PaymentsCompliance

Call To Dump €500 Notes Intensifies

10TH FEB 2016 | WRITTEN BY: JIMMY NICHOLLS

Central authorities are being urged to ditch £50, $100 and €500 bills after a banking luminary claimed the tender no longer has a role in the legitimate economy.

Peter Sands, the former chief executive of Standard Chartered, called for central banks to withdraw high-value notes from circulation as electronic payments had replaced them for costly transactions.

“By eliminating high-denomination, high-value notes we would make life harder for those pursuing tax evasion, financial crime, terrorist finance and corruption,” he said, writing in a paper for Harvard University.

“Without being able to use high-denomination notes, those engaged in illicit activities would face higher costs and greater risks of detection,” it said.

According to the paper, cash is attractive to criminals because it is difficult to trace, provides anonymity for both parties and is widely accepted — at least for currencies such as the US dollar.

The chief downside of cash is that it is physical and large amounts can be inconvenient to transport if high denominations are unavailable since a $20 bill weighs much the same as a $100 bill.

Although data on financial crime remains cloudy in many areas, Sands noted that the evasion of VAT amounted to £13.1bn in the UK and €145bn (£113bn) in the eurozone.

Peter Binning, partner at the law firm Corker Binning, told PaymentsCompliance that the former Standard Chartered chief was “dead right”.

“There’s absolutely no justification in a modern banking era for high-denomination notes,” he said.

“They [€500] are already prohibited from being issued by bureaux de changes in the UK, so it’s an obvious thing to do to frustrate money launderers and other criminals.”

Although Binning did not name any downsides for consumers from the abolition of high-value bills, he did note that the UK Treasury had an incentive to keep them.

When the Bank of England puts cash into circulation it purchases low-risk assets to match the liability they represent, such as government bonds.

These assets then earn income which is paid to the Treasury, generating net profit after costs of managing note issuance that is known as “seigniorage”.

According to a Bank of England bulletin from 2010, such a process “can be a significant source of revenue for the government”, and figures Sands team found suggested £50 bills were worth £100m for the Treasury in 2014.

By comparison, the US $100 bill generated $23.6bn (£16.4bn), although Sands argued that any loss to governments’ income by withdrawing high-value notes would be offset by the reduction in tax evasion and crime.

His paper follows only a week after the European Commission started investigating the high number of €500 notes in circulation in the eurozone, which were originally issued to mimic high-value denominations for the German deutschmark, Italian lira and Dutch guilder.

Figures obtained by Sands claim that more than half of adults in the eurozone have never owned a €500 note, with other data suggesting such bills are used “for a tiny percentage of transactions by a small subset of the population”.

Although some legal authorities are keen to curb the high-value bills, those distrustful of government monitoring of money flows are protesting any mooted changes.

Lucy Frew, financial regulatory partner at Kemp Little, told PaymentsCompliance that although the rationale for eliminating notes was sensible, criminals had “scores” of other avenues available to move money illicitly.

“Peter Sands notes that increasingly electronic payment mechanisms are replacing cash transactions as technological innovation enhances the cost effectiveness, flexibility and ubiquity of electronic payments,” she said.

“Meanwhile, however, criminals will correspondingly become increasingly adept at exploiting such innovations for their own purposes.”

Frew did, however, conclude that overall the benefits outweighed the costs, adding: “In our view it will be adopted, although in which jurisdictions remains to be seen.”

Sands emphasised that his paper was not advocating the wholesale abolition of cash, which he believed was still useful in small denominations despite it being cumbersome in larger ones.

This view was backed up by Simon Black, chief executive of payments firm PPRO, who told PaymentsCompliance: “Those everyday transactions that are paid for in cash do not require high-value denominations — even a £200 transaction or cash withdrawal only needs ten £20 notes.

“For high-value transactions and the movement of money, it is in every honest person’s interest to take advantage of the extra benefits that electronic methods offer, such as being confirmed and having an audit trail."

Data collected by Sands' team showed that high-value notes are mostly found in more developed countries, with the exception of Saudi Arabia and Russia.

For those hoping to abolish the high-value notes, Singapore offers a case study, the Asian city having withdrawn a S$10,000 bill in July 2014 because of the risks associated with it.

Topics: AML/KYC | FRAUD & SECURITY | TAX | FINANCIAL REGULATION

Geography: EUROPE | AMERICAS | ASIA PACIFIC

Sectors: PAYMENT PROCESSING | PAYMENT SYSTEMS | DIGITAL PAYMENTS

Content: NEWS & ANALYSIS