

03.05.2022

The role of cash in a changing society

Global Currency Forum

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Good morning Ladies and Gentlemen and thank you for being with us.

It is a pleasure to me to be here and I would like to start by thanking the organizers for the kind invitation to open this event.

It is an honour for me to welcome you to Spain and to this wonderful location of Port Aventura in Tarragona.

It is the first GLOBAL CURRENCY FORUM, **a new global conference committed** to driving innovation and sharing information across currency industry.

I am sure it will be a great success in the years to come.

In my presentation, I would like to share **with you all** an overview of the **ROLE OF CASH IN A CHANGING SOCIETY AND THE CURRENT LANDSCAPE IN SPAIN.**

1. A CHANGING WORLD

BANCODE ESPAÑA
EuroSistema



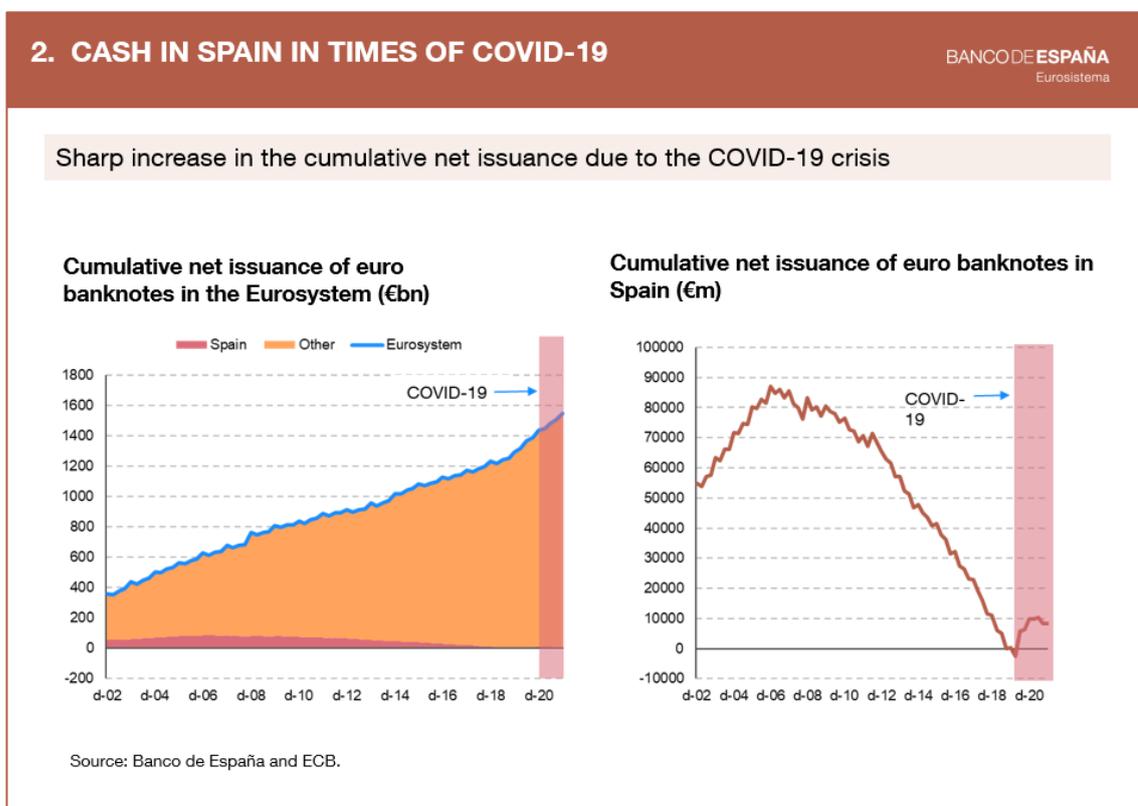
The world is changing fast!!!

There is a perception in modern times that our societies are changing at **ever-increasing** speed.

These changes affect all aspects of our daily lives and are felt across the globe.

Innovation, technological change and environmental challenges are transforming the way we approach education, the economy, work, communication and entertainment.

Now, more than two years after the World Health Organisation declared the COVID-19 outbreak a global pandemic, there is considerable uncertainty surrounding the **role that cash will play in the future**.



Let me start by saying that the **world of retail payments** has changed strongly in all countries over the last 2 years and much uncertainty about the future remains even today. Spain is no exception to this current of change.

I would like to begin by looking back at recent developments in Spain in relation to cash.

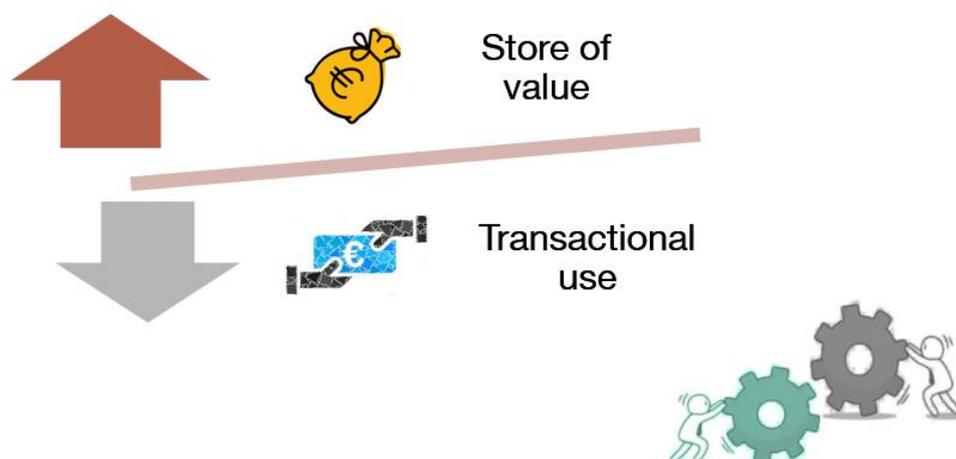
First, we focus our attention in the **net issuance of banknotes**, i.e. the difference between banknote issuance and returns on the central bank balance sheet, which is a good indicator of the **banknotes in circulation**.

As has been the case in many other countries, and particularly in the Eurosystem, there has been a *remarkable* increase in banknotes in circulation in Spain since the onset of the pandemic.

Indeed, net issuance has turned positive, in contrast with the pre-pandemic situation, when it tended to be negative due to the migration of banknotes between the Eurosystem countries.

As you can see in the right hand side graph, the cumulative net issuance grew to almost €10 billion in 2020, compared with €400 million in 2019. In other words, the amount increased 25-fold from one year to the next.

Demand of cash as store of value



There are several factors behind this.

On the supply side, the restrictions on international travel put the brakes on tourism and its associated inflows of banknotes, which are traditionally very high in Spain.

Talking about **demand**, the pandemic prompted an increase in the demand for banknotes to be used as a store of value for precautionary reasons.

Last but not least, the COVID-19 crisis exacerbated the declining trend in the use of cash as a means of payment that had been observed for some years.

In other words, we *noticed an increase* of demand for cash as store of value and a *decrease* demand for transactional purposes.

The net effect of these three factors explains the significant increase in net banknote issuance in Spain during 2020 and the uneven behaviour of the **different denominations**, resulting in a decline or very moderate growth in *low-denomination* euro banknotes, while *medium-high* denominations showed greater momentum.

At present, cumulative net banknote issuance has started to move slowly back towards pre-crisis figures, but is still well above its 2019 levels, standing at around €8.4 billion in 2021.

- Supply of cash: **an essential service.**
- Need to guarantee the supply of banknotes to citizens
- Operational protection and prevention measure.
- Research into the risk of virus transmission via banknotes and coins.



How did the Banco de España respond to the crisis?

This was certainly a formidable **operational challenge** for the Bank to deal with the **increase in demand for cash**, while complying with the **strong health protocols and the restrictions** imposed by the authorities on the population to combat COVID-19.

In addition, being part of the Eurosystem, we needed to coordinate with other countries, **to guarantee the supply of banknotes not only to Spaniards but to the European** public from all the Eurosystem's central banks.

Therefore, at the beginning of the health crisis **a strategy** had to be developed to **prioritise essential physical tasks**, while protecting our workers from contagion and benefiting from the teleworking, when possible.

We then **continued providing and receiving** banknotes and coins to/from credit institutions, **but other tasks** such as banknote **sorting or production were temporarily stopped.**

Furthermore, **internal and cross-border transport had to be changed and rescheduled**, (and it was even necessary to resort to the ECB's strategic banknote stock).

All this measures were taken against a background **of huge mobility-related difficulties and restrictions**, but we succeeded to maintain the necessary conditions **to ensure** an appropriate **supply of cash** to economic agents.

Communication *with* the public was also a challenge.

Given the uncertainty and the initial limited understanding of the virus, studies were conducted at **Eurosystem level** on the risk of COVID-19 transmission via banknotes and coins.

Thus, scientific evidence was obtained to **counter** misinformation and **restore** trust in the use of cash.

4. LESSONS LEARNED FROM THE COVID-19 CRISIS BANCO DE ESPAÑA
Eurosystem

- Greater **flexibility** and **responsiveness** when reorganising work.
- Commitment to **digitalisation**.
- Research to improve **banknote technology**.



Taking stock of how the crisis was managed, it is safe to say that both the Banco de España and the Eurosystem as a whole have demonstrated a **high operational resilience** to address supply and demand shocks such as the one brought about by the health crisis.

Nonetheless, the crisis has also shown certain areas that must be **strengthened** or improved when responding to **future shocks**.

Among other examples, we have come **to understand**:

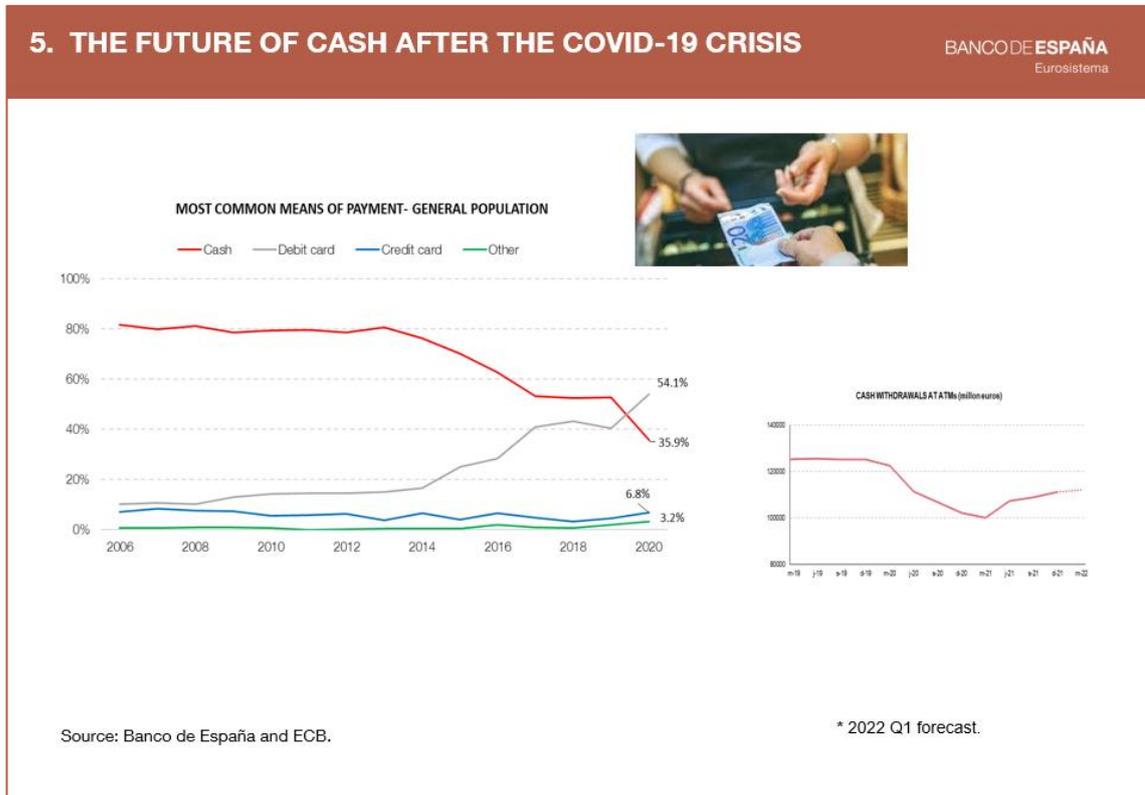
- the need for **greater flexibility** and **responsiveness** when reorganising work,
- a more decisive **commitment to digitalisation** and a better understanding of *how the cash cycle works via data analysis*,

As well as the importance of having alternative suppliers to fall back on.

The crisis has also reminded us of the **importance of research**.

Studies must be undertaken to improve **banknote technology**, using **Big Data and Artificial Intelligence** to anticipate fluctuations in demand and adapt accordingly, or to develop new security characteristics.

With the worst of the health crisis now behind us, the time has come to reflect on how cash has been affected and on its future in a society undergoing profound change.



Let's talk now about **the use of cash in Spain**.

As I began by saying, consumer payment habits in Spain **were** already shifting towards a **lower relative use of cash** and the pandemic *has acted* as a **disruptive element**, accelerating that process.

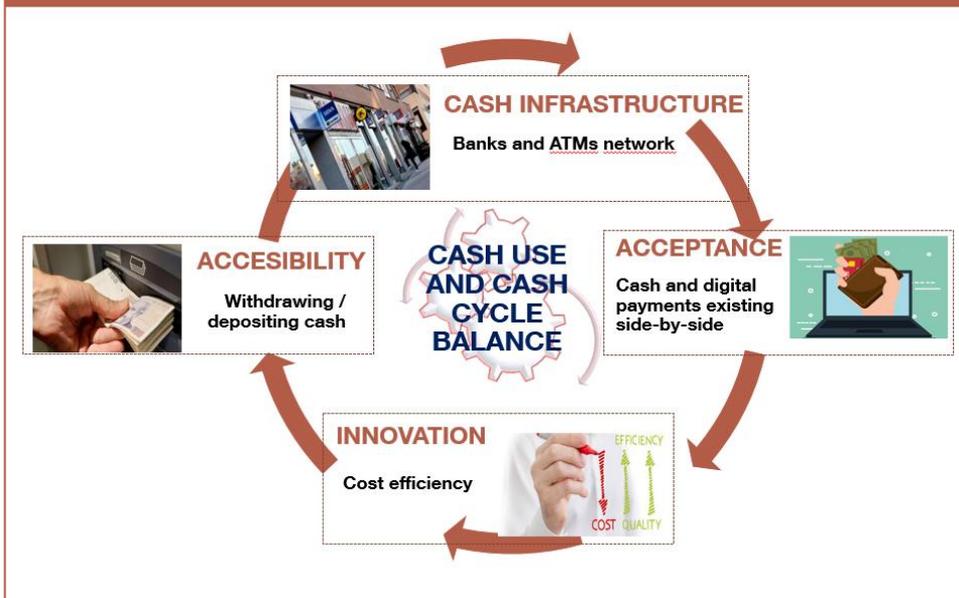
According to the Banco de España's yearly National Survey on Cash Use, in 2020 **cash is no longer** the most common means of payment for consumers, falling behind the debit card. The survey was run in November 2020 and then influenced by the pandemic.

Nonetheless, **36%** of people report that cash is their **most habitual** means of payment. That figure is even higher in certain age brackets, such as the **younger and the older population**, standing at **60% and 53%**, respectively.

That said, **cash remains a key means of payment** for much of the general public in Spain. It is worth remembering that **cash is the only public legal-tender** means of payment that performs a valuable social function of cohesion and integration.

In fact, cash usage **fell sharply following the outbreak** of the pandemic, as we can see in *right hand side graph* when we use cash withdrawals at ATMs **as** an indicator.

However, the latest statistics show something of a **recovery** in its usage, albeit not to the levels observed prior to the pandemic.

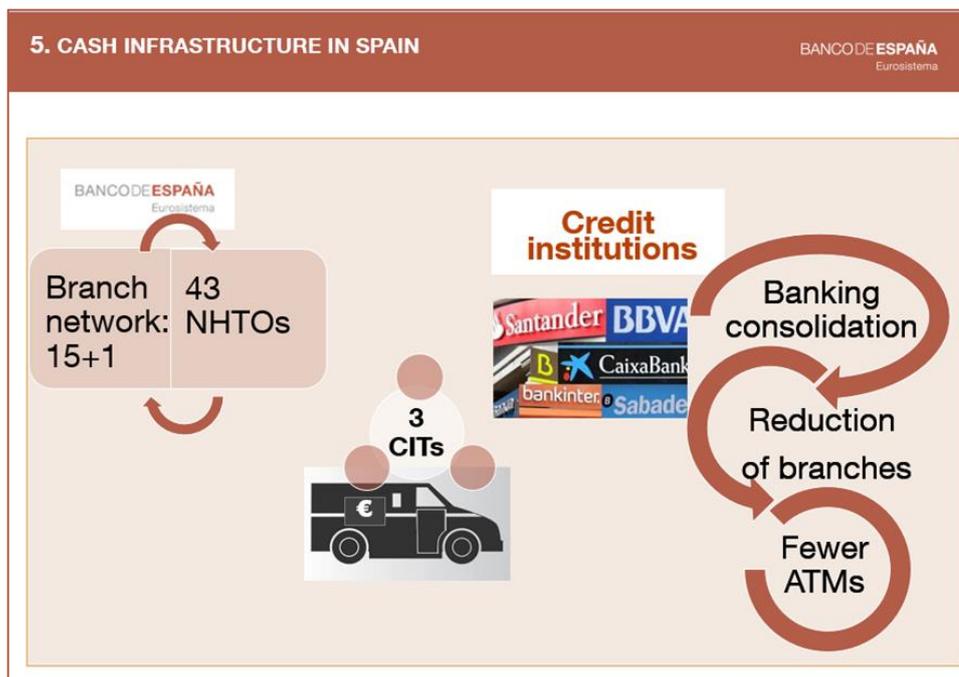


So what does the future hold for cash?

That is a difficult question to answer. It will largely depend on consumers and their preference for this means of payment. Nonetheless, certain factors may shape its future to some extent.

In my view, it is essential to maintain a **cash infrastructure** and to ensure that cash remains **an accessible**, universally **accepted** means of payment.

Innovation is also essential to ensuring the future and viability of cash as a means of payment.



Allow me to review the state of **cash infrastructure** in Spain.

Banco de España **guarantees the distribution** of cash to credit institutions through its 16 branches distributed throughout the national territory and the use of the 43 NHTOs.

But only 2 CITs operate at national level and one more regional CIT complete the network of secure cash transport. This is a concern for Banco de España.

Talking about cash distribution points **to citizens**, I must say that the pandemic has accelerated the closure of bank branches and ATMs, which represent the public's traditional sources of access to cash.

The phasing-out of cash infrastructure has led to the emergence of alternative solutions such as cashback or cash distribution via post offices.

While such channels may complement traditional access, they cannot replace it entirely.

5. CASH INFRASTRUCTURE IN SPAIN (2) BANCODE ESPAÑA
Eurosistema

Traditional distribution	Alternative channels
	  Cash withdrawals and bill payments at lottery and tobacco shops.
	 Withdrawals and deposits through Correos cash app.
	 N26: partnership with Viacash for cashback/CIS service.
	 IAD ATMs.
	 Public subsidies for the installation of ATMs.
	 Partnership between county councils and Prosegur to build ATMs into mobile libraries.
	 Prosegur Cash to install 100 ATMs in as many municipalities of Castile-La Mancha suffering depopulation.

This slide covers some of the **pioneering** alternatives that have been launched in Spain over the last few years.

One of the most recent involves building ATMs into buses that serve as mobile libraries in rural areas. That project is set to cover around 130 municipalities, most of them very small, and will be subsidised by a regional government.



If it is to remain viable, cash must continue to enjoy widespread acceptance. **Acceptance**, is the **second factor to consider**.

During the pandemic, particularly the initial months of the crisis, we saw many shops and even public authorities **recommending the use of electronic means** of payment in an attempt to halt the transmission of the virus.

Though it has since **clarified** that the chances of contagion via this channel are remote, normal business has not always been resumed, and *the health risk* has at times been *overstated* as an excuse **to implement electronic payments** as the standard.

Accordingly, it is **important to legislate** to ensure that those wishing to use cash can continue to do so in the coming years.

To this end, the RDL approved on November 3 2021 introduced an amendment to Spanish legislation on consumer and users, whereby a consumer **cannot be denied the right to pay in cash**, within the limits laid down in tax law. In practice, this bans businesses from demanding payment exclusively by other means, such as by bank card.

This is good news, but on the other hand, a recent *Law on measures to prevent and combat tax fraud* lowered the **limits on cash payments**, placing **considerable constraints** on the ability to use this means of payment.

- The **Access to Cash Vulnerability Index**: early warning indicator to help identify the communities most at risk of financial exclusion.



- Based on supply and demand data at the municipal level

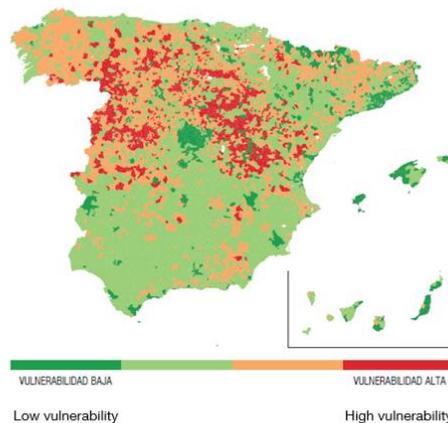
A further determinant is **accessibility**. If cash is to remain viable, it is essential that citizens **have nearby access points** that meet their needs.

To form a **clearer picture** of the status quo in Spain, we recently conducted a study in Banco de España analysing the Spanish population's access to cash **using a vulnerability index** that factors in both supply and demand-side variables.

This indicator **allows us to identify** regions in Spain where the more cash-dependent groups face greater difficulties in accessing cash, meaning a higher risk of financial exclusion.

5. CASH ACCESIBILITY IN SPAIN (2)

ACCESS TO CASH VULNERABILITY INDEX



Source: Banco de España.

The results show that most of the Spanish population lives in municipalities with **low levels of vulnerability**, i.e. they are not thought to face difficulties in accessing cash (*the areas in green*).

However, approximately **1.3 million** people in Spain (**3%** of the population) find themselves in a situation that could be considered **vulnerable** to a greater or lesser degree (*the orange and red areas*).

A typical member of this group is elderly, lives in a rural community and has to travel 7 km on average to their nearest ATM or bank branch.

5. CASH ACCESSIBILITY AND FINANCIAL INCLUSION IN SPAIN (2) BANCO DE ESPAÑA Eurosisistema

Law 4/2022

About the protection of consumers and users in situations of social and economic vulnerability

Tengo 78 años y me siento apartado por los bancos. ATENCIÓN HUMANA EN SUCURSALES BANCARIAS

Los personas mayores piden atención humana en sucursales

Spanish retiree fights digital bank divide, seeks human help
A Spanish retiree is campaigning to keep in-person customer services at bank branches

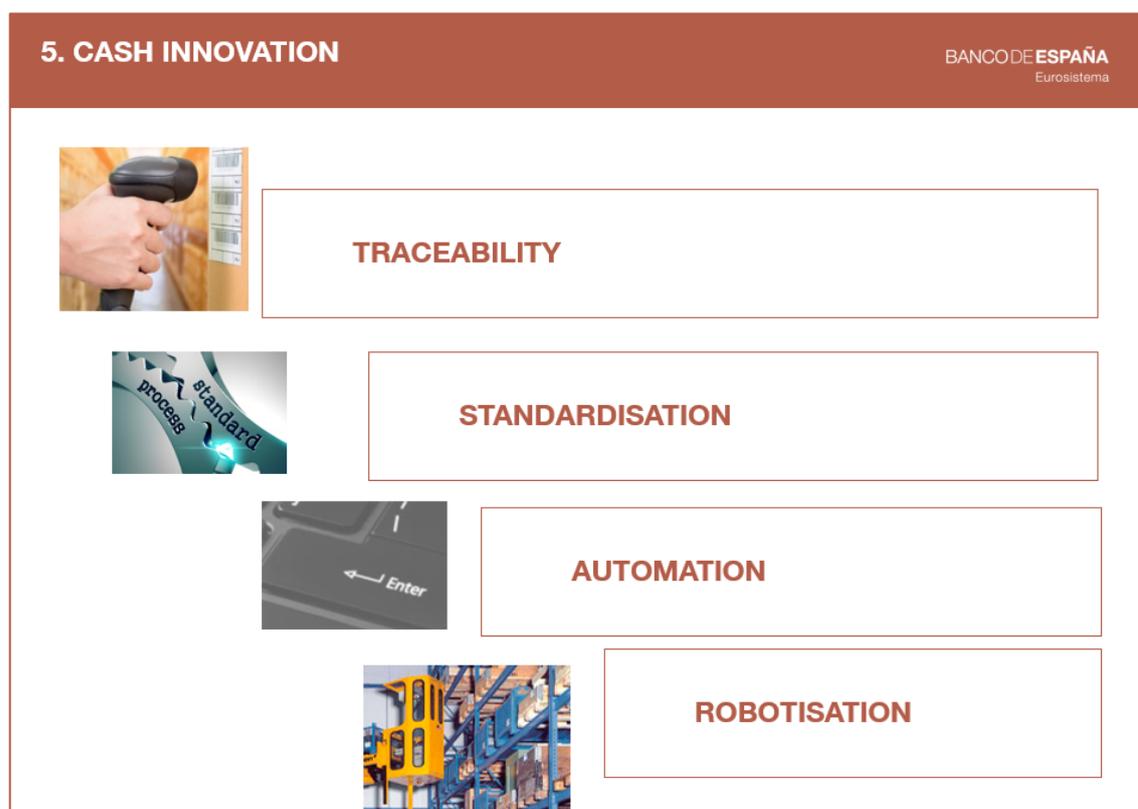
In parallel, public attention in Spain turned recently to the issue of **access to financial services** as a whole, especially in rural areas and for the elderly.

Under that pressure, a new **Law of February 25th 2022 about the protection of consumers and users in situations of social and economic vulnerability**, states that **public policies must guarantee the rights in equal conditions in accordance with the specific situation of vulnerability**.

The Government, in coordination with Banco de España and representatives of the credit institutions, will have to **adopt measures** before June 2022 to favour the inclusion of the most vulnerable people and, especially, the elderly.

Additionally, Spanish banks signed a **Banking Protocol** for the promotion of the financial inclusion of the elderly. Among the measures, banks will provide extended cash services and dedicate trained staff to engage with the elderly and make ATMS and digital applications more user-friendly.

The Government added that if these steps proved to be insufficient, or could be improved “we will have to promote and deploy other measures that guarantee access to banking services for all citizens”.



Lastly, against this backdrop of constant change and evolution in payment methods and consumption habits, cash, as *an essential public service*, must **not remain** on the side-lines of **innovation**.

Today, modern information technology allows for **greater efficiency in cash management operations**.

More than ever before, concepts such as **traceability, standardisation and automation** are driving forces in a sector undergoing continuous transformation.

Cash sector must drive efficiency gains and reduce the costs associated with the cash cycle. Some measures such as:

- **Fostering compatibility and interoperability** between cash stakeholders, or
- **Automating processes** to reduce operational risk and taking full advantage of the logistical possibilities opened up by *automation, robotisation and artificial intelligence*.

In Banco de España **thanks to modern technologies**, we succeeded to *simplify data aggregation, improved the quality of the information available and optimised forecasting*, making it easier and faster **to identify gaps and trends** in the cash cycle, and, ultimately, **providing for effective and sound decision-making**.

Analysis to minimise the environmental footprint of the cash life cycle (“from the cradle to the grave”)



Euro banknotes and their production process become as sustainable, green and environmentally friendly as possible

This innovation must always have an *environmental perspective*.

In this regard, both, the Banco de España and the Eurosystem as a whole, work to understand and, ultimately, **to minimise the environmental footprint** of cash throughout its life cycle: production, issuance, processing and destruction.

The Eurosystem Cash Strategy 2030 maintains the commitment to ensure that euro banknotes and *their production process* is as sustainable, green and environmentally friendly as possible.

- The pandemic has accelerated the transition towards electronic means of payments.
- We envisage a mix of payment options in the future, where cash and digital payments exist side-by-side.
- It is essential to understand the changes under way in the cash cycle and to adapt to a ‘less-cash’ society.
- Availability, acceptance, cost-efficient infrastructure and environmentally responsible innovation will be key drivers.
- The Banco de España will continue to monitor these trends and focus its efforts to ensure a smooth distribution of cash around Spain.

To conclude, it is our view that the pandemic **has accelerated** the transition towards electronic means of payment.

Nonetheless, we envisage **a mix of payment options** remaining available to financial agents in the future, with **cash existing side-by-side with digital payments**.

If cash is to continue to play an important role as a means of payment, it is essential **to ascertain and understand the changes *under way in the cash life cycle*** and **to adapt to a “less-cash” society**.

Against this background, **the availability and acceptance of cash, the maintenance of cost-efficient infrastructure and environmentally sustainable innovation** are all key *to ensuring that cash remains a means of payment that is both attractive to and demanded by* the general public.

The Banco de España **will continue to monitor these trends** and focus its efforts **to ensure a smooth and adequate distribution of cash in Spain**.

I wish you all, a very fruitful conference and a nice stay in Port Aventura.