

Sweden's cashless revolution

The Scandinavian nation is tipped to be the first country to abandon notes and coins. Maintaining consumer trust is key to overcoming the challenges and maximising the opportunities this bold move could bring.

In the global march towards digital payments, Sweden is out in front. Only 13% of Swedes paid for their most recent purchase in cash, according to a 2018 report from the Riksbank, Sweden's central bank. This is down from 39% in 2010. The country has the lowest cash use of any advanced economy.

"In today's digital society, cash forms only about 2% of the total amount of money, virtually all the rest is electronic," says Hikmet Ego, Chief Executive and Co-founder of Northmill, a Swedish FinTech that was recently granted a banking licence by the country's financial regulator.

"Swedes are early adopters by nature, so development is driven to a great extent by users' ever-changing habits and expectations. This has been true also historically, for example with mobile phones and personal computers. As early adopters, we demand companies and the state to come up with cost-effective and user-friendly alternatives to cash."

One example is Swish, the digital payment app owned by the country's largest banks. It is used by 5.5 million Swedes – more than half of the country's population, and celebrated one billion transactions in 2019. The Stockholm-based point of sale specialist iZettle has disrupted retail payments globally with its mobile card

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Governor, Riksbank

readers. And Swedish neobank Klarna, which became the biggest FinTech in Europe last year, now has 60 million customers and 170,000 merchants in 17 countries using its 'buy now, pay later' app for online shopping.

Northmill itself has 200,000 customers using its cloud-based credit and insurance products. These include Rebilla Reduce, which helps people lower their interest rate on existing lines of credit. Its banking licence will allow it to add savings accounts, cards, and payments transfer to its existing customer offering.

Trust in a digital age

How has consumer trust been maintained in this shift to a digital society?

"Swedes seem to trust these systems and solutions," Ego says. "The implementation and high adoption in Swedish society of electronic personal identification systems has enabled this innovation, because the infrastructure has been designed to provide counterparty trust."

Sweden's leading electronic identification system, called BankID, was launched in 2003 and today is used regularly by around eight million people for a wide range of private and public services.

"Swedes have in general a high level of trust in their authorities and institutions like banks, and consequently don't have any privacy issues with the traceability of digital payments," Ego continues. "This is not the case in many other European countries, where there is less trust in society, for historical reasons."

But the journey to becoming a cashless society will not be without its challenges. The rapid pace of change itself poses challenges from a regulatory and risk management perspective – meaning legislation and compliance frameworks must keep up.

"In Sweden, it is projected – very specifically – that as of 24 March 2023, it will no longer be economically defensible to use cash," Ego explains. "Thereby cash will not play any role in the payment system."

“A cashless society means that we face a new situation where payments and money accessible to the general public are issued and controlled by private companies. The Swedish government has recently indicated that, to handle this challenge and include everyone who, for one reason or another, can use only cash, new regulations may be put in place so that the private sector is forced to take greater responsibility.”

Similar developments can be expected globally as cash is replaced by a ‘more flexible, simple and digital way’ of handling one’s personal finances.

Supply and demand

The *Access to Cash Review*, which published its final report in March 2019 into rapidly declining cash use in the UK, noted that as few as one in five payments across Northern Europe was now in cash.

Cash use has fallen well below 50% in Sweden, Denmark, Finland, the Netherlands, Canada, France, and the United States.

“Around 20% of Swedish people say they never withdraw cash at all,” states the *Review*, which was chaired by former Chief Financial Ombudsman, Natalie Ceeney CBE.

“Approximately 900 of the 1,600 Swedish bank branches no longer distribute cash or accept cash deposits. This is worrying some people, though, and a national commission has been established to explore how to make sure people don’t get left behind.”

Insight from Sweden and China demonstrates that merchants and retailers no longer accepting cash was more likely to cause the death of cash than issues around cash access, the *Review* adds. Its research suggests the rising costs of handling and banking cash, driven in turn by the underlying economics of cash handling and distribution, were the main reasons behind merchants and retailers refusing to accept cash.

Mats Dillén, former Director-General of the National Institute of Economic Research, is head of the Riksbank Committee, the national commission set up to review Sweden’s monetary policy. He said in 2018: “If this development with cash disappearing happens too fast, it can be difficult to maintain the infrastructure for handling cash ... one may get into a negative spiral which can threaten the cash infrastructure.”

The Committee is proposing that all banks should be obliged to handle cash and that companies would be ▶

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Rickard Eriksson, Swedish Bankers’ Association



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able to deposit their daily cash takings in their bank accounts. Taking this a step further, the Riksbank proposes that banks should also be obliged to ensure that private individuals can make deposits.

Stefan Ingves, Governor, Riksbank, said: “The possibility to make deposits shall be included in the concept of cash services. This is a service that consumers can reasonably expect of banks.”

Digital cash

Speaking in London in October 2019 to the Money Macro and Finance Research Group, the national study group for monetary economists, Ingves said of declining cash use: “This development is due to a combination of banks introducing new technology that is cheaper than handling cash and of most people in Sweden perceiving these solutions to be more convenient.

“But a drawback to this development is that if it continues, Sweden may find itself in a few years’ time in a position where cash is no longer generally

accepted by households and retailers. Technological development may, in other words, make physical banknotes irrelevant.

“This raises a number of fundamental issues about the payment system, which we have not previously needed to consider. If cash were to be completely phased out within a not-too-distant future, there would, basically for the first time in modern Swedish history, no longer be a means of payment whose value is guaranteed by the state, via the Riksbank. We would therefore face a situation where all means of payment available to the general public are issued by private actors, on a payment market that is highly concentrated. This could make it more difficult for the Riksbank to perform its remit of promoting a safe and efficient payment system.”

In light of this, the Riksbank has been looking into the scope for issuing a new form of digital cash, the e-krona. Several so-called cryptocurrencies already exist globally and others are on the cusp of being introduced, such as Libra, the controversial blockchain digital currency scheduled to be launched by Facebook this year.

“The Riksbank is far from the only central bank looking at the issue of digital central bank money,” Ingves said. “But as cash use is declining so rapidly in Sweden, there is more pressure on us than on other countries to come to a conclusion.”

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Louise Grabo,
Swedish FinTech Association

Future vision

When the current payment systems emerged in the late 1800s and the early 1900s, everything was on paper,

which put a limit on how quickly payments could be made. In the future, we must assume that nothing will be on paper, Ingves told the Money Macro and Finance Research Group.

Setting out his vision for what Sweden’s payment system should look like, he continued: “There should be a legal definition of what constitutes electronic legal tender and the e-krona, issued by the state via the Riksbank, should be such legal tender.

“It should also be possible 24/7/365 to make payments in real time in e-krona and in addition make at least smaller transactions between currencies. There should be an electronic state ID document that also defines who a person is in a legal sense, and if electronic systems were to fail, there must, as a contingency measure, be a sufficient amount of physical banknotes in different parts of the country.”

Given the economic importance of this issue, the Riksbank cannot take the decision on its own as to whether an e-krona should be introduced and, if so, in what form, Ingves continued. Following a petition from the Riksbank to the Swedish parliament, the Swedish government has been preparing a public inquiry into the future payment market, which is expected to start work early this year.

The Swedish Bankers’ Association, which represents banks and financial institutions established in the country, is calling for alternatives to the e-krona to be considered. Its concerns include accessibility and the need for a fallback system in the event of IT failure.

Summarising industry concerns in response to an interim report on the e-krona project, Rickard Eriksson, Analyst, The Swedish Bankers’ Association, wrote on its website: “The Swedish Bankers’ Association, wonders how the e-krona could make it easier for those including digital novices, persons with seriously impaired vision and persons with neurodevelopmental disorders.

“Another issue raised by many respondents is the robustness of the payment system in times of crisis and war. Several respondents note that increased robustness requires some form of parallelism to the existing payment system. Sparbankernas Riksförbund [a Swedish organisation of current and former savings banks] requests a description of the special arrangements that would be made to ensure that an e-krona would not fail when other payment systems fail.”

New ecosystem

Louise Grabo, General Secretary, the Swedish FinTech Association, says: “The e-krona project by the Swedish Riksbank will take form and hopefully provide the citizen with a digital and secure currency in some manner. I think cash will still be available, but just a very small amount for the banks, customers and merchants. The state will make sure of this, even though the cost of providing cash will be even higher.

“From the Swedish FinTech Association’s perspective, we hope the Riksbank can provide an open and inclusive financial infrastructure, so that even the small FinTechs can be part of the system, rather than it being just an infrastructure for the old banks.”

Swedish people generally are positive about new digital solutions and adopt them quickly, Grabo adds.

“Trust in the government, the system, the banks and the authorities has made Swedish citizens even more positive about other services for payments, lending, and savings,” she says.

FinTechs have disrupted the market, using technology to provide faster and cheaper services. The number of FinTechs in the Stockholm area has mushroomed from around 200 in 2017 to more than 400 in 2019.

“This increase in FinTechs has challenged the banks to be more effective and to push down the costs for customers,” Grabo continues. “The banks are also investing in FinTechs and using their technical solutions to keep pace.

“Four out of five purchases in Sweden are made electronically, and Sweden’s central bank, estimates that between 2012 and 2020, cash circulation will have declined by 20 to 50%.”

For merchants, declining cash use has opened up new technical solutions including Bambora, the Swedish online payment processing business acquired by French payments specialist Ingenico for €1.5bn in 2017. For consumers, the move from cash to digital payments is also opening up more opportunities.

In contrast to the viewpoint of Northmill’s Ego, Grabo believes financial scandals in Sweden’s banking sector have damaged trust and helped to push consumers closer to FinTechs.

“Consumers want customised apps that are user-friendly without hidden fees – and as long as FinTechs can provide this, consumer trust in them will increase,” she says. **CB**

SWEDEN IN NUMBERS

70% of Swedes say they could live without cash

1661 Sweden’s first bank, Stockholms Banco, issues the first banknotes in Europe

2023 Date by which Sweden could be cashless.