

## Can Sweden go cashless without weakening consumer confidence?

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In Sweden, cash use is falling fast. Between 2010 and 2018, the share of retail transactions paid for with cash fell from 40% to only 13% and the amount of cash in circulation in Sweden has halved since 2007. One industry prediction is that it will no longer be economically defensible to use cash by as early as 2023.

Swedes are early adopters by nature and generally trust their authorities and institutions such as banks. Changing customer habits and expectations have driven demand for more cost-effective and user-friendly alternatives, but moving to a cashless society will not be without challenges. For example, elderly and vulnerable people who are only confident using banknotes and coins must be carefully considered.

In November 2019, the Swedish parliament enacted new legislation regarding the obligation for certain credit institutions to provide cash services, which will enter into force on 1 January 2021. The new legislation aims to secure the public's access to cash and payment services. Banks with operations in Sweden and with deposits of over SEK 70bn will have a duty to ensure that there are functional cash services throughout the country. I think the new legislation, which has been welcomed by the European Central Bank (ECB), provides valuable insight and balance to the discussion and sends a clear signal of the importance and complexity of deciding on an approach towards a cashless society.

### Net benefits

But we must not deny that there are several key factors driving the development, such as:

- Everyday people requesting better and smarter banking services to help them improve their everyday financial lives.
- The number of payments by mobile phone using Swish, the most common form of instant payment in Sweden, has increased sharply from none in 2012 to 400 million in 2018.
- Card payments dominate among Swedish households. The average Swede has doubled their

card use in ten years and today 58% of all purchases are made with cards.

Technological innovation has fuelled the transition from cash to a more flexible, simple and digital way of handling one's personal finances – and is an unstoppable force.

Technological innovation has been fuelled in turn by successful Swedish FinTech companies like iZettle, and 'neobanks' like Klarna and Northmill, who received Swedish banking licenses in 2017 and 2019 respectively.

Since 2017, Sweden's central bank, the Riksbank, has been exploring the possibility of issuing a central bank digital currency (CBDC), a so-called "e-krona". This would give people access to a digital complement to cash, where the state would guarantee the value of the money.

### Global trend

Cash use is falling in other countries too, but at different speeds. There is a clear global trend that mirrors Sweden's experience. With millennials forecast to make up 75% of the workforce by 2025, the digital payments revolution is unlikely to slow down. And that's before we take Generation Z into account.

What's most important is that the journey towards a cashless society does not weaken customers' confidence in the banking sector. That their money remains secure – and is guaranteed in times of crisis.

The e-krona debate is complex and will have a major bearing on the future of society. Questions around state versus private money, as well as other challenges, need to be addressed. I am convinced that it will be discussed frequently over the coming years. The clock is ticking...

*Hikmet Ego is the Chief Executive Officer and Co-founder of Swedish neobank, **Northmill***

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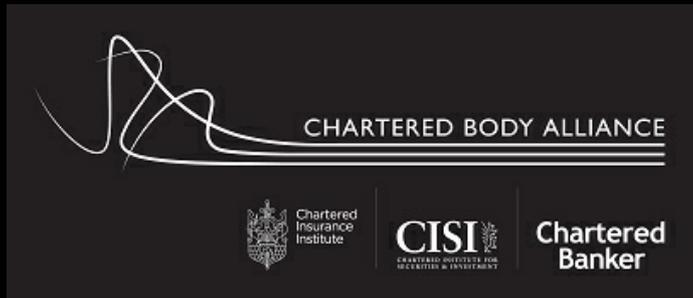
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