MAY 2017

EPIF RESPONSE TO THE EUROPEAN COMMISSION EU INITIATIVE ON RESTRICTIONS ON PAYMENTS IN CASH

ABOUT EPIF (EUROPEAN PAYMENT INSTITUTIONS FEDERATION)

EPIF, founded in 2011, represents the interests of the non-bank payment sector at the European level. We currently have over 190 authorised payment institutions and other non-bank payment providers as our members offering services in every part of Europe. EPIF thus represents roughly one third of all authorized Payment Institutions in Europe. Our diverse membership includes a broad range of business models, including:

- 3-party Card Network Schemes
- Acquirers
- Money Transfer Operators
- FX Payment Providers
- Mobile Payments
- Payment Processing Service Providers
- Card Issuers
- Third Party Providers
- Digital Wallets

EPIF seeks to represent the voice of the PI industry and the non-bank payment sector with EU institutions, policy-makers and stakeholders. We aim to play a constructive role in shaping and developing market conditions for payments in a modern and constantly evolving environment. It is our desire to promote a single EU payments market via the removal of excessive regulatory obstacles.

We wish to be seen as a provider for efficient payments in that single market and it is our aim to increase payment product diversification and innovation tailored to the needs of payment users (e.g. via mobile and internet).

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EPIF RESPONSE

General comments

EPIF believes that EU-wide action to restrict payments in cash is unnecessary at this time. Cash remains the payment method of choice for many people, due to its convenience, its portability and its universal acceptance. Significant controls are already in place to mitigate the main risks inherent to cash, and are in the course of being substantially strengthened through legislation e.g. the 4th Anti-Money Laundering Directive and other AML/CFT initiatives. In addition, the proportion of retail payments made using electronic means continues to increase as payments innovation takes hold and people become more comfortable not using cash. EU legislation should remain neutral and not favour one means of payment over another.

Some restriction on large payments in cash for buying goods and services may be efficient for those sectors which are not regulated or as regulated as PIs.

Specific comments

1. National versus European scope

There is no evidence that the divergent nature of restrictions on cash across the EU have 'the potential of interfering with the proper functioning of the internal market' as mentioned in the consultation strategy.

There is no evidence to demonstrate that any such legislation is warranted at EU level and moreover to legislate at EU level would be contrary to the principle of subsidiarity.

Many Member States have already in place appropriate legislation that addresses restrictions of payments in cash. EPIF considers that the European Commission should carry out an impact assessment that clearly shows the benefits of an EU restriction on the EU economy before putting forward a concrete proposal.

2. Consumer use of cash

a) Consumer choice, privacy and security issues

Many EU citizens still have a higher trust in cash and consider it the best way to manage their budgets while having limited security concerns. Others prefer to use cash for privacy reasons as they do not trust how their data could be shared or used by different private companies or governments. If strict restrictions on cash are introduced at EU level, citizens seeking privacy with cashless methods could move underground using non regulated means of payment which would be detrimental for law enforcement. In this case, there would be no means to detect these types of transactions as is currently the case for instance with money remittance transactions paid in cash.

b) Money Remittance model and financial inclusion

Money remittance is a payment service according to the Payment Services Directive (PSD) and money transfer operators (MTO) are licensed as Payment Institutions. The remittance process occurs in three phases, the funds capture phase, the funds disbursement phase and the communications and settlement phase. In the funds capture phase an individual goes to the MTO and provides funds to be transferred to a third party overseas. In the funds disbursement phase the MTO pays out the funds (mainly in cash) to the recipient through one of their agents or branches in the receiving country. In the settlement stage of the international remittance process the MTO settles the transaction involving different currencies across borders. Remittances are mainly used by underbanked and/or underserved citizens and play a vital role in financial inclusion. MTOs with large networks have presence in more than 200 countries and in many cities/areas which are not covered by the banks, to serve this part of the population.

Introducing restrictions on payments in cash in the send countries (EU Member States) might have unintended consequences in the receive countries located in the most vulnerable and poor areas worldwide.

Moreover, some households with low incomes prefer cash over non-cash payment instruments; therefore, legislative changes could disproportionately affect the poorest in society. Some low-income consumers use cash to manage their budget as well as for bill payments and housing often due to a lack of access to mainstream banking services. We welcome the measures in the Payment Accounts Directive to widen access to banking and would like to see the impact of this piece of legislation before any measures are taken which might have the unintended consequence of putting this progress at risk.

It is worth noting that, in its opinion of 22 May 2017 on limitations to cash payments, the ECB highlights that cash plays an important role in social inclusion given that it is widely accepted and there is no possibility to impose a fee for its use. The ECB also notes that any restrictions placed on payment for the purposes of combatting tax evasion, money laundering or terrorist finance should be proportionate.

It is also important to note from a risk perspective (AML/CTF) that for MTOs operating through a closed loop system, the customers are identified (KYC) on the send and receive side so there is no anonymity and the funds are also traceable from end to end in whatever country.

3. Controls

EPIF believes that it is for industry to create propositions that make it easier for customers to pay and be paid in non-cash payments. EPIF's members are doing this, with contactless cards, prepaid e-money, mobile POS terminals and digital payments increasing consumer choice, amongst other innovations. At the end of the day, EPIF believes the choice of payment is a matter for the buyer and the seller, and that cash should remain a choice for as long as customers want it.

Cash may be expensive for governments because of the cost of tax evasion, and the need to keep circulating old spoilt currency and enabling transfers, and we understand the ML/TF concerns which we believe will be significantly addressed by new AML legislation. We accept that some citizens remain concerned about using digital forms of payment, and we believe that measures such as those in PSD2 and the GDPR will help enable PSPs to alleviate those concerns.