

NON-CASH PAYMENT - A STRINGENT NECESSITY IN PANDEMIC CONDITIONS

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Abstract

Following the latest events in the world, it is definitely sure that the Covid-19 pandemic will drastically change the way people behave both socially and economically. Given the conditions in which we were forced to live, we understood how important it is to be "connected" to non-cash payment instruments. At the moment, it is necessary to "financially educate" the population in this field as soon as possible, while the development of the payment system in the Republic of Moldova and the modernization of payment services, which would meet the needs of individual and corporate consumers, must become a strategic priority.

The purpose of this article is to analyse the concept of non-cash payment by identifying the advantages, studying the international experience, as well as the current situation in the Republic of Moldova. In the research process, such scientific methods were applied as: systemic approach, analysis and synthesis, deduction, logical analysis, critical analysis of materials, monographic analysis, comparative analysis, etc. The results of the study consisted in identifying both the advantages and disadvantages of these payment instruments, at the same time, the authors performed an analysis showing that the cap on cash payments imposed (there is a law project to be

discussed in the Parliament of Moldova) is not a method of stimulation, but on the contrary there is a risk of obtaining an adverse effect.

Key words: *non-cash payment instruments, bank card, cash, direct debit, credit transfer*

JEL Codes. *G2, G 20, G 21*

1. Introduction

Due to the advancement of information technology and the globalization of transactions, non-cash payments have been gaining ground in the last decade. Practically in developed economies these payment instruments have become a norm of life. Today, humanity faces another challenge that will certainly change everyone's behaviour. The coronavirus pandemic is not just a global health crisis. Under the created conditions the cards become important as they are widely used and must become the payment instrument preferred by the consumers.

Today, more than ever this rush for adaptation sounds true, that is why cashless payment will play an important role in the daily activities of modern consumers. Also, the development of the payment system in the Republic of Moldova and the modernization of payment services, which would correspond to the needs of individual and corporate consumers, must become a strategic priority for the National Bank of Moldova.

In this article, the authors aim to analyse the notion of cashless payment, international experience, the situation in the Republic of Moldova, as well as to identify those impediments that stand in the way of the development of these modern payment instruments.

Back in 2014, in accordance with the NBM's Strategic Plan, the National Bank set an objective to promote non-cash payments and reduce outstanding cash. Until the exceptional situation in connection with the pandemic, a package of laws was submitted to public discussions, which is entitled Moldova without cash. Among the provisions of the legislative initiative (D.P. no. 14 / 02-28 of 07.02.2020) are:

- reduction of VAT by 2% when making card payments;
- introduction of the obligatory payment of the salary on account for all companies that have more than 10 employees with the registered office in

a city or municipality. The costs for transfer, card service and other related costs are covered by the employer;

- capping cash payments that can be collected by legal entities at 10,000 lei per transaction (with certain exceptions);

- reduction of the ceiling for cash settlements made by companies up to 10,000 lei per month, while maintaining the currently existing exceptions.

In this article, the authors aim to analyse both the concept of cashless payment, the international experience regarding the use of cash, the situation in the Republic of Moldova, as well as to give an appreciation to this bill, based on the experience of other countries.

In the research process the following methods were applied: general scientific methods such as system approach, analysis and synthesis, induction and deduction, logical analysis, critical analysis of materials, monographic analysis, etc. Information support for research is: scientific publications, analytical materials, European and national legislation in the analyzed field, policy documents, strategies, other information resources available in the Internet.

2. Defining the concept of non-cash payment

According to any economic dictionary, payment can be defined as an amount of money that has been *paid* or is expected to be *paid*; the transfer of one form of goods, services, or financial assets in exchange for another form of goods, services, or financial assets in acceptable proportions that have been previously agreed upon by all parties involved; compensation, discharge or performance of an obligation, or reimbursement, by giving over something that is of satisfactory value to its recipient, such as money, etc.; the process of what is paid to someone for the work done, for the provision of a service; an amount of money that is given as the equivalent of an object obtained or purchased, the use of a thing, for the payment of a debt, etc. ” The payer is that party to a payment transaction who transfers the funds, and the payee is the final recipient of the funds.

According to the National Bank of Romania, cashless payment represents the transfer of funds that can be made by payment service providers (credit institutions, payment institutions and electronic money institutions), based on a payment order sent to them through such payment instruments. as

credit transfer, direct debit, payment card, check, bill of exchange, promissory note [9].

In other words, making a cashless payment by transferring funds from the payer to the payee involves a number of transactions that are only allowed to payment service providers.

The main steps of a cashless payment are shown in Figure 1.

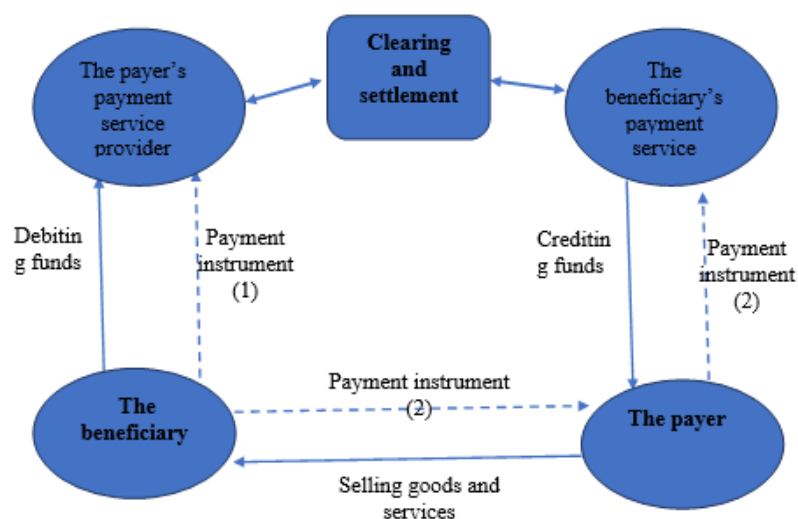


Figure 1. Stages of a non-cash payment

Source: made by authors in base of [9].

In international practice, payment instruments such as payment card, credit transfer and direct debit are most often used. The NBM notes that the advantages of using these tools are as follows [6]:

a) *payment cards* are characterized by:

- saving time - payments are made directly with the payment card, not requiring the preventive withdrawal of cash / online transactions can be made through e-commerce platforms;
- convenience - when purchasing high value goods / services both in the country and abroad, payments are made directly from the payer's account and it is not necessary to hold cash;

- lack of commissions - no fees are charged when paying for goods / services through cards from the payer.

b) *direct debit* - represents the payment service that allows the payer not to go to the offices of the payment service provider to make payments, as well as exempts him from the need to record the payment of communal services, all payments being initiated and made by the provider based the consent given by the payer to the payee;

c) *credit transfer* - represents the payment instrument that allows the fast, safe and comfortable transfer of funds from one account to another at the indication of the payer;

d) *automated remote service systems* (ARSS) are IT solutions and / or equipment, which allow the user, through a computer application, an authentication method and a means of communication to have remote access to the funds in the payment account for the purpose: obtaining information on the status of the payment account and the transactions carried out, carrying out transactions in the name and on the order of the holder of the account of the funds in the payment account.

SADD can be classified into:

- PC-payments;
- Internet payments;
- Mobile-payments;
- Telephone-payments;
- Terminal-payments.

Cashless payments are safer because the transaction will definitely reach your destination, but in case of technical problems, payments can be easily tracked. Recent studies on payment methods have shown that payments through electronic services are not only easy to use, fast and much more secure, they also help to stimulate the economy as financial inclusion progresses.

3. European experience on using cash via non-cash payments

The ECB conducted a survey in 2018 comprising 87 credit institutions, 55 professional agents that are operating with cash (or cash-in-transit companies - CITs) and 157 companies (for example, shops, retailers, restaurants), in order to investigate how cash is charged.

According to the *Study The use of cash by households in the euro area*, in 2016, in the euro area consumers operated with more than 2.968 billion

EUR in cash, payment cards or other payment instruments. Consumers in the Euro region used 124 billion as cash payments (78,8%), 30 billion as card payments (19,1%) and 3 billion as payments with other instruments, such as checks, direct debit, transfers credit and mobile payments (2,1%) [2]. Thus, the total value of cash payments exceeded four times the total volume of all payments made through cards (debit and credit cards), although cash was used primarily for low value purchases. At the same time, cash payments accounted for 53,8% of the total amount of payments, while cards - 39% of the total, and other means of payment - 7,2% (see Figure 2).

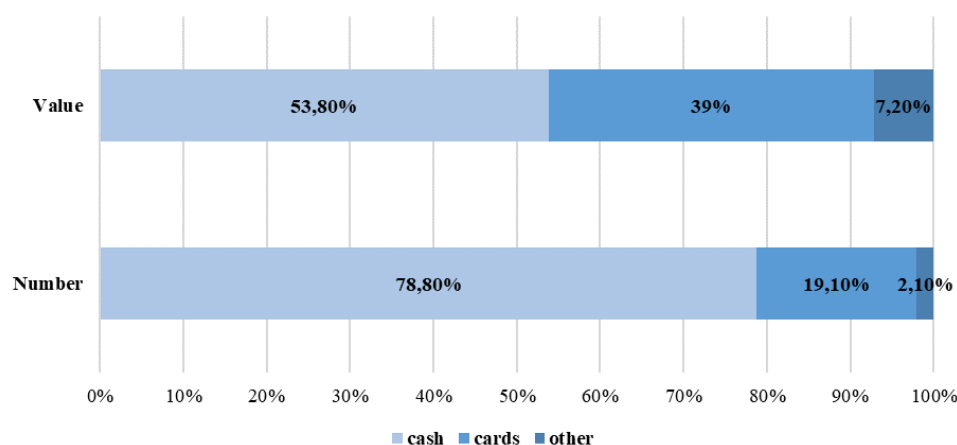


Figure 2. Share of payment instruments by number and value in the Euro region

Source: made by authors in base of [2].

As regarding the use of cash per country, figure 2 shows that cash was mostly used in countries from the southern euro area, as well as in Slovenia, Germany and Austria (the total volume of the countrys' share registered 80% or above for all the POS transactions). The use of cash was lower in Ireland, Latvia, Lithuania and Slovakia representing nearly 71% - 79%. At the same time, France, Belgium and Luxembourg register nearly 63% and 68% of the total payments. The Netherlands, Estonia and Finland registered the lowest weights ranging between 45% and 54% of the total amount of payments at POS. In terms of value of payments made at POS, in all countries the share

of cash was much lower than in terms of number of payments. While in Cyprus, Malta and Greece the share of cash in value of payments was the highest - from 72% to 75% of the total. In Lithuania, Slovakia, Austria, Spain, Italy and Slovenia the share oscillated from 62% to 68% and in Ireland, Portugal, Latvia and Germany the share of cash in value of payments was between 49% and 55% [2].

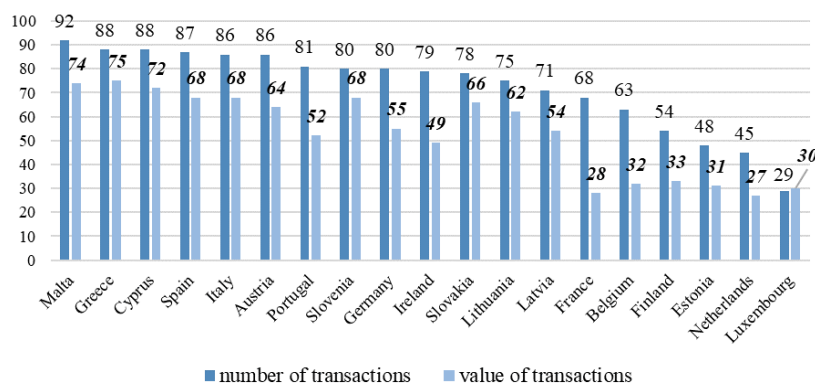


Figure 3. Share of cash transactions per country at point of sale in the Euro region, in %

Source: made by authors in base of [2].

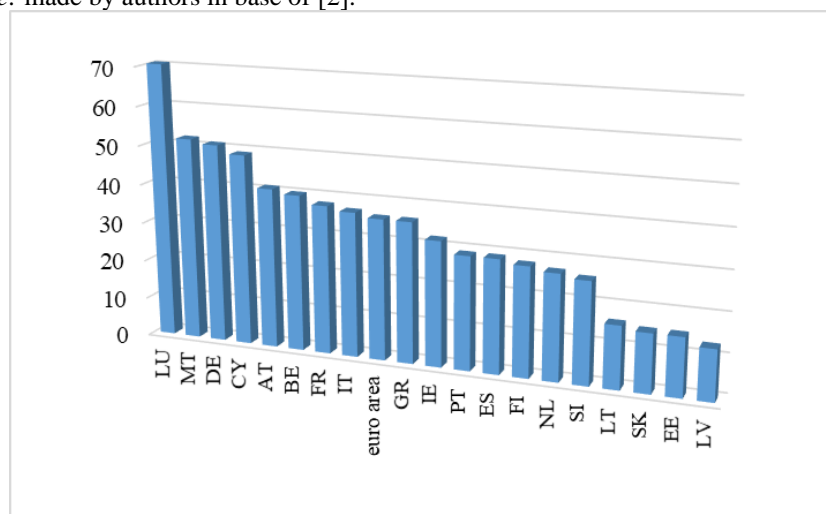


Figure 4. The average card transaction in the Euro area

Source: made by authors in base of [2].

The highest average value of card transactions was registered in Luxembourg, Malta and Germany, where it ranged from 70,78 EUR to 51,38 EUR (see Figure 4). In contrast, the lowest average value of card transactions in the euro area was registered in Slovakia, Estonia and Latvia, where it oscillated from 16,05 EUR to 14,33 EUR, indicating that consumers use cards for relatively low-value payments in these countries [2].

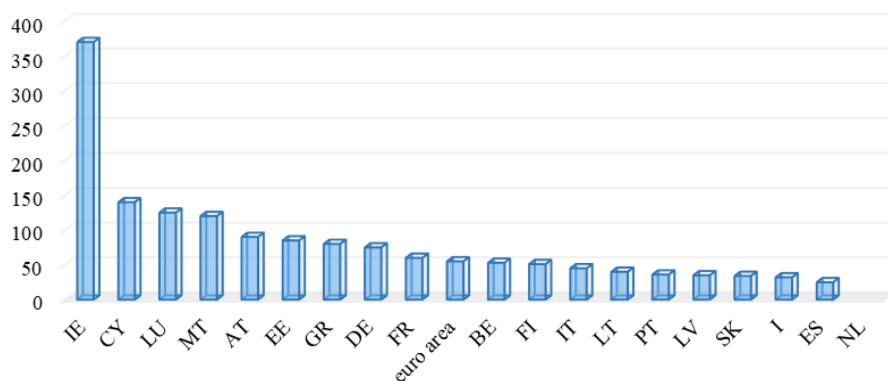


Figure 5. Credit transfers and direct debits in the Euro area

Source: made by authors in base of [2].

Also, according to figure 5 we see that cheques or credit transfers and direct debits are usually used for larger amounts payments, for example, in hotels, at public authorities officers or at certain service providers.

The average transaction value of these types of payments were higher in comparison to those of cash and cards: the highest value is being registered in Ireland, Cyprus and Luxembourg, ranging from 387 EUR to 130 EUR.

The results of the ECB survey show a relatively homogenous trend in the use of payment cards among men and women, as well as among consumers aged over 25.

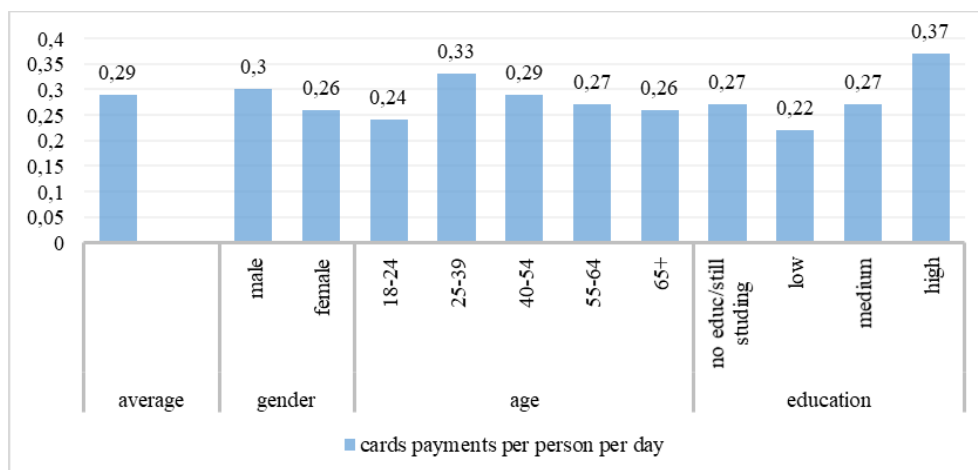


Figure 6. Average number of card payments at POS

Source: made by authors in base of [2].

At the same time, the results show that young people (18 to 24 years old) and those with a low level of education used payment cards the least (see Figure 6). They performed on average 0,24 and 0,22 card payments per day respectively, or around 1,6 per week, in comparison to the rest of the population (0,3 payments per person per day, or nearly 2,1 per week).

4. Analysis of the situation in the Republic of Moldova regarding non-cash payments

The following non-cash payment instruments are used in the Republic of Moldova:

- payment cards
- direct debit
- credit transfer.

In this article we will focus on the analysis of the situation regarding the use of cards. According to the NBM Report on the evolution of the payment system, in 2018, the number of cards in circulation reached 1936265 units at the end of 2018, registering an increase of 11.5% compared to 2017. In parallel with the increase in the number of cards in circulation, the number of active cards had a growth rate of 17.0% compared to 2017 and holds a share of 61.5% of the total number of cards in circulation.

Debit payment cards represent 97.7% of the total number of cards held, their number increased by 11.7 percent compared to the previous year. At the same time, the share of credit cards remains modest (2.3 %), their number increased slightly compared to 2017 (by 5.4 %) (see Table 1) [7].

Of the total number of cards in circulation, personalized cards hold a share of 98.8%, while personalized cards are only 1.2% (23,582 units). Of the total number of personalized cards offered by domestic banks, 71.5% are issued based on salary and social projects, and the degree of their use reached 66.9%.

Table 1. Evolution of cards in the Rep. Moldova

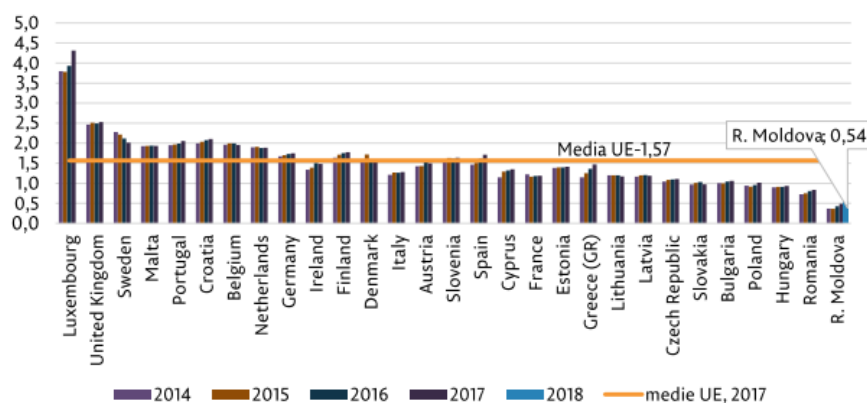
	2017	Structure, %	2018	Structure	Evolution in dynamics (2018/2017), %
Total cards, including	1736056	100	1936265	100	+11,5
<i>a) on the type of card</i>					
Debit card	1693465	97,2	1891372	97,7	+11,7
Credit card	42591	2,8	44893	2,3	+5,4
<i>b) on the characteristics “emission conditions”</i>					
<i>personalized card issued in base of salary and social projects</i>	1265535	72,9	1383790	71,5	+9,3
personalized card issued in general conditions	444541	25,6	528893	27,3	+19,0
personalized card	25981	1,5	23582	1,2	-9,2
<i>c) on the type of technical solution</i>					
Contactless card	645332	37,2	966465	49,9	+49,8
Hybrid card	1022508	58,9	913346	47,2	-10,7
Magnetic stripe card	64024	3,7	53151	2,7	-17,0
Virtual card	4192	0,2	3303	0,2	-21,2

Source: [7].

The payment card saturation indicator in the Republic of Moldova reached the level of 0.54 at the end of 2018 (0.49 - for the end of 2017), which

means that 1 in 2 inhabitants each has a payment card (on average, in 2017 for EU countries, each inhabitant received 1.57 payment cards).

During the last five years, the number of cards compared to the number of inhabitants in the Republic of Moldova indicates a seemingly slow evolution, increasing by only 0.17 percentage points. However, because the growth is recent and started from a small base, the share of non-cash payments in total consumer payments is still small compared to international standards (see figure7).



Source: ECB – Statistical Data Warehouse; BNM

..Figure 7. The payment card saturation indicator evolution

Source: [7].

The main conclusion is that cashless payments account for the largest share of consumer payments in many countries with different levels of economic development.

Not only consumers, but also businesses and financial intermediaries consider non-cash payments from consumers a more convenient and cheaper form than cash.

Cash payment is considered the riskiest and slowest. We believe that cash does not bring any gain, it must be kept safe, it must be physically transported, which poses risks to owners.

Many studies have already been done which have shown that cash payments are considered the most risky due to the degree and possibility of

banknote counterfeiting, due to various ways of money laundering, tax evasion and even terrorist financing.

5. Limiting the use of cash payments – cap on cash payments: foreign experience and lessons to be learned

Most EU Member States have cash payment restrictions. These restrictions range from 500 EUR to 15000 EUR (for example, Spain - 1000 EUR, Greece 500 EUR).

It should also be noted that the number of EU countries has increased considerably in recent years. Thus, in 2008 there were only 4 countries that had indicated these ceilings, and in 2017 the number of EU countries with cash restrictions increased to 17.

The European Commission prepared a report on the restrictions of cash payments in June 2018. The Report on restrictions on payments in cash states that cash restrictions would not significantly solve the problem of terrorist financing, but could be very useful in combatting money laundering. The report also states that unless the threshold remains very low, the impact on tax fraud would be limited.

Furthermore, the Commission emphasized that the existence of cash transaction limits in different Member States could distort domestic competition, which in turn could lead to the relocation of companies to other countries.

In some countries, the maximum limit for cash payments is significantly higher. For example, in Europe's largest economy, Germany, the government's recent attempts to set a threshold of 5000 EUR have provoked a strong public reaction.

Thus, the German tabloid Bild published an open letter, which is entitled *Hands Off Our Cash*, and a wide range of political parties condemned the proposed measures, considering them an attack on data protection and privacy [5].

The German politician, Green MP Konstantin von Notz argued that in a constitutional democracy, privacy is a freedom that must be protected, while cash payments allow everybody to remain anonymous during day-to-day transactions. Also, the president Jens Weidmann criticized the government's proposals, considering that it would be fatal, if the citizens had

the impression that their money was gradually being taken away from them.
[1]

Austria has similar reservations about the EU plans to abolish cash payments. T

he Deputy Economy Minister Harald Mahrer said Austrians should have a constitutional right to protect their privacy and expressed his unwillingness to let somebody to be able to digitally track all the behaviour.

Also, in the United States, businesses don't have to accept cash and coins.

The Federal Reserve clearly states that they are free to develop their own policies on whether to accept cash unless there is a state law which says otherwise.

As mobile payments and digital transactions become more common, cash could be eliminated not by regulation, but by businesses catering to payment trends. [10]

In other words, any attempt by the European Commission to set a binding limit across the continent is likely to be met with fierce resistance - at least from some countries.

Others are already so far on the road to a cashless society that they will barely notice the difference. Kearney's financial advice predicts that by 2022 there will be more cashless transactions in Europe than cash ones. According to a report by Fung Global Retail & Technology, nine of the top 15 *most digitally prepared* countries are in Europe.

For now, the most common pretext for this growing attack on physical currency is the War on Terror, but there are also known bugs such as organized crime, tax evasion and the informal economy. These justifications serve only to overshadow the true ultimate goal: complete or almost complete technocratic control over the money supply. In a world where every transaction must be electronic (tracked) and where biometric authentication systems have become the norm, the influence of big banks, corporations, technology companies and governments throughout everybody's lives will be virtually unlimited.

Another important advantage of cash is that it limits the ability of central banks to continue to drive probably the largest financial history of the modern era, ie the negative interest rate policy (NIRP). As long as there is cash, there is no way to prevent depositors from doing the logical thing - that

is, to take their money from the bank and place it where the erosive effects of NIRP cannot reach them.

We could follow the example of Romania, which on January 3, 2019 published the Law no. 344 of December 27, 2018 regarding the amendment and completion of Law no. 70/2015 for strengthening the financial discipline regarding cash payment and collection operations and for amending and supplementing the Government Emergency Ordinance no. 193/2002 on the introduction of modern payment systems [11] .

As an exception, the categories of persons specified above may carry out cash collection and payment operations, under the following conditions:

- a) receipts, within a daily ceiling of 5000 RON from one person;
- b) receipts made by cash and carry stores, which are organized and operate on the basis of the legislation in force, from the persons concerned, within a daily ceiling of 10000 RON from one person;
- c) payments, within a daily ceiling of 5000 RON / person, but not more than a total ceiling of 10000 RON / day;
- d) payments to cash and carry stores, which are organized and operate based on the legislation in force, up to a total daily ceiling of 10000 RON;
- e) payments from advances for settlement, within a daily ceiling of 5000 RON, established for each person who received advances for settlement.

6. Conclusions

At first glance, it would seem that there are some advantages to limiting cash payments. From the point of view of tax authorities, if consumers are forced to use electronic means of payment on a large scale, this could put pressure on businesses to regulate informal economic activities. However, tax collection could only increase in the case of incentives rather than prohibitions (restrictions) - for example tax incentives for card payments such as partial VAT refunds or a tax lottery in which card payment certificates will automatically participate.

Although such incentives have been applied in other countries, none of them has resulted in a clear success story in which tax collection has been strengthened in a sustainable way. For example, Austria, Germany, Sweden have no ceilings, but we all know what income, revenue and GDP these countries have.

From the point of view of merchants, the cost of providing card payments using POS terminals is a concern.

Commercial service tariffs (and the interbank fees they pay) are high by international standards (transaction processing for cards issued by Victoriabank - 1.5%; processing transactions for cards issued by other banks in Moldova - 2%; processing transactions for bank cards issued abroad - 2.5%). In fact, they are so high that they make card payments unattractive to merchants compared to cash only based on the cost of the transaction - apart from any informal activities that some merchants may engage in. As a result, it seems that traders often tell consumers that "the POS terminal does not work".

If the aim is to reduce the shadow economy, there is a risk of obtaining an adverse effect. Because if the buyer's confidentiality is currently ensured and the buyer already requests the payment receipt (cash), after the approval of the new provisions, he will become an ally of the legal entity in evading the payment of taxes and carrying out the transaction illegally.

We are sceptical about the effectiveness of such coercive measures - especially if they are appropriate for Moldova, where the authorities are fighting to maintain public confidence in the national currency and the financial sector.

In any case, restriction measures have little to do with promoting the use of non-cash payment instruments in order to achieve the outsourcing network, reduce transaction costs and increase economic efficiency.

Authorities need to focus on helping consumers to recognize and use the new opportunities that non-cash payment instruments bring; and on reducing the costs of processing the non-cash payments in such a way that merchants and commercial banks can benefit from the opportunities inherent in the future expansion of non-cash payments in Moldova.

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