deprived of services they rely on.

Most cash withdrawals in Finland are made using cash machine, and up to 96% of all withdrawals are made by an atm. The number of banks' branch offices offering cash services has declined rapidly. And even where services do exist, the opening hours are often quite limited.

Many retail stores do provide the opportunity for cash back of small sums at checkout. However, the availability of cashback services is hardly ubiquitous at this point, nor do all retail chains even offer this service to the clients of all banks. This might be one reason why the service has been slow to gain ground in Finland, and why it has not done much to offset the reduction of traditional cash services.

In spite of these developments, the use and demand for cash still remains considerable. Surveys by e.g. the central bank suggest that cash facilitates about 25–50% of payment transactions, depending on the sale or service. Although the vast majority of us only use cash occasionally, some 10% of Finns reported cash as their primary means of payment [Chart 1]. Granted, this share has dropped to a third over the past decade, but the current figure still comprises a great number of citizens. And it must be emphasised that we are not talking about just the elderly or other specific demographics. Even younger age groups need cash, especially young adults and adolescents who struggle with their personal finances.

The availability of cash services in Finland is supervised by two authorities: the Financial Supervisory Authority, or FIN-FSA, and the Bank of Finland. Each year, the FIN-FSA publishes a report where it assesses the availability and pricing of basic banking services. Their latest report^[1] was published on Monday 19 November [2018]. It is the FIN-FSA's view that while the availability of basic banking services remains satisfactory overall, banking arrangements for certain customer groups leave something to be desired. In particular, the situation for customers who rely on branch offices for their banking arrangements has worsened, as branch networks have thinned and available services have been reduced.

The introduction of a new cash machine network has slightly contributed to the number of ATMs available to customers, but the new operator has largely replaced Automatia's existing Otto machines.

Currently most cash services are subject to limited fees. That is, customers may make three to five withdrawals each month at no expense. Two banks, however, have imposed service fees on all cash withdrawals. In addition, charging a handling fee for cash deposits is also common practice.

FINE [the Financial Ombudsman Service] is a contractual arrangement between Finnish authorities and the financial sector to create an organisation which provides insurance and financial advice and mediation services. The organisation is tasked with maintaining the FIN-FSA's payment account comparison website, a platform for comparing the regional availability and pricing of basic banking

services.[2] The website is an invaluable resource for authorities and conscious consumers alike.

The Bank of Finland too, as part of its legal mandate, participates in the maintenance of Finland's currency supply. We have long kept records of and evaluated the development of cash services — including the possibility for making deposits and withdrawals — and have sought means to ensure that these services remain readily available for all, for both private individuals and companies, regardless of where they reside or which bank they use.

We have recently prepared a set of guiding principles that will hopefully clarify our stance on cash services and assist us in our efforts to improve them. These principles will also lend support to the FIN-FSA's assessments on the availability of basic banking services. There are five principles in total, three of which are related to deposit banks and two of which retail and other service providers.

First and foremost, commercial banks are obligated under the Credit Institutions Act to ensure the provision of basic banking services to their customers. The right to make deposits to and withdrawals from one's bank account constitutes such a service. In practical terms, as regards cash withdrawals, this means that the limited cashback services offered by retailers at checkout do not deliver a bank from its obligations to guarantee the provision of basic services. Should a bank not offer a service itself, it must at the very least, through contractual arrangement, ensure that its customers are granted their statutory rights.

Second, customers are entitled the right to make a reasonable number of cash withdrawals from their accounts at no charge. Reasonable may well be an ambiguous term, but surely it is reasonable to expect that a depositor be able to make one withdrawal per week at no expense.

Why is this point so important? People must have the right to access their own money. If our legislation stipulates that wages and financial benefits be credited to a person's bank account, surely recipients must be able to access their money through other means than spending. Moreover, deposits are statutory debt that a bank owes its customers — surely a lender should not have to pay a surcharge for collection of debt?

Even as I make the case for free withdrawals, I am not trying to promote the use of the Bank of Finland's main product — cash. Why not? Will not curbing service fees increase the use of cash, and thus the demand for our product? No — not necessarily, at least.

Should cash withdrawals be subject to substantial service fees, it is very likely that people will begin to withdraw larger amounts, covering, for example, one's cash needs for weeks or months at a time. This, in turn, would raise the amount of currency in active circulation. As the amount of cash stashed away in wallets and in households increases, so will fears of robbery and theft. Not only this, but money “hidden under the mattress” is money removed from the deposits of banks and thus removed from their finance base. Banks would do well to consider these points when they determine their cash-related service fees.

Our third guiding principal is that small businesses and associations should primarily be viewed as private customers with regard to their use of cash services. According to current statutory interpretation, a business can be held comparable to a consumer client when less than half of its account transactions are related to its business operations. If the proprietor of a small kiosk or owner of a market stall is charged unduly fees for depositing cash payments at the end of the work day — fees that might be proportionate for large corporations but not small businesses — the grey economy could risk growing. As a personal aside, I was struck with amazement when I discovered how much of a church's collection plate can end up disappearing into a bank's service fees.

Returning to a topic I have already touched upon, our fourth guiding principle is related to the cashback services offered by retail stores at checkout. These services are a boon for residents in

small localities, where the nearest bank or cash machine might easily be a considerable distance away. In addition, they can also help stores in lowering their cash handling expenses. Nevertheless, even cashback can run the risk of entrenching the unequal provision of cash services, especially if all retailers fail to offer a similar solution for the service or if they do not treat all customers on equal footing. Thus, our fourth guiding principle calls for fair availability of cashback for all customers. The retail sector in Finland is highly concentrated; if and when a dominant player decides to exclude the vast majority of banks' depositors from its services, it cannot be said in good faith that cashback complements or enhances the availability of cash services in sparsely populated areas.

As our fifth principle, it is our view that cash must at the very least be accepted as payment in circumstances where citizens use services critical for their well-being. In Finland retailers may freely choose which payment options they accept, as long as they clearly inform the customer ahead of purchase. Refusal of cash payments is unlikely to cause undue stress as long as this is limited to, say, hipster cafés in Kallio [a gentrified working-class district]. But should, for example, a small community's only pharmacy within reasonable distance adopt a no-cash policy, not only will this endanger the safety and well-being of its residents, but it will also force them into an unfair position.

It is also worth remembering that cash is a form of legal tender with the ability to transfer money from payer to recipient instantly and without the need for electronic equipment, systems or other provisions. These qualities still make it a formidable competitor for the payment solutions offered by the private sector. In addition, cash remains a popular means of payment and is the only contingency option should electronic payment systems become severely disrupted.

Finland is not the only country where the outlook for cash services has given authorities pause. All of the Nordic countries, as well as Estonia and the Netherlands, are in a situation where the decline in the use of cash has been met by a sharp reduction in the supply of cash services. Each country is exploring options to support the provision of these services to businesses and citizens alike. For example, in Sweden the parliament's Riksbank committee is reviewing the respective roles of the central bank and commercial banks in currency supply maintenance. Its preliminary report published last summer outlines measures which would obligate deposit banks to assume greater responsibility for the provision of cash services to their customers. Similar regulation has already been implemented in Norway.

Unlike the other Nordic countries, the ubiquity of euro-denominated cash in Finland serves as a powerful reminder of the European internal market. Indeed, euro cash connects Finland with the rest of the euro area, whose citizens may freely exercise their right to travel and benefit from mutual trade. Euro cash itself is certainly not on the decline. More euros are in circulation than ever before; the volume of currency issued by the Bank of Finland has never been greater, nor has the quantity of cash in circulation in Finland begun to decline [Chart 2].

To summarise, then: payment is changing, but news heralding the death of cash is greatly premature. For our part, we at the central bank will continue to support and influence the development of payment and cash services, for example, through the Payments Council as well as through our cooperation with the Financial Supervisory Authority.

It is my sincere hope the development of cash services will proceed in a manner that adequately considers the needs of all citizens and businesses. Should this fail, the issue will likely need to be brought under the auspices of legislation, as is currently the case in Sweden.

[1]

http://www.finanssivalvonta.fi/fi/Finanssiasiakas/Finanssialan_palveluita/Pankkipalvelut/Peruspankki_palvelut/Pages/2018.aspx

[2] <https://maksutilivertailu.fine.fi/>