Cashless settlements: instrument for tackling shadow economy and driver for the development of banking sector

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Cashless transactions: pros and cons

Benefits

— **Less crime**: because there's no tangible money to steal

— **Less money laundering activities**: money laundering becomes much harder if the source of funds is always available

— **No cash management**: less time and costs associated with handling paper money as well as storing and depositing it

— **International payments:** payments are easier when both counter-parties prefer cashless transactions

Disadvantages

— **Privacy:** Electronic payments mean less privacy

— **Hacking:** Hackers are the bank robbers and muggers of the electronic world

— **Technology problems:** Glitches, outages, and innocent mistakes can also cause problems

— **Inequality:** The poor and unbanked will have an even harder time in a cashless society

Cash demand in the shadow economy

Definition of shadow economy

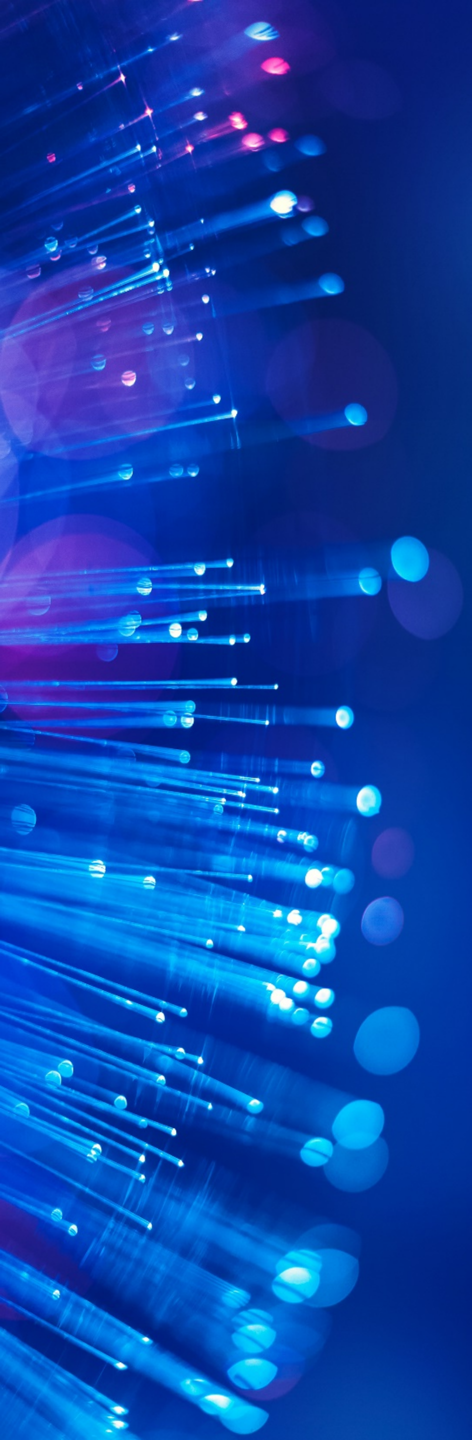
The European Commission defines it as the non-observed part of the economy, comprising: (1) illegal activities where the parties are willing partners in economic transactions, (2) hidden and underground activities where the transactions themselves are not against the law, but are unreported to avoid official scrutiny, and (3) informal activities where typically no records are kept

Typical industries for unlawful use of cash payment instrument

- **Gambling** (e.g. casinos, betting, amusement arcades)**,**
- **Construction and real estate** (e.g. developers, estate agents etc),
- **Traditional cash based businesses** (e.g. jewellers, pawn shops, restaurants)

Risks for the economy

- **Tax evasion/avoidance**: lost tax revenue
- **Poor/incomplete information for government**: leading to incorrect fiscal and/or economic policy
- **Enables the consumption of harmful (low on quality) goods:** lowering health and safety standards through counterfeit goods and/or illegal products
- **Depriving law-abiding businesses from potential growth or maybe commercial rationale for operation:** cash-run businesses are likely to gain competitive advantage through tax avoidance and respective administrative burden (inc. associated commissions) relating to cashless settlements



Obligatory measures and incentives for cashless settlements (global practices)

- Obligation to make cashless payment of salaries, wages and social security benefits
- Threshold for consumer cash payments
- Taxes/levies on withdrawal of cash for businesses or citizens
- Tax incentives for consumers
- Tax incentives for merchants
- Discounts on goods/services provided or rendered by natural monopolies (state owned/controlled entities)
- No transaction fee on digital payments
- Stricter AML/KYC requirements at financial institutions

Growth of banking sector

1. Cash is no longer king. In fact, economies that are more cash intensive tend to grow slowly and miss out on significant financial benefits. Conversely, economies that switch to digital are more successful; the switch can boost annual GDP by as much as 3 percentage points for emerging economies and 1 percent for mature ones.
2. Some 2 billion people globally do not have a bank account. Cashless settlements will generate new customers for banks
3. Decrease of operational expenses: one major North American bank spends approximately $5 billion per year processing cash and check transactions and servicing ATMs.
4. Increase of operational revenue related to customers’ cashless transactions
5. More visibility aids credit process management, allowing banks to make more-informed lending decisions and offer tailored products to various customer groups.

Legal framework and action areas in Azerbaijan

1. Law “On Cashless Settlements”- pros and cons

2. Tax incentives

3. Vision-Proposals

Thank you!

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