

**Question and Answer Guide
for *Keeping Cash: Assessing the
Arguments about Cash and Crime.*
A Cash Matters/IMTFI White Paper
August, 2017**

1. Cash is anonymous and untrackable so if we eliminate it, won't we cut off this vehicle for crime and terrorism?

- Cash is not unique in that it can be, as any other payment method, used illicitly or illegally. For example, in the San Bernardino and Paris attacks, terrorists used prepaid cards.
- Terrorists are using fintechs, and they will adapt to cash bans.
- Cash is also an important indicator of economic activity and potential suspicious activity. Eliminate cash and you eliminate an important forensic tool.
- Digital identities can be easily forged, multiplied, hidden. Even and with digital transactions you can never be sure who is behind the transaction, especially in non face-to-face transactions made via online payments.

2. What about other payment methods like pre-paid cards that can be used anonymously? Wouldn't it be better for society if all transactions can be accounted for?

- We could deal with prepaid by expanding the definition of cash to include any anonymous payment instrument and by only having trackable, digital systems.
- *But where does this stop?* At what point would changing technology and privacy concerns of consumers require further expanding the circle of banned payment options?

3. Won't digital systems allow for safe, secure, and trackable payments, making their use in crime difficult?

- Which digital system? Where? All existing examples have also been subject to compromise by corruption, corporate control, civil liberties issues, risks of government surveillance and overreach, or exploited at various chokepoints.
- Evidence shows that digital systems are neither really transparent nor do they really reduce fraud. On the contrary, digital payments merely expand the possibilities for fraud.
- The phenomenon of transaction laundering shows that criminal actors can exploit multiple vulnerabilities in the payment system to hide suspicious activity and disguise funds.¹

- WeChat pay and other digital payment methods may require multiple levels or layers of identification and due diligence, and yet can still be used for fraudulent or surveillance purposes, including by the government entity that controls the data.²
- Biometric systems such as Aadhaar in India have also been subject to identity theft (in a recent case, fingerprints were used fraudulently to activate SIM cards).³
- M-Pesa has also been subject to fraud, whether because of shared use, compromised pin codes, or money being deposited in the wrong account.⁴
- And social interaction is always in the mix: don't forget about the 15-year-old who can persuade others to assist with the purchase of alcohol in the US!

4. But isn't cash costly to transport, keep secure, and maintain? Wouldn't digital eliminate many of these costs?

Nobody knows the costs of digital systems. There is no data. Many consumers have limited understanding of the full costs of payment systems, what fees are charged to whom, and who is benefitting from the profits. There are also infrastructural costs to digital systems, from electricity and power to the technical expertise and resources needed to maintain, repair, and ensure connectivity. And there are huge costs involved to guarantee the security of digital transactions, from authentication and verification to making secure channels from the OEMs to intermediaries and the customer and back available.

Cash is a public good. Banks and financial institutions have public charters and thus a public obligation to maintain a zero transaction cost, par clearance means of payment. As the European Central Bank recently reiterated in two separate opinions on proposed cash restrictions in Portugal and Bulgaria:

“The ability to pay in cash remains particularly important for certain groups in society that, for various legitimate reasons, prefer to use cash rather than other payment instruments. Cash is generally also appreciated as a payment instrument because it is, as legal tender, widely accepted, fast and facilitates control over the payer's spending. Moreover, it is still the only means of payment that allows citizens to instantly settle a transaction in central bank money at face value, without the legal possibility to impose a fee for the use of this means of payment. Additionally, cash payments facilitate the inclusion of the entire population in the economy by allowing it to settle any kind of financial transaction in this way.”⁵

5. If we eliminated cash, wouldn't that help with monetary policy and provide more tools to stimulate economic growth?

- Cash acts as a check on limitless/inflationary expansion of money. Even if consumers do not regularly withdraw cash, the fact that they can and might want to access their money in cash acts as a limit on the ability of private banks to create money. Cash also limits the fees that banks can charge depositors for saving their

money in the bank, and can guard against the confiscation of those savings by banks.

- Moreover, negative interest rates are not a solution. So many financial investments, assets, pension funds and other forms of financial planning depend upon non-negative interest rates.

6. What about financial inclusion? Why do we need cash if we include everyone in the formal financial system and increase access to bank accounts and other digital payment methods? Isn't that a way to fight terrorist financing and financial crime while also contributing to the greater social good?

- People have experienced inclusion with digital finance. Some have benefitted a lot, while others to a lesser degree. But as IMTFI's research on mobile money shows, digital tools do not replace cash, but merely expand people's existing portfolios of financial tools. Cash remains an invaluable and often irreplaceable tool in peoples' financial as well as non-financial practices.
- The same qualities that make cash available and attractive to "criminals" and terrorists is what makes it crucial to the livelihoods of the poor. For one, it allows people greater control over their own value. Cash is a physical object directly exchangeable between two people. It requires little technical knowledge and is accessible to the illiterate and innumerate, to children and the elderly, and to those with otherwise limited financial means. It does not require electricity, Internet or network connectivity, a formal accounting system, or a third party to settle the transaction. Because of cash's denominational and divisible qualities, consumers often prefer cash for budgeting, counting, and setting physical limits on what they can spend.
- Cashless alternatives can also limit people's control over their finances, as in the recent case of Australia's cashless welfare card trial.⁶ 80% of the social benefits were loaded on the card, which limited recipients' ability to decide what bills they could pay when, and where they could shop. Cheaper and even second-hand alternatives available to them with cash were suddenly out of reach.⁷ Moreover, recipients felt discriminated against and ended up worse off financially.
- Formal inclusion is also not always what it seems. In India, the data shows that while women are gaining access to bank accounts, it is often the husbands who are using their biometric data to open the accounts.⁸ It is unclear how much control women have in this case. Cash, on the other hand, has proven to be an effective means for poor women in India to save money outside the control of husbands and other household demands.

7. Modi's demonetization move worked, right? Demonetizing the two largest banknotes caught moneylenders and tax evaders while rooting black money out of the system.

- Actually, no! The India data shows there was very little effect – except negative effects on the lives of the poor. Numerous deaths have been associated with the

currency exchange due to physical duress of waiting in line, refusal of medical assistance, and loss of savings, among other reasons.⁹ The government has not released any official report of the total number of deaths.¹⁰ For a large majority of the poor and illiterate in rural areas of India, cash has returned as the preferred method of payment and the reliability as well as accessibility of a cashless digital payment system is a long way off.¹¹

- By many accounts, about 98% of the demonetized notes ended up back at the banks, calling into question their status as black money. However, official data from the Reserve Bank of India (RBI) on the banknotes returned to the system has yet to be published, and there is some skepticism about how trustworthy this data will be when – or if – it is made available.¹²

8. Official reports based on law enforcement and financial intelligence show that cash is used in terrorist financing and money laundering activities, and exposes the EU to high risks. Don't those risks outweigh the negative impacts of restricting or banning cash payments?

- Well, we don't know that this is the case! We don't even know about the licit uses of cash or high value denomination notes, which means we can't assess the impact of eliminating cash!
- A report just published on July 4, 2017 by the European Commission on the use and risks of various payment methods in terrorist financing and money laundering *repeatedly states that there is no good data on legitimate cash use.*¹³ Given this lack of data, how can we reasonably and fairly assess the negative and adverse impacts of cash payment restrictions or even a cash ban?
- How can the proportionality and appropriateness of cash restrictions be weighed against the potentially massive adverse impact it will have on peoples' financial lives, within and outside the EU?
- Proposing a ban on cash based on the premise that cash bears the highest risk for funding terrorist financing and money laundering, and yet also acknowledging the lack of data on legitimate cash use, is a poor foundation for restricting or eliminating cash. Moreover, this framing of the problem does not address crucial questions that would be essential for establishing proportionality, such as:
- Who stands to benefit from a cashless society? Without cash, there is a substantial risk for payments to be monopolized by a few providers and the costs of making payments could rise, especially for consumers and small businesses.
- Digital fraud is on the rise. What measures will be taken to protect the public from the risks posed by exposure to cybercrime, identity theft, fraud, and other forms of crime in the digital payment system?¹⁴

NOTES

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² Li Tao. QR code scams rise in China, putting e-payment security in spotlight. South China Morning Post. March 21, 2017. <http://www.scmp.com/business/china-business/article/2080841/rise-qr-code-scams-china-puts-online-payment-security>; China Orders Xinjiang's Android Users to Install App That Deletes 'Terrorist' Content. Radio Free Asia. July 14, 2017. <http://www.rfa.org/english/news/china/china-orders-xinjiangs-android-users-to-install-app-that-deletes-terrorist-content-07142017102032.html>

³ Kritika Bhardwaj. Explainer: Aadhaar is vulnerable to identity theft because of its design and the way it is used. Scroll.in, April 2, 2017. <https://scroll.in/article/833230/explainer-aadhaar-is-vulnerable-to-identity-theft-because-of-its-design-and-the-way-it-is-used>

⁴ Teddy Kimathi. Safaricom, police must tackle M-Pesa fraud, robberies. Daily Nation. April 26, 2017. <http://www.nation.co.ke/oped/Letters/Safaricom--police-tackle-M-Pesa-fraud-/440806-3904600-hflbdr/index.html>; Tom Jackson. Cybersecurity In Focus As Africa Makes Slow But Steady Progress. AFKI Insider Original, July 20, 2017. <http://afkinsider.com/140128/cybersecurity-in-focus-as-africa-makes-slow-but-steady-progress/>

⁵ ECB Opinion. Portugal (May 22, 2017). https://www.ecb.europa.eu/ecb/legal/pdf/en_con_2017_18_pt_f_signed.pdf; ECB Opinion. Bulgaria (July 11, 2017). https://www.ecb.europa.eu/ecb/legal/pdf/en_con_2017_27_sign.pdf

⁶ Melissa Davey. Shop owner says cashless welfare card has left him \$100,000 short. The Guardian. May 4, 2017. <https://www.theguardian.com/australia-news/2017/may/05/shop-owner-says-cashless-welfare-card-has-left-him-100000-short>; Melissa Davey. 'Ration days again': cashless welfare card ignites shame. The Guardian. Jan. 8, 2017. <https://www.theguardian.com/australia-news/2017/jan/09/ration-days-again-cashless-welfare-card-ignites-shame>

⁷ Stick Together, No Dignity in Cashless Welfare, 3CR Community Radio, May/June 2017, <https://player.fm/series/stick-together/no-dignity-in-cashless-welfare>

⁸ PTI Feeds. India progressed remarkably on financial inclusion of women. India. July 18, 2017. <http://www.india.com/news/agencies/india-progressed-remarkably-on-financial-inclusion-of-women-2329482/>

⁹ Nishant Saxena. Demonetisation death toll: 90 people and counting as note ban takes tragic turn. Catch News. Dec. 9, 2016. <http://www.catchnews.com/national-news/deaths-due-to-demonetisation-since-8-nov-here-s-a-list-of-the-casualties-of-pm-modi-s-note-ban-1480484645.html>

¹⁰ PTI. No official report on deaths due to demonetisation: Government. The New Indian Express. March 17 2017. <http://www.newindianexpress.com/nation/2017/mar/17/no-official-report-on-deaths-due-to-demonetisation-government-1582474.html>

¹¹ Nina Robinson/BBC World News, India's Cashless Economy, April 23, 2017 <http://www.bbc.co.uk/programmes/p0504qs3>

¹² Is Indian Central Bank still counting notes? May 9, 2017. <https://mostlyeconomics.wordpress.com/2017/05/09/is-indian-central-bank-still-counting-notes/>

¹³ See statements on p. 26, 28, 32, and 33. Report from the Commission to the European Parliament and to the Council on the assessment of the risks of money laundering and terrorist financing affecting the internal market and relating to cross-border situations. 4 July 2017. <http://europeanmemoranda.cabinetoffice.gov.uk/files/2017/07/10977-17-ADD-2.pdf>

¹⁴ Linda Yueh, BBC World News, "Who wins in a cashless Society?" The Inquiry, Sept 24, 2016; <http://www.bbc.co.uk/programmes/p047p4dj>