

Chapter 9

What Can Be Learnt from This Development?



One important lesson from this story of how Sweden is becoming a cashless society is that the process—if becoming cashless is seen as a goal—cannot be governed from above. A top-down driven approach is not likely to succeed as a stand-alone strategy. This is not to say that governments and central banks should leave it to the market.

No, I am saying that the most critical challenge is to stimulate bottom-up incentives and a will to replace cash with electronic services. Remember that money is nothing but trust in that the service I am using will allow me to use the value I expect to have in a transaction sometime in the future. History tells us that this trust cannot be commanded from the top; it can only be upheld—and potentially destroyed—from the top. Trust comes from below.

To rephrase myself: the time when rulers—kings and governments—could design the monetary system almost entirely by themselves is over. There are still strong reasons that governments and central banks should keep the power and control over money, but they need to realize that one effect from Internet is that their power is reduced. Internet functions as a new form of check to balance the power of governments and financial institutions.

Satoshi Nakamoto writes in the first sentence that one motivation behind a peer-to-peer network like Bitcoin is to launch:

A purely peer-to-peer version of electronic cash would allow online payments to be sent directly from one party to another without going through a financial institution (Nakamoto, 2008, p. 1)

This new challenge—a potential substitute to the traditional money from nation states or simply a healthy competitor—means that central banks need to motivate their money by providing a secure, efficient, and trustworthy system. And, trust comes from below.

Creating this trust can be a challenge, though. First and foremost people need to trust the political and legal system, which seems to be a rising challenge for many nations today. They must trust they live in a good society! Then they need to trust the

banking and financial system and the organizations providing services in general and their specific service provider in particular. Consumers' trust in electronic systems is yet another form of trust that is essential. In the end they must also trust the ones they transact with, i.e., they must trust they get whatever they purchase via the service they use. There are many layers of trust where each is important. As you know, the chain is not stronger than its weakest link, and so on.

But just to be clear, there is no central plan by the Swedish government and/or the central bank to get rid of cash. It should be noted though that neither of them seem to be negative to this development and that some decisions, like the privatization of cash handling and introduction of new bills and coins, may have stimulated the move toward less cash.

If there is to be a top-down plan to reduce the use of cash in a society, it can of course involve certain items. As discussed by Rogoff (2016) and others, reducing or deleting the high-value denominated bills is an obvious and rather easy measure to realize. This will of course need decisions from governments and central banks which may be a tricky challenge, for instance, in a complicated political arena as the European Union but relatively easy for single nation governments striving to reduce the use of cash.

Given there is a well-functioning infrastructure and services as well as a good uptake of those services, this measure should not be too problematic. It necessitates a high use of electronic accounts, wage and salaries being paid to electronic accounts, and high diffusion of services like cards, mobile payment services, invoicing or e-invoicing, direct debit solutions, and Internet banking. If this is in place, the challenge should not be that high.

Another critical thing is time. It does not only take two to tango—it also takes time to learn how to tango! The transformation in Sweden started—as shown in this book—several decades ago and has been developing since, sometimes very slowly and sometimes quite rapidly. But if some of the critical factors are not in place, the process is likely to become halted. This means that patience is important. Some critical aspects such as making sure that people have electronic accounts, that payment services are not too expensive, that companies pay salaries and wages into electronic accounts, that merchants must have cash register machines that cannot be manipulated, that tax authorities oversee cash-intensive industries, and that the ones most in need of cash can find strong, electronic alternatives need to be done. The question is if governments are willing to do it.

Then there are other challenges that need time. The majority of elderly that have been born and raised in a cash-based society are not likely to start using smartphones, apps, and advanced payment services. Some of these will gladly start using the new solutions or even traditional solutions as cards, but there will be a large group that will not. They will nevertheless have to be able to receive and make payments. And they are likely to live quite long as the average life expectancy seems to be increasing by the hour. There must be solutions also for this group.

To keep on providing central bank cash is one alternative, but what if those selling services will stop accepting it (as they can in Sweden)? Laws saying that cash must be provided by banks and accepted by merchants are a solution. Another

alternative would be to stimulate innovation of electronic services aiming particularly for this group. Given that this group—the ones borne in the 1930s, 1940s, and 1950s—also is quite wealthy, it would actually be strategically unwise for service providers *not* to launch services for the group.

Do not tell this to others, but I can recommend you to take a serious look into the strategic value of developing payment services for the groups that are the least willing to use them. Not only is there valuable learning to be done, your image may in fact receive a golden blast.

Other groups that service providers should study and develop services for—and that also seem to be growing in our societies—are those with physical and cognitive disabilities. In research on innovation, it is often said that a company should work with the demanding customers in order to develop the most powerful innovations since this increases the likelihood that the innovations will succeed and be sustainable over time.

People with disabilities should therefore—if you ask me—be seen a group not only in need of valuable payment services when cash disappears but also a group that providers should see as highly demanding users that will force the companies to provide highly advanced and competitive solutions. The problem for companies is that they have read too much about innovation diffusion (Rogers, 2010) and chasms (Wiefels & Moore, 2002) and therefore tend to only focus on the user groups that have been called innovators and early adopters (Rogers, 2010).

Why not focus on the needs of the late majority and perhaps even laggards in Sweden to build services that later can be exported to other markets? Given the profitability in the payment industries, it seems to be a poor decision to not invest at least some of the overall investment budgets to develop solutions for the most cash needy consumer groups. And then governments and their financially as well as innovation oriented authorities could step in to stimulate such innovation.

It is not an easy task for public authorities to stimulate innovation though. The Swedish Post and Telecom Authority (PTS)¹ and the County Administrative Boards in Sweden² jointly have the responsibility to supervise and ensure that merchants and people have access to basic payment services. Given the observations that access to cash is decreasing in Sweden, they launched a public procurement of innovative payment services in 2016 with a focus on the groups facing problems as cash services disappear.

I was engaged as an expert in this public procurement, and this challenging but highly interesting task proved difficult. The final report of this initiative³ showed that few tenders had been given and that the procurement process had to be closed without giving anyone the assignment to realize an innovative service. Reasons behind the lack of proposals included firms' uncertainty about innovation

¹www.pts.se

²<http://www.lansstyrelsen.se>

³<http://www.lansstyrelsen.se/Dalarna/Sv/publikationer/rapporter-2017/Pages/innovation-betal-2017.aspx?keyword=innovationsupphandling>

procurement processes including the potential upsides as well as the risks, questions related to aspects of possible cooperation with competitors to build digital platforms, and the potential profits and sales from the service in question.

The perhaps most positive result from the procurement initiative was an improved dialogue between the authorities and the market actors on these societal challenges. Another result was the insight that the technologies and services to ensure access to basic payment services for the groups in questions already exists. It is more a matter of providers' attention to and interest in servicing these groups. All in all, the procurement initiative was needed and positive in the sense that it initiated a mutual learning process around innovation to replace cash even if it ended in a disappointment that a solution could not be procured.

In addition to performing innovation procurement of payment services that may replace cash for the ones most dependent upon cash, governments and other organizations are advised to educate citizens on risks and possibilities connected to electronic payments if compared to cash as well as on how to behave in a digital world. There is a need for popular education, i.e., free and voluntary education, on how to survive, live, and prosper in a digital society. Younger people and those highly interested in digital solutions may not be in need of such education and training, but others are.

As Sweden was transformed into an industrial society in the 1800s and early 1900s, there grew a need for people to understand how to handle money as they all of a sudden were paid by the hour, faced risks of becoming unemployed, and developed new habits that led to new expenses. In 1926, the savings banks started a magazine for children called *Spara och slösa* (save and waste) where one could follow the lives of two young girls called Spara and Slösa. One was very careful with money and made sure she always saved whatever she did not spend on critical things like food and clothes, while the other wasted her money on just about everything. The pedagogical message was clear: one should save one's well-earned money.

This was of course a nice way to sell banking services but also a way to educate people to live in an increasingly monetized society. I believe we need new forms of popular education training people—old and young—how to manage their private finances in a digital society. All with an aim to avoid a digital divide where some groups in the society are left behind in the digital era. We do *not* want a digital divide between digital natives and analog hermits!

Money is about trust, and it is likely that a smaller country with high trust in politicians and the banking system, like Sweden, is more likely to decrease the use of cash if compared to a larger country or economic zone where these are larger geographic and cultural distance between citizens and politicians. The smallness of our country is therefore a reason why there is so little cash, but this may also serve as a safeguard against the risk of a digital divide.

The country's tradition of social welfare and concern for all will hopefully serve as a force to make the transition toward a cashless society positive in the sense that it will not create a group of people that live outside the system and that is hurt by this transformation. Trust is likely to disappear if politicians, authorities, and/or banks do not acknowledge and work to solve these challenges. Such a mistake is actually

something to highlight in a list of factors that may alter the development and turn Sweden into a country where cash is still king (or at least used and hailed).

Yet another aspect relates to work environments in the organizations accepting payment services. It is definitely advisable for employees and unions as well as employers and managers to build an opinion around the relationship between work safety and payment services. We all know that money as well as merchandise attracts criminals and that merchants and stores are potential victims of robberies. No matter whether such crimes are violent or not, it is critical to understand how to avoid such crimes and what to do if they occur.

One reason that Sweden is using little cash was that the unions started to act and lobby to reduce the use of cash in order to reduce the risk of robberies and that employees faced physical or psychological harm. No matter whether a store is vulnerable in the sense that cash or electronic money may become stolen, employers and employees must understand how to best protect this value as well as employees. This is a priority that should be acknowledged and be weighed in when making decisions about which payment services to accept and how to protect against theft and robberies. The conclusion by unions in Sweden in this matter—in banking, retail, and public transportation—was to lobby for a reduction of cash in stores.

One could of course also argue that new forms of payment services will stimulate new forms of crimes and that a reduction of cash will not mean a reduction of crimes. This is true and puts the finger on a critical challenge: any person and any business must be able to safeguard their money and their health no matter which money and payment services we use. Another critical part in the move toward a cash-free society is evidently to learn how to limit and handle crimes.

An eternal challenge related to the development of new digital payment services concerns the balance between cooperation and competition. As discussed previously, a payment service that is to be valuable to payer and payees but at the same time provide value to the providers necessitates large numbers of users on both sides of a payment. The ideal is many payers and many payees connected to the same digital platform. But the flip side to this is of course the risk of too dominating players that builds oligopolistic or even monopolistic profitability.

Having open platforms where providers supply competitive services from which payees and payers can select services based on their own preferences could be a solution to this challenge. This is what the open banking concept aims to do. But then there will of course be the question of who will provide the open platform since this actor will have a strong position in the entire value-creating system.

This means that antitrust authorities, central banks, and financial supervisory agencies need to combine forces—or at least share views—on how to balance the tricky paradox of competition versus collaboration for the creation of digital platforms for payment services and especially those aiming to help the most cash-dependent actors in the society since this is a group which banks and Fintech companies seemingly tend to forget.

There are several factors enabling and constituting a cash-free society, but the main challenge is to create trust in an efficient and reliable payment service for many—or even all—people (Table 9.1).

Table 9.1 Factors in the foundation of a digital payment system

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- Making sure wages and salaries are paid directly into electronic accounts
 - Stimulate citizens to have electronic accounts—avoid un-banked people
 - Stimulating electronic payment services with the same functionality as cash, i.e., real-time clearing and settlement and confirmation to both payer and payee
 - Strong laws and regulation to protect privacy as well as to protect people’s money
 - General trust by citizens into the payment system and its actors and especially the bank or banks whose services they are using
 - Handling the balance between ensuring the existence of central bank money issued by the state and the central bank while at the same time realizing a business environment characterized by a level playing field where valuable innovation is possible
 - General trust by citizens into the democratic system including the government and its politicians, legal framework including the court system and the police, monetary policies, critical institutions like central banks and financial supervisory agents, media, and others
 - Trust by merchants into providers of payment and other services related to payments
 - To decide whether cash is legal tender for all in all situations so that merchants cannot say no to cash or if this can be decided via negotiations between payers and payees
 - Trust by citizen into merchants and others selling goods and services
 - A general interest among consumers to be critical and curious buyers and users of payment and other services
 - Designing the tax system and its actions to harmonize with innovations in the field of payments to ensure positive benefits from renewal can be realized, and negative effects from tax evasion can be avoided
 - Collaboration between concerned authorities to realize co-opetition, i.e., to stimulate competition while at the same time ensure the growth of digital platforms that realize economies of scale and scope as well as interoperability and open access. One particularly important aspect related to competition and innovation is to stimulate start-up creations in the Fintech and Regtech industries perhaps related to technologies such as block chains
 - Acknowledging a wide array of aspects such as avoiding a digital divide where some groups in our societies are marginalized due to lack of access to basic payment services, ensuring safety and protection for companies and people whose access to money may trigger robberies and theft, as well as long-term positive economic effects and export opportunities from companies being in the forefront of developing new technologies and services
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Source: Author’s own illustration

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