Cashless Society Community

THE SPREAD OF CASHLESS PAYMENTS: A PRIORITY FOR ITALY'S COMPETITIVENESS AND GROWTH

2016 Report

Executive Summary

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The European House Ambrosetti

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10 KEY POINTS OF THE REPORT

1. **On a global level, cashless instruments are spreading rapidly, but the situation in Italy remains behind and, given current conditions, the gap with more advanced countries is destined to widen.**
   - Between 2009 and 2013, the average compound annual growth rate in the number of cashless transactions was +7.4% on a global level and involved all geographical areas, with emerging countries in Asia (+20.9%) and Latin America (+10.4%) in the lead, compared with +4.3% in Europe and +4.2% in North America.
   - The use of modern cashless payment instruments is still limited among Italians (33.5 payment card transactions *per capita* compared with the EU-28 average of 93.2) and development rates are low (between 2008 and 2014, the growth in *per capita* use of cards was 6.2% compared with an average 7.8% in the EU-28).
   - Based on the Cashless Society Index (CSI 2016) developed by The European House - Ambrosetti, Italy is fourth from the bottom among EU-28 countries, with a score of 2.99 (on a scale of 1 to 10), at some distance from the country's immediate competitors: Spain (4.58), Germany (4.69), France (5.03) and the United Kingdom (6.37).
   - The speed at which Italy is moving to create the cashless society by 2025, matching the level of *per capita* transaction with payment cards of Europe's top performers (Sweden, Finland and Denmark), is also inadequate. Italy's score on the Cashless Society Speedometer (CSS 2016) is 6.6 (on a scale of 0 to 100), compared with the EU-28 average of 24.3.

2. **Cash has significant direct and indirect costs and Italy is still a cash-based economy.**
   - In Italy, paper currency is used in 83% of total transactions (16 percentage points higher than the European average).
   - Since 2008, the cash in circulation in Italy has increased (to over 180 billion Euros at the end of 2015) and accounts for about 10.6% of the national GDP (compared with 9.7% in the Eurozone, 8.6% in France and 3.6% in the United Kingdom).
   - The costs of cash management in the Italian economy are about 10 billion Euros per year, equal to 0.53% of GDP (compared with 0.45% in the EU-28).
   - From the standpoint of the economy as a whole, costs related to cash are higher than other means of cashless payment. In *per capita* terms, these amount to 133 Euros/year per inhabitant compared with 11 Euros for credit cards and 18 Euros for debit cards.

3. **The benefits associated with the spread of cashless payments in Italy are significant and involve a number of areas.**

   – *Reduction in the cost of money.* Thanks to increased use of cashless payments, if Italy were to come into line with the European average of the impact of the cost of money on GDP, it could save up to 1.5 billion Euros a year.
   – *Reduction in the shadow economy and enhanced VAT collection.* Tax evasion costs Italy 47.5 billion Euros a year (the no. 1 country in Europe in the absolute value of uncollected VAT revenues), the equivalent of over one-third of national tax revenues. If Italy were to come into line with the European and French average in terms of number of payment card transactions *per capita*, there could be (general hypothetical estimate) a reduction of, respectively, 2.6 and 4.8 percentage points in the weight of the shadow economy on GDP, amounting to a recovery of 40.8 and 74.7 billion Euros. The use of cash also reduces transparency and the possibility of tracing payments.
   – *Increase in consumption cycles.* Greater penetration of cashless payment instruments enhances the consumption cycle: between 2011 and 2015, in 70 countries, greater utilization of cashless payment systems generated 296 billion Dollars in GDP (10.2 billion dollars in Italy) and stimulated extra consumption of +0.18% average during the period (+0.19% in Italy).
   – *Transaction security.* Cashless payments reduce cash management-related risks (in Italy, over the two-year period 2013-2014, there were over 1,500 bank robberies) and guarantee greater transaction security.
   – *Stimulus for innovation.* The cashless payments sector is undergoing rapid evolution and innovation and competitiveness must be stimulated. Cashless payments provide incentive to develop new technologies and solutions (for example, software for mobile payments and e-commerce, systems for transaction efficiency and security, etc.).

4. **The survey conducted by the Cashless Society Community among Italy's business leaders confirms the importance attributed to the development of cashless payments for the growth of the national economy and the need to bridge the current gap.**

   – The spread of cashless payments is considered an important or very important factor for the country's economic system and its development by 86.4% of respondents. Nonetheless, less than 11% consider the state of development of cashless payments in Italy to be medium-high or high.
   – In terms of the country's economic system, 88.6% of respondents think more could be done to promote cashless payments.
   – In Italy, there is not yet an embedded awareness of the negative externalities connected with cash. According to Italian business leaders, the problem is, above all, a "cultural" one. The lack of digital literacy in customers and merchants is one of the main obstacles to the spread of cashless payment systems.

- For 91.5% of respondents, cashless payments are an important means for obtaining information about customers and, through this information, to reinforce relations with them and develop new value added solutions and services.
- A mix of obligations and incentives, with a key role for P.A. and information, are potential areas of action decision-makers would like to see to promote cashless payments in Italy.

5. The Cashless Society Community proposes the launch of a national strategy to promote the use of cashless payments in Italy, guided by a medium-to-long term perspective and divided into 5 priority areas of intervention.

- The perspective guiding the medium-to-long term (2016-2026) strategy, as proposed by the Cashless Society Community, is: "*establish Italy as a non-cash based country, capable of generating advanced services and innovation technologies along the supply chain, with an authoritative influence on a European level, and which makes the cashless transition an asset for competitiveness and development*".
- There are 5 priority areas of intervention: 1) Awareness-raising, information and education of users; 2) Consolidation and simplification of the regulatory framework; 3) Security of cashless transactions; 4) Innovation and competitiveness of the national payments industry; 5) Factors of acceleration.
- For each of these areas, there must be identified and defined: result indicators (both general and specific), the players involved in the specific actions (and their respective roles) and the time frame required for deploying the strategy.
- The strategy must be aimed at meeting at least three macro-goals in the system, each connected to specific performance indicators: a) Consolidate the transition towards a cashless society; b) Improve the financial literacy of the general public; c) Have a competitive payments industry and European leadership in a number of "enabling factors".

6. To raise awareness, inform and educate users (Area 1), the Community proposes to:

- With guidance from government and in collaboration with players from the payment systems industry, promote: a) a "public service"-type advertising campaign, aimed at providing information about cashless payments and their advantages; b) a national financial education program for young and old which coordinates those initiatives that already exist; c) the introduction of gamification instruments, such as the "receipt lottery".
- Provide—as a system-wide initiative and as an adjunct to requirements to comply with EC and national regulations—simplified informational prospectuses (such as the "utility bill 2.0" adopted in the energy sector) for the costs of transactions using cashless payment instruments.

7. To consolidate and simplify the current regulatory framework (Area 2), reducing the burden on those operating in the payments industry and freeing up resources, the Community proposes to:

- Launch—including by taking advantage of opportunities offered by the implementation of the Directive on payment services in the internal market (PSD2)—a concerted initiative for consolidation and simplification of the regulatory framework, starting with key areas such as transparency.
- Remove current regulatory limits to the use of credit cards (both physical and virtual) as an instrument for paying for goods and services of the Public Administration.

8. To contribute to reinforcing cashless transaction security levels (Area 3), the Community proposes to:

- Adopt—as a tendency and as part of the full application of security requisites against money laundering and terrorism—the Public Digital Identity System (SPID) as an alternative and not substitutive ID method for onboarding operations and strong authentication in payment transactions.
- Launch a system-wide initiative, under governmental guidance, aimed at making available free-of-charge to end-users advanced real-time notification systems for cashless transactions, both incoming and outgoing. This would be done by balancing the economic burdens among the different players involved (banks, telecommunications operators, etc.) on an equitable and sustainable economic basis and in-line with the revised Directive on Payment Services (PSD2) provisions regarding notification.

9. To support the innovation and competitiveness of the national payments industry (Area 4), the Community proposes to launch a system-wide project designed to:

- Create the operational conditions and organize the resources to launch a business incubator for start-ups and fin-techs in the cashless payment sector to create avant-garde solutions that could also become international standards.
- Develop and issue national calls for industrial pilot projects financed by special public funds in areas of high impact for the daily use of cashless payments, such as transport, health care and education, and/or key questions for the industry, such as security/recognition, integrating payment solutions with added value services, etc..

10. As "factors of acceleration" (Area 5), the Community proposes to:

- Provide for cashless payments to the Public Administration, both physically and digitally, and develop and implement a plan to gradually "switch-off" the use of cash in some P.A. payments in line with the Italian *PagoPA* project, with a planned roll-out in the medium-term, starting with recurrent and high-volume payments to the P.A. and services to the public (e.g., public transport tickets, health care services, road tax, fines, school and university fees, etc.).

- Launch “crash” high-impact communications projects against the use of cash, such as the gradual phase-out of high-denomination banknotes—to be used with the EU as an example of an Italian policy initiative—and testing of a tax on cash deposits/withdrawals, with exempted areas and sliding scales on the basis of the amount deposited/withdrawn. The revenues from this tax would go to initiatives directly benefiting citizens and customers (such as the financing of informational campaigns and education of the public and merchants, discounts for end-consumers or reduction in costs of cashless instruments).
- Launch a program under the coordination of the Italian Ministry of Cultural Heritage and Activities and Tourism (MiBACT), to make popular tourist areas throughout the country cashless-friendly, using dedicated national funds (financed, for example by a part of the funds recovered from tax evasion) to be used to upgrade infrastructure (including broadband and wi-fi), educational initiatives, etc..