

**Speech**

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**Cash – tried and tested, and with a future**  
World Banknote Summit

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Swiss National Bank

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Ladies and Gentlemen

It is with great pleasure that I welcome you to Basel, and to the very first World Banknote Summit. It's rather fitting that the summit is taking place in Switzerland, as the Swiss National Bank is currently in the middle of issuing a new banknote series. As a result, banknotes are currently receiving a lot of attention in this country. And an interest in banknotes is, after all, what unites all of the participants at this summit.

At international level too, the last few months and years have witnessed a growing debate on the subject of cash, although often with a negative overtone – the future of cash has been called into question. Its critics call for cash to be abolished; in their view, it restricts monetary policy and can be exploited for criminal purposes. Others argue that cashless payment methods will gradually render cash obsolete in any case.

I would like to take the opportunity, right at the outset of the summit, to bring you the SNB's view on these questions. To start with my key message – and to paraphrase Mark Twain: Reports of the death of cash have been greatly exaggerated. I will back up this statement by, first, looking at the sustained demand for cash on the part of the general public. Then I will explore why, from a central bank perspective, too, there is no reason to get rid of cash.

### **Cash remains in demand, both as a store of value...**

Let's start with the demand side. The behaviour of the general public does not give any indication that cash's days are numbered. On the contrary: there continues to be robust demand for cash. Chart 1 compares cash circulation in various countries with their GDP. This ratio has actually risen in many countries recently, prompted by the global financial crisis and its lingering after-effects.

On the one hand, the crisis led to episodes of heightened uncertainty about the stability of banks. In response, the public turned increasingly to cash as a way of storing some of their savings outside the banking system. Chart 2, which focuses on Switzerland, shows this in impressive fashion. It reflects the growth in circulation of Swiss franc banknotes since the onset of the global financial crisis. We can clearly see that demand for cash surged in phases of heightened uncertainty. This applies especially to autumn 2008, when various banks around the world got into difficulties, and to the period between end-2011 and mid-2012, when the euro area debt crisis resulted in uncertainty on the financial markets.

On the other hand, the increased demand for cash can be attributed to the fact that money held on a transaction account generates almost no interest at present, so the opportunity cost of holding cash is correspondingly low. In Switzerland, the situation was heightened by the introduction of negative interest in January 2015, which triggered a temporary hike in demand for cash. However, we did not see cash hoarding on any major scale.

### **...and as a means of payment**

Despite these aspects, it would be short-sighted to ascribe the demand for cash merely to its function as a store of value. Indeed, surveys and anecdotal evidence suggest that cash is still widely and readily used for payments. This trend is more or less pronounced depending on the country concerned. I lived and worked in the US for many years, and during my time there I was often surprised by how seldom people used cash. Paying for things became almost impossible if I tried using a 100-dollar bill. By contrast, in Switzerland – as in neighbouring Germany and Austria as well – cash is still widely used, mainly for small payments, but also for larger amounts.

Historically, cash has played a major role simply because of the lack of alternatives. The fact that it has retained its significance to this day might seem surprising at first glance. In Switzerland, as elsewhere, there are now numerous alternatives to cash. Credit and debit cards – so-called plastic money – have been available for decades and are widely accepted by both retailers and consumers. Recently, innovation has taken another leap forward. Increasingly, we are seeing applications that allow contactless payments by card or mobile phone. Yet despite this, cash continues to be widely used as a means of payment. Past experience has shown that cashless payment methods frequently compete against each other. So, the increasing use of payment apps could reduce the number of plastic money payments more than it reduces the use of cash.

Why then is cash still so popular? First, many people use cash on a daily basis for personal reasons: be it simply out of habit, convenience or a lack of technical know-how. Survey respondents also often cite the more effective budget control that cash allows – cash helps people to more easily keep an eye on their spending and their remaining funds. Moreover, in some situations, it just seems more appropriate to use cash rather than a bank transfer, for example when giving a gift. And there is a strong psychological aspect to the use of cash which should not be underestimated. It's not for nothing that we have the saying 'Cash is king'. Obviously, a 100-franc note has the exact same value as the entry 'balance = CHF 100 francs' on your bank statement. But cash is visible and tangible, and for that reason alone is imbued with a greater value than non-cash.

Yet the reasons I have cited for holding cash are not set in stone, and people's tastes can change. The possibilities offered by cashless payment methods, and the public's acceptance, will in all probability grow with time. So, looking forward, the question remains: does cash have properties that cashless methods do not, or not to the same extent, and does this mean that the complete disappearance of demand for cash is unlikely?

The short answer is yes. Or, to put it in terms an economist might use: cash and non-cash are not perfect substitutes. I would now like to look more closely at two specific properties of cash.

First, reliability, or the question: can I pay for something at any time using this payment method? In this regard, cash has the advantage of not having to rely on a functioning technical

infrastructure. Moreover, cash payments are not subject to the risk of being incorrectly booked.

Second, data protection. Are my electronic payment and account data protected against unauthorised access and misuse? In other words, is my financial privacy guaranteed? In contrast to cashless payment methods, cash presents no data security problems. It offers the certainty that one's privacy is protected. Please do not misunderstand me: the suppliers of cashless payment applications invest a great deal of money in ensuring the security of their systems, and the existing systems can generally be considered to be secure. However, the availability of cash means that anyone can decide, at any time, exactly how secure they consider it to be, and how much information they want to share with whom. Or, as my Bundesbank colleague, Carl-Ludwig Thiele, put it recently: 'The right to informational self-determination and respect of privacy is a valuable commodity, which should not be watered down or ceded lightly.'

So there are good reasons for the continuing demand for cash, and for its daily use as a means of payment. Yet the second of these properties – personal data privacy – is often seen as problematic by critics of cash. They view the privacy afforded by cash as an invitation to exploit it for criminal ends. In particular, the demand for large denominations continues to be mentioned in this context, and has, as you know, recently led the ECB to decide that it will no longer produce a 500-euro note.

In Switzerland, we have no indication that large denominations – in our case, the 1000-franc note – present a specific risk in this regard. Our legislation, especially the law and the associated ordinance on money laundering, help prevent cash being used for criminal purposes.

Any discussion of potential ways to limit cash payments should also take into account that high-denomination notes are an efficient method of settling large payments and thus represent a considerable benefit to the public. Our experience with issuance and return of 1000-franc notes indicates that they are regularly used in payment transactions.

## **The SNB supports cash and cashless payment methods in equal measure**

As the supplier of Swiss franc banknotes, the SNB thus takes the view that the reports about the death of cash are not just exaggerated – they are unfounded. The SNB has no plans whatsoever to do away with cash.

Moreover, it has no preference for one payment method over the other – cash or cashless. Instead, it ensures both that the demand for cash is satisfied and that cashless payments function smoothly. We are mandated by law to perform both tasks, and they have equal status. The public is therefore free to choose between cash and cashless payment methods. This is an important point. The possibility of carrying out payments is a basic prerequisite for participation in economic life, and must be available to all. It should not be attached to

conditions such as the need to hold a bank account. By fulfilling both tasks, that is, by ensuring the supply and distribution of cash as well as facilitating and securing the smooth functioning of cashless payment systems, the SNB lays the groundwork for the public to choose its preferred method of payment for each individual transaction.

Yet, in practice, this freedom of choice exists only if the public has confidence in both cashless payments and cash. I would like to highlight two aspects here about confidence in cash: first, the importance of a monetary policy geared towards stability and, second, the significance of having high-quality banknotes.

For people to have confidence in cash, it is, on the one hand, crucial that the issuing central bank pursues a monetary policy that is geared towards long-term credibility and stability with regard to the value of money. This is the only kind of policy that will ensure that banknotes and coins retain their value. In Switzerland, for example, there are still 10-centime coins from the year 1879 in circulation, and they remain legal tender (cf. chart 4). As the physical embodiment of the quality and stability of a currency, banknotes also play an important role in maintaining public confidence in the policies of the central bank. For this reason alone, abolishing cash would be out of the question.

On the other hand, and to conclude my remarks today, maintaining confidence in banknotes requires these notes to be of the highest quality and to have the best possible protection against counterfeiting. So it is up to all those involved on the supply side – by which I mean central banks, manufacturers and suppliers – to play their part in ensuring that banknotes continue to be in use and in demand. Ongoing development in terms of both security features and banknote design – and this includes an openness for technological innovation – is indispensable in this regard.

Switzerland's new banknote series is a case in point. Last spring, the SNB issued the first denomination in the new series: the 50-franc note (cf. chart 5). In a little under three months' time, on 17 May, we will issue the 20-franc note. By 2019, all the denominations in the old banknote series will have been replaced.

The SNB has always been committed to putting banknotes into circulation that are based on state-of-the-art technology, in order to guarantee the highest possible degree of counterfeit protection. The notes should also meet the requirements of the public. Specifically, we took steps to ensure that they are easy to handle, durable and easily distinguishable from each other. Additional requirements were that it should be easy to check whether the notes are genuine, and that they should have as long a lifespan as possible. Finally, aesthetics were important – a banknote should also be pleasing to the eye.

In our view, the considerable outlay in time and resources to develop our new banknote series has been worth it. We have met the challenges in terms of technology, safety and design. And the public reaction to the new notes has been largely positive. We are proud of what can be considered as Switzerland's latest 'calling card'.

## **Looking ahead to the conference**

Our experience in developing this banknote series confirms that an in-depth exchange between manufacturers, market participants and central banks is indispensable. Without it, there can be no top-quality product that inspires the necessary confidence. The World Banknote Summit offers a welcome new platform for just such an exchange. I am very pleased that so many of you have made your way to Basel today, and I look forward to stimulating presentations and discussions on all things banknote-related. I wish you a successful and interesting conference.

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# Cash – tried and tested, and with a future

Fritz Zurbrügg  
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World Banknote Summit  
Basel, 27 February 2017

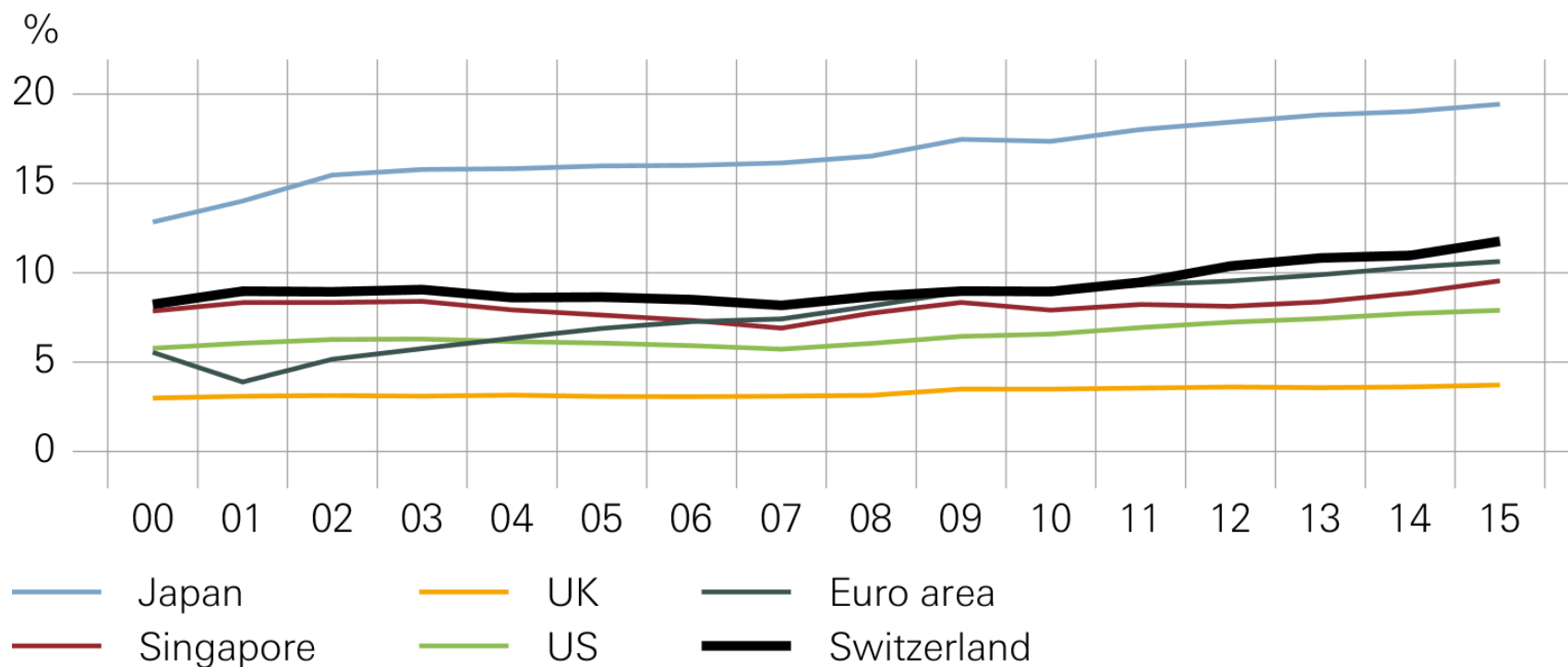
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# Demand for cash

## BANKNOTES AND COINS IN CIRCULATION

In percent of nominal GDP



Sources: SNB, BIS



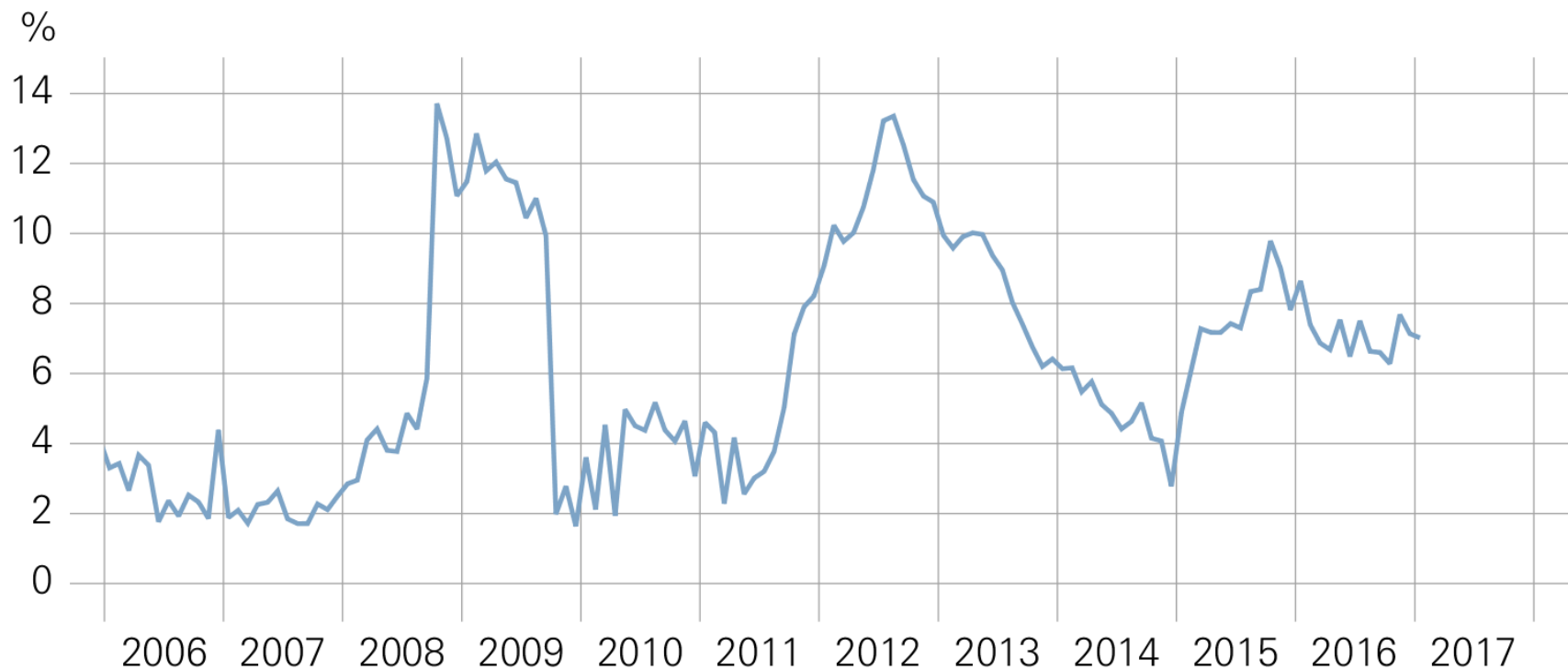
# Demand for Swiss franc banknotes

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## SWISS FRANC BANKNOTES IN CIRCULATION

Year-on-year growth

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Source: SNB

# Reasons for sustained demand for cash as a means of payment

## **Reliability**

Can I pay for something at any time using this payment method?

## **Data protection**

Are my electronic payment and account data protected from unauthorised access and misuse?

Is my financial privacy guaranteed?

# Swiss coins dating from 1879



Source: SNB

# The SNB's new banknote series



Source: SNB



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# Thank you for your attention

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