Black Economy Report Cash Restriction

Discouraging and Limiting the Use of Cash

The Black Economy Final Report consistently emphasises the need to move away from cash. The reason may be- because cash is government money. **Money in the banks belongs to the banks.** The RBA and government are looking toward a central bank issued digital currency (see below). The government protected banks, passing bail in laws (in the middle of the night, with only seven senators) that allowed for a bail in.
http://cec.cecaust.com.au/releases/2018_02_16_Govt_APRA.html
https://cecaust.com.au/stop-bail-in/history-CEC-fight-against-bail-in

Banks are now preparing for the bail in. Several months ago they many of them changed their terms and conditions, to legally protect them from not notifying their customers.
https://www.adamseconomics.com/post/australia-s-banks-are-preparing-for-bail-ins-of-retail-bank-deposits

Michael Andrew stated in an interview with CPA:
Michael Andrews: "…So one of the underlying macro-strategies here is to shift from a cash-based economy into a non-cash economy by way of offering incentives and disincentives for people to operate in the cash system… The second one is to say can we actually shift from a cash to a non-cash society where we can **therefore monitor and measure people's activities** so we have to provide incentives and disincentives for people to operate a cash model." https://www.cpaaustralia.com.au/-/media/corporate/allfiles/document/podcast/black-economy-taskforce-transcript-cpa-australia-podcast-ep17.pdf?la=en&rev=70e31f2bb7b3444cb2403cfb35d8992d

The Black Economy Final Reports states their first strategy as "…**Move people and businesses out of cash and into the banking system,** which makes economic activity more visible, auditable and efficient…"

In Chapter 3 of the Black Economy Taskforce Final Report, it discusses the need to eliminate cash and move to a cashless society. It talks about the New Payment Platform.

"…The New Payments Platform (NPP) will take time to bed down and develop, but is a potential game changer. When operational it will replicate some of the features of cash, including the capacity for peer-to-peer transfer of value and instantaneous settlement. Depending on how it is used, it could also put downward pressure on card interchange fees and other card costs…"

On the NPP website, it describes itself as "…The New Payments Platform is an industry-wide payments platform for Australia, national infrastructure for fast, flexible, **data rich payments** in Australia".

NPP is a private company which is made up of 13 large banks. The Reserve Bank of Australia is a shareholder of the NPA's parent company. Companies who want to join the

NPP have to buy shares in the company.

https://www.nppa.com.au/the-company/
"… This proposal recommended a 'layered architecture' for payments clearing and settlement, that could offer a wide range of new real-time payment services to consumers, businesses and government agencies. Following this proposal, **APCA engaged KPMG to coordinate the NPP** Program and the industry effort to bring the NPP to life…"

P43 As people rely more on the financial system for everyday payments, transactions become more transparent and secure, efficiency is improved (given the increasing cost of cash relative to othermeans of payment) and the integrity of individual identity can be better verified.
P43 This is in recognition that transacting via cash is expensive. It imposes costs on small businesses that electronic transactions do not. These costs are not always clearly evident and can manifest in unforeseen ways. For example, we have heard from some smaller supermarket operators that they are net purchasers of cash due to demands from consumer for cash withdrawals.

P43 Banks and other financial system participants **have led this process, pioneering a range of payment system innovations.** As cash is used less in the future, **banks will benefit from lower funding costs**.Over time, this should be reflected in further reductions in transaction fees for their customers and merchants as the cost per customer is reduced and **cross selling opportunities expand.** To the extent that the costs of retail deposits are lower than other funding sources, for example wholesale funding from offshore
P43 Given the changes in consumer preferences and the increasing relative prices of cash transactions **governments should be embracing rather than resisting the prospect of a near cash-free world**. This will ensure that those who seek to use cash as a means to operate in the black economy, in part because of the anonymity it provides due to the lack of a clear audit trail, will find it more expensive and difficult to do so. The move away from cash will also capture the efficiency and integrity improvements provided by non-cash transactions. Government should remain open to what shape this will take **(we should be neutral between competing non-cash offerings).** (Note from me: RBA digital currency?)

P44 While it is clear that electronic payment options provided through services such as BPAY and PayPal have significantly changed the payment landscape, policy settings must seek to make the **implicit costs of cash clear to consumers,** particularly where they are relatively high, remove **unwarranted impediments to greater use of non-cash payment methods** and be prepared to support small firms adopting non-cash business models. (Note from me: As Michael Andrew stated, "incentives and disincentives…" Including making it illegal to pay wages in cash, to revoke the ABN of a business that dos not comply, to promote the Australian Federal Police publicly raiding tradespeople who do not comply)

P44 We recommend the introduction of an economy-wide $10,000 cash payment limit and **a requirement that wages be paid into bank accounts**. We also make recommendations on the need to lower card interchange fees and debit card costs further, including by giving merchants greater 'optionality' on which network to route debit card payments through. **The New Payments Platform (NPP)** will take time to bed down and develop, but is a potential game changer. When operational **it will replicate some of**

the features of cash, including the capacity for peer-to-peer transfer of value and instantaneous settlement. Depending on how it is used, **it could also put downward pressure on card interchange fees and other card costs**. (Note from me: **this relates to the 'least-cost routing'** - the NPP and the RBA are collaborating to stifle competition in credit cards and electronic payments, see section Credit Cards below).

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The following scenario illustrates the promise of the NPP.
1. A tradesperson gives a householder a quote on his or her iPhone.
2. If accepted, the quote is converted to an invoice with the tradesperson's ABN.
3. The householder transfers funds into the tradesperson's account through the NPP.4. The tradesperson issues a receipt.
5. The tradesperson gets an updated revenue statement from the bank.

This transaction costs 40 cents.

P44 **The use of cash as a means of payment is falling.** This is a worldwide trend, but is also apparent in Australia. A number of factors explain this. As a result of technological advances and financial innovation, the range, accessibility and cost of non-cash payment methods are improving all the time. The growth and expansion of e-commerce has accelerated this process. **Digital wallets and cryptocurrencies are also becoming increasingly popular** (although currently they only play a small role in the payment system). However, for the foreseeable future we will always need some cash. We recognise that not everyone is willing to go electronic, and e**<u>ven though social resistance to electronic payments continues to fall</u>**, **it is on business and government to lead the way.**

P45 Changing social norms and consumer preferences have also played a role. People, by and large, are more comfortable, and in many cases prefer, using non-cash payment alternatives than they have been in the past. The move away from cash, in most economies, **has been led by the private sector and consumers rather than governments.** Sweden and other Scandinavian countries have been themain exception to this.

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Apps like WeChat, which incorporate social media and mobile payment technology, haverevolutionised the way people transact in China.

People do not need to carry cash or wallets. They can use WeChat to easily and quickly pay usingtheir mobile phone at restaurants, for street food at roadside stalls, at local fruit and vegetablemarkets, for petrol (without even leaving the car), to pay bills, to send mail or for a cab.

In China's largest cities, approximately 93 per cent of the population use WeChat. (Note from me: WeChat is used by the Chinese government to monitor and control people

P46 **The shift away from cash is likely to continue in this country.** In part, this will be a by-product of demographic change, as the attachment to cash is strongest among older people.

The digital payment revolution remains at an early stage. A large field of competitors, including traditional financial institutions, IT companies, internet businesses and start-ups **are competing for the digital payment dollar**. Contactless payment, including the use of smart phones, is growing strongly. In 2016, smartphones accounted for only 1 of every 100 transactions, yet in that year closeto 90 per cent of Australians had one of these devices, **underlining the untapped potential from this technology alone.**

P47 The payment system landscape will be changed by a number of developments in coming years. The **NPP, an initiative of Australian banks and supported by the Reserve Bank of Australia (RBA),** has the potential to be a game changer. The NPP, which is expected to commence operations by the end ofthis year, with broader functionality being rolled out to users in 2018, will allow for near immediate person-to-person bank transfers. In addition to its cost and speed benefits, it promises greater security for users, **however there are fraud risks associated with real-time payments** which will need to be addressed. This broader functionality has the potential, when further developed, **to use the enhanced data message attached to each NPP payment to allow them to verify their counterparty's ABN details,** limiting the scope for ABN fraud. Future applications for businesses might link the NPP's payment services to other business processes, including preparation of accounts

P47 **Banks and other financial institutions are developing distributed ledger products**, **including fiat-backed digital currencies.** This is a response to the emergence and growth of bitcoin and hundreds of other cryptocurrencies. The aim is to r**eplicate the benefits of the latter, while avoiding their costs.**

As is well known, cryptocurrencies are largely anonymous, making them attractive for criminals, however increasingly they are being used as an investment vehicle and for other legitimate purposes. They are highly volatile, and in some cases, including bitcoin, they can sometimes be relatively inefficient, as has been evident in the intermittent processing delays that have occurred recently in bitcoin transactions. T**he fiat-backed alternative to cryptocurrencies, in contrast, would be stable (linked to a regulated, highly traded currency),** offer fast processing speeds and, critically, offer built-in integrity protections. These would include identity verification and also conditional payment rules (for example, a contractor payment could be
made conditional on a third-party attesting that the work was completed).

P48 Central banks, for their part, **are also examining the feasibility of official digital currencies.** For many,these are still some way off, but are likely to appear in coming decades. Singapore, for example, has completed preliminary testing of a tokenised version of the Singapore dollar using a blockchain. **The Government should keep an eye on these developments and examine the feasibility of Australia moving to a central bank issued digital currency over the longer-term.**

P48 **The market-led move away from cash** is a positive development. It has made our payment system more competitive and innovative, improving the cost, quality and range of alternatives on offer. Indeed, it has brought into sharper focus the costs of cash, which until recently were typically internalised by users. Businesses dealing in cash incur a range of expenses, including storage, transportation and monitoring costs (given the heightened risk of employee fraud). **As the use of cash falls, t**he per-transaction cost associated with cash (bank branch and Automatic Teller Machine(ATM) networks, for example) has risen.

P48 The reduced use of cash brings other possible benefits, **including potentially lowering financing costs for banks and other financial institutions** **(from higher deposit rates** than might otherwise be the case). As the trend away from cash continues banks should be monitored to ensure they pass on the benefits they receive from this change to consumers.

Some economists, including Ken Rogoff **(former Chief Economist of the International Monetary Fund (IMF), argue that financial stability and the effectiveness of monetary policy may also benefit.**

P49 For our purposes, an economy less reliant on cash could help counter the black economy. **Electronic payments leave a footprint** that cash transactions do not. That is why the latter are so attractive to criminals and those operating in the black economy. Not only is cash anonymous, but it can be used without leaving an obvious audit trail. In contrast, **the more we move people into the digital payment world, the more visible, traceable and reportable their transactions can be.** **Digital payment can also be linked to identity**, both individuals and businesses, which cash cannot. Digital payments also allow for the provision of smarter and more detailed e-invoices. As these become more prevalent, there will be a need to determine how much standardisation is required to ensure thesehave interoperability across both accounting solutions and regulatory reporting requirements.

We are not saying that digital payment methods are risk or fraud free. Payment system fraud will always be a risk, regardless of the means selected. The vulnerabilities will still be there, but change in nature. While physical robberies or muggings may be less likely, **identity theft and credit card fraud — which have risen considerably over recent years — could become an even greater risk.** This risk can be mitigated by **improving individual identity verification,** as discussed in Chapter 4. (They recommend biometric digital identity verification, mandatory and linked to our phones. Even though later in the report they go into detail about the risk of identity theft and the 'dark web' - see below)

P141 employees, we support this initiative. An option for the Government to consider **would be introducing the requirement for payment of wages into bank accounts** from 1 July 2019 as well.

P150 Small businesses incentives will be our major focus. In particular, **we want to reward those who adopt entirely non-cash business models**