Evaluating the Critical Factors Towards a Cashless Society: Maltese Banking Sector Perspectives

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Abstract: After the financial crisis in 2008, there has been a notable increase in cashless transactions, as well as significant improvements in structures and mechanisms in the banking sector. Accordingly, this study seeks to analyse the opportunities and threats in the local banking sector emanating from the pressure to move towards a cashless society. Malta is a country steeped in traditions with the European Central Bank report (2016) stating that Malta is the cash capital of the EU, leading the list of countries where most transactions are effected directly in cash. In coordination with other institutions, governments are moving from cash-based to a cashless system by introducing online facilities to their citizens, such as the online portals, whereby citizens can execute online payments. in order to increase efficiency in handling financial transactions and decrease costs. This has led to the idea of a cashless society. This study assesses several aspects within the Maltese banking sector focusing on the trend towards a cashless society. Through semi-structured interviews held with managerial employees within banks operating locally, the researchers analyse the level of understanding, the pre-requisites required, the stumbling blocks to be removed and all the advantages and disadvantages that banks are experiencing to reduce cash transactions and make the move towards a mostly cashless society. The key findings from this study include a unanimous confirmation from all the banks interviewed that education is the most important element at this stage. A shift in culture and mentality is also required to ultimately lead towards higher accountability, transparency and less frauds. The main concern among the bank representatives interviewed for this study, is the lack of liquidity for banks. The benefits derived from a cashless society are various, and outweigh all the costs and burdens. This study found out that all the banks are in favour of a cashless society. However, some of the banks are adopting a more conservative style where they await the core banks to make the first move; since their moves tend to be regarded as a drop in the ocean, when compared to strategies adopted by core banks, locally.

Keywords: Cashless society, banks, transactions, Malta, cash, banking sector

Introduction

As technology started to improve and evolve, the utilisation of cashless methods as a method of payment has since increased. This is largely, due to a boost in technology, and globalisation which brought the world into a single market. Guraău, (2002) and Driga et. al. (2009), claim that during the past decade, technology has impacted positively in the financial services sector as financial institutions endeavour to reduce transaction costs, communicate effectively with prospective customers, strengthen customer relationship management and above all, augment the customer base. The shift towards a cashless
society will not occur at once. However, these authors contend that as time goes by, the paradigm shift towards a cashless economy is becoming more realistic. According to a survey carried out by Business Insider, by 2015 there were 426.3 billion cashless transactions worldwide, resulting in a 50% increase over the previous five years. According to the European Central Bank, this accounts to 34% of the total transactions performed in Europe in 2015 (European Central Bank 2015).

**Purpose Statement**

This study is designed to evaluate the opportunities and threats that emanate from a cashless society. Even though nowadays, cashless transactions have become increasingly more popular and contribute to the GDP overwhelmingly more than cash transactions, some are still not willing to use cashless transactions for various factors, such as security. The Committee for Payments and Market Infrastructures (CPMI), claimed that the value of card payment for CPMI member countries increased from 13% of GDP in 2000 to 25% of GDP in 2016 (CPMI 2018).

**Research Objectives**

The purpose of this study is to assess the opportunities for banks to operate within and the opportunities that a cashless society brings with it, such as the fact that with increased transparency in business activities, more positive relationships and trust can be developed. Indeed, the research objectives aim:

1. To analyse the advantages and disadvantages of going cashless with regards to the financial services organisations operating in Malta.
2. To discover how other banks in Europe have dealt with and progressed in a cashless society (mainly countries such as Sweden and Denmark will be used as references, due to the fact that they are far ahead of other EU states on this issue).
3. To propose a set of recommendations for local banks to follow in the eventuality of Maltese financial institutions becoming a cashless society.

**Definition of Cashless Society**

Contrary to what some may perceive a cashless society to be, it does not refer to the total elimination of cash, but rather a society that favours cashless transactions when compared to the use of banknotes and coins. Thus, a cashless society can be regarded as a society in which only few notes and coins are in circulation. Business Novice (2018), defines a cashless society as:

an economic concept where financial transactions are executed in an electronic format rather than using the traditional banknotes, while the use of notes and coins in circulation is kept at a minimum.

**The Rate of Growth of Cashless Transactions**

On a local note, the *ECB Statistics on Maltese preferred methods of payments* report, issued by the ECB, states that in 2013, 26.28% of non-cash payments in Malta were performed
through cheques, resulting in an increase of 2.38% from 2012. Moreover, as shown in Table 1, in the same year, 47.59% of the total transactions performed locally came from cards (European Central Bank 2017).

<table>
<thead>
<tr>
<th>Year</th>
<th>Credit Transfers</th>
<th>Direct Debits</th>
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<td>21.67%</td>
<td>4.18%</td>
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<tr>
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<td>22.10%</td>
<td>4.41%</td>
<td>49.46%</td>
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<td>2013</td>
<td>19.54%</td>
<td>6.49%</td>
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*Table 1: ECB statistics on preferred methods of payments among Maltese (Source: European Central Bank 2017)*

A study conducted by Riksbank in 2019, a bank in Sweden, illustrates the most common payment methods in Sweden. When asked about the means of payments used throughout the past month, the vast majority of respondents answered that they are using plastic cards such as Swish (a Swedish plastic card that performs cashless transactions, similar to Revolut) more frequently than they did four years ago, with the traditional method of using cash losing ground to such elements.

![Method of payment used](Source: Riksbank 2019)

*Figure 1: Method of payment used (Source: Riksbank 2019)*

Figure 1 demonstrates that the use of cash declined rapidly (87% reported performing transactions using cash in 2014 while only 61% are still using this method in 2018).

**Moving Towards a Cashless Society**

The transition from a cash to a cashless society provides a number of benefits, not only to the public and private sector, but also to society in general. This is due, mainly, to a number of factors:
An associate banker at the banking advisory services in Malta stated that cash and cheque usage in Malta are the most common payment methods, even when compared to other EU members. The associate banker argued that, cash is perceived as being free, compared to digital payments. However, in reality, handling cash is costly for the business community, the financial sector, as well as the economy (EY 2018). The European Commission announced a public consultation on March 1st, 2017 with respect to cash payment limitations (CPLs), following the adoption of the action plan on February 2, 2016, “against the financing of terrorism”. This action plan suggests that since the use of cash is utilised in the financing of terrorist activities, we should seek to explore the relevance of potential upper limits to cash payments (European Commission 2017). To mitigate this negative effect, the Italian government back in 2011, issued a limit of €1,000 in cash payments. This law’s main aim is to attempt to minimise and limit tax avoidance, as the law states that the maximum allowed cash payment that any given firm can accept should not surpass €1,000. Any amount over and above the stated figure should be performed through a traceable method such as a plastic card. In 2012, Spain followed the same path as Italy and proposed the law of a cash transaction limit of €2,500 for residents and €15,000 for non-residents. Any transaction that does not comply with the stated figures leads to a fine amounting to 25% of the value performed through cash methods (Agencia Tributaria 2018).

The introduction of cashless methods would in turn increase the concept of traceable methods of payments. Cash is not considered traceable, while other methods of payments such as debit cards and other online banking facilities can be considered as traceable. Undoubtedly, this concept increases the transparency and accountability of any given firm. There are several other issues that can be better dealt with, should countries opt for a cashless society. According to Leaviss (2015), having a cashless society would be the ideal scenario for financial regulators, since they would have more accurate and timely data. Thus, they would have far better tools to manage recessions and economic booms.

**Disadvantages of a Cashless Economy**

Irrespective of the benefits mentioned above, not everyone is in favour of the ideas, issues and benefits that can be reaped from a cashless society. In fact, there has been criticism in this regard. Indeed, the evolution towards a cashless economy is labelled as, *The Chief Economist-Anti-Christ* and as the *Mark of the Beast* by some entities. The main negative considerations of a cashless society include:

- lack of privacy;
- lack of security that may lead to mistrust;
- inequality issues;
- doubts on the reliability of the EPOS.

Just like a coin has its two sides, the issue of a cashless economy has several drawbacks. One particular drawback of a cashless society is demonstrated by Olusola et al (2013), when they argue that the individual's privacy comes at a cost, since the government will have total control over individuals’ transactions, thus violating the privacy rights of
individuals. Another drawback that is associated with a cashless society is the lack of security. Given that the use of cash in a cashless society is barely used, even the elderly and illiterate people will have to make use of cashless transactions. Various individuals argue that this might be difficult since passwords and PINs are involved. Olusola et al. (2013), argue that an additional challenge is posed to customers, since users must be able to remember details such as personal identification numbers and passwords, which might be difficult and unsafe for the elderly. Europe's central bankers are warning that a gradual phase-out of cash in many countries poses a serious threat to the financial system, as relying too heavily on digital payment systems exposes them to catastrophic failures in the event of cyberattacks (Politico 2018).

Even though it is the exception and not the norm, sometimes technological devices fail or break down. Critics such as Kai A. Olsen (2018), former member of the European Parliament; Patrick James O'Flynn; and Frank Sorrentino, CEO of ConnectOne bank (2018), often portray that this issue could have major negative impacts on the economy. The critics argue that if an organisation is totally dependent on technological elements and these devices suffer a fault, the whole organisation is negatively affected. The criticism of a cashless economy continues to increase the susceptibility of the customer's reliance on cashless methods and thus trust between all the parties can be considered as a vital component. Olsen (2018), argues that banks may fail to establish an efficient and competent economy, unless trust in banks or financial institutions which handle payments, is guaranteed.

**Research Strategy**

According to Mackenzie (2014), a research strategy is a step-by-step plan of action that gives direction to your thoughts and efforts, enabling the researcher to produce quality results. For the purpose of this study, the qualitative method is used. Auerbach (2003) states that qualitative research includes analysing and interpreting texts and interviews with the aim of discovering meaningful patterns (Auerbach 2003).

The methodological stance that is adopted by the researchers in this study, is that of grounded theory. In this approach, theory evolves from the systematic collection, comparison and analysis of data gathered, leading to concept generation and the continuous interaction between actions and concepts (Glaser and Strauss 1967). Grounded theory, through the activation of in-depth interviews, is regarded as an appropriate qualitative methodology that furnishes rich insights and considerations of organisational tasks and processes, forming integrated patterns that result from the close proximity to the qualitative data gathered (Corbin and Strauss 2008). There is evidence that decision-makers are more likely to endorse findings that derive from qualitative research rather than the traditional quantitative survey measurements as the primary source of data collection (Shankar and Goulding 2000). This research study adopts Charmaz's (2006) constructivist approach. It assumes multiple realities and multiple viewpoints of these realities. The researchers' values, positions and actions impinge on the interpretations and construction of categories, subcategories, and properties that stem from the interaction between the researcher and participants (Corbin and Strauss 2015). Also, as posited by Bryant (2017), the grounded theory method must relate to the development of research skills such as motivational enquiry, critical insight, interpretation, expertise and experience, which contribute towards theoretical sensitivity of the researchers.
The approach adopted in this study is in line with research developments of recent years, where grounded theory is being used as a methodology using the interpretative approach to assess business behaviour (Goulding 2002; Urquhart 2013; Urquhart, Lehmann and Myers 2010). In order to encompass the contextual conditions that are required to assess the use of cashless transactions, this research study adopts a constructivist approach using a combination of inductive and abductive thought (Reichertz 2007). Cardinal to this constructivist philosophy is the author’s significant experience in financial organisations experience and research. Such an approach is suitable to generate a framework of individuals’ behaviour vis-à-vis the use of cash and non-cash transactions from data derived through enquiry in this area. Whereas induction is utilised initially to examine the grounded data that stemmed from the initial cases, abduction considers the various possible explanations for the grounded data through the constant comparison analysis and by discovering a new rule which has not as yet emerged by logical rules.

Grounded theory’s approach to sampling, discards the procedure for calculating sample size, purposely searching for valuable cases that are rich in information content (Aquilina 2017). Grounded theory researchers initially undertake convenience sampling by selecting early participants. Subsequently, the initial data collection and analysis, directs the researchers to discover diversity in properties and new avenues of enquiry leading to purposive sampling. Theoretical sampling is not attempted in this initial study, although it will be included in later research stages.

**Analysis of Research Findings**

This research study focuses on data gathered from participants who are engaged in the day-to-day transactions of the banking sector. The participants in this research study work in seven different local banks, and the data gathered from the interviews, was analysed in terms of the opportunities and threats they perceive in the scenario of a cashless economy. Consequently, the criteria for selecting respondents determined that they must be employed in a top position in one of the following sectors:

- liquidity and cash management
- payments and banking
- risk management
- internal audit

Expert interviews have been conducted with the senior managers of seven local banks. The experience and knowledge of these participants will provide deep insights relating to the implications of a cashless economy. The software package MAXQDA2018 was used so as to enhance the mapping capabilities that emanate from the coding and analysis of data.

Research through in-depth interviews was undertaken to analyse the implications of a cashless society as seen through the lens of the participants of this research study. The researchers, already trained and experienced in interviewing techniques, were the only persons gathering data and transcriptions from field notes. Participants were furnished with a purpose statement that articulated the objectives of this study, and notified them on issues relating to confidentiality and anonymity. Standard procedures for setting and undertaking interviews, as well as for transcribing and coding of data were established in advance. These expert interviews which were all carried out in Maltese, lasted from twenty to thirty minutes each, and were partly unstructured and open-ended with structured questions added as the interview progressed. These interviews provided the
participants with the opportunity to communicate their views freely. Transcription from the fieldnotes proved to be time-consuming, as it took approximately sixteen hours to transcribe each interview.

The researchers followed Charmaz's (2006) guidelines, whereby data collection, comparison, and analysis were undertaken simultaneously after each interview was held. After each interview was concluded, the researchers created memos by utilising field notes that resulted from brief comments and key important issues which emerged during the interview. This memo-writing process enabled the researchers to both analyse the data promptly, and generate ideas to be reviewed at a later stage of the research process.

**Qualitative Data Analysis**

The researchers used MAXQDA2018 as a qualitative data-analysis software application, in order to exploit the mapping capabilities that result from coding and comparison activities of the large volume of data gathered. This process entails evaluating data to formulate a set of categories, sub-categories and properties. Each transcript is uploaded onto MAXQDA. Figure 2 demonstrates the screen dump of data uploaded onto Maxqda2018.

![Figure 2: Screenshot of data uploaded onto MAXQDA2018](image)

The MAXQDA2018 provides the mapping capabilities that denote the constructs relating to moving towards a cashless society for the three main categories, namely Contextual conditions; actions and reactions; and, consequences and outcomes. These are demonstrated in Figures 3, 4 and 5, respectively. These constructs are created by the researcher, following the evaluation of the in-depth interviews undertaken in this study.
Figure 3: Contextual conditions for cashless transactions in the banking sector

Figure 4: Actions and reactions for cashless transactions in the banking sector
Presently, there are twenty-four licensed banks in Malta, including the Malta Central Bank (Malta Bankers Association 2019) and for the purpose of this study, seven of these banks were interviewed. Seven in-depth interviews were conducted, transcribed and uploaded onto MAXQDA2018 for analysis and interpretation.

The interview questions were based on the key elements that originated from the literature review, and the following three themes were selected for the interviews:

1. Benefits and limitations of a cashless society for local banks;
2. Procedures and pre-requisites supporting a cashless society;
3. The Malta Financial Services Authority (MFSA) and the government's roles in a cashless scenario.

**Figure 5:** Consequences and outcomes for cashless transactions in the banking sector
Throughout this analysis the following notation shall be used:

[B1], [B2], etc., numbered 1 to 7, refers to the seven banks’ representatives interviewed, in no particular order.

Implications for local banks when implementing a cashless economy

Theme 1: Benefits and limitations of a cashless society

The first theme analysed the benefits and limitations for banks as perceived by respondents, in the event of a cashless society, when compared to the traditional payment method. Respondents, unanimously agreed that benefits posed to banks in a cashless society, outweigh the benefits of a cash-based society.

Figure 6 depicts all the advantages of a cashless society mentioned by respondents during the in-depth interviews.

![Advantages of Cashless Society Posed to Banks](image)

*Figure 6: Advantages of cashless society on banking operations*
Costs of a cashless society

From a cost perspective, all the participants in this study agreed that in a cashless society, the costs for the banks decrease drastically. This finding is in line with Warwick's contention that a cashless society can save several million dollars per year. As one of the interviewees stated, “Cash is considered expensive to handle and to manage since more resources are required. Thus, we want to eliminate cash. The more clients migrate to e-payments the better for us as a bank.” [B1]. Another participant,[B3], argued that cash incurs a lot of costs for the bank, whilst in return, it does not generate any profits: “Cash incurs maintenance, security and other numerous expenses. As a bank, we do not receive any revenues from cash and therefore we want to move away from it. There are more benefits but unfortunately in Malta cash is still widely relevant.” [B3]. Another interviewee stated that “Primarily, cash is very expensive, not simply to produce to meet the demand but also in terms of quality, employees working on it, purchasing of machines and security issues.” [B7].

Traceability

Traceability is the capability to trace something, and regarding the shift towards a cashless society, since the payments will be performed electronically, this will in turn allow banks to perform better monitoring when payments are conducted. The respondents’ views agree with Leaviss (2015) contention, that by encouraging customers to spend only via electronic means, the authorities are provided with better tools to deal with recessions and economic booms. [B4] stated that through the use of geolocation, the interviewee, in collaboration with the police, managed to track a thief who attempted to commit a financial crime. In fact, “A few years ago, through geolocation we pinpointed and with the help of the police squad we arrested a thief who demanded a deposit of one million in one card. We can consider the decreased chances of theft as a major advantage as well” [B4].

Gross Domestic Product

The GDP is a broad measurement of a nation's overall economic activity. GDP can be considered as the monetary value of all the finished goods and services produced within a country's borders in a given period. Annual GDP growth rate of 2.5%, means that the economy has grown by 2.5% over the past year, and this is vital for banks since the GDP directly affects the interest rates set by banks. One of the respondents stated that since the money is now kept electronically and is not dormant, this will lead to a significant increase in the country's GDP, which in turn affects the banks positively. “A shift to electronic transactions will deliver a notable boost in the country's GDP, which in turn is a major benefit for the banks.” [B2].

Theme 2: Challenges That a Cashless Society Poses to Banks

The second theme evaluates the participants’ views about if they consider the possibility of any there being any disadvantages in an economy in which all the financial transactions are executed electronically instead of traditional means.
Lack of liquidity

[B5] and [B6] claimed that the lack of liquidity is the main concern for the banks, since in a cashless economy, the money will be kept in an electronic account instead of in a bank: “Due to the fact that the money will now be kept in an electronic account rather than in the bank's account, this might pose a threat to the banks since they will experience lack of liquidity.” [B5]. According to [B6], whilst using cash, people tend to leave certain amounts in their bank accounts. On the other hand, with the use of plastic cards, people will tend to keep their money stored in their card, posing a liquidity problem to the banks [B6].

Reliance on a third-party provider

Apart from the liquidity issue, respondents also raised the issue that in a cashless economy, the bank needs to rely upon a third-party provider, which increases the chance of failure and errors. This is mainly due to the fact that banks are always depending on a third party and since there is no room for failure, the total transaction could be affected [B4].

Infrastructure

[B5] also brought up the issue that a bank would need to upgrade the infrastructure in order to be able to cater for totally cashless transactions. The participant argued that this upgrade comes at a hefty cost and therefore it can be considered as a limitation [B5].

Relevance of banks in the event of a Cashless society

When it comes to the relevance of banks in the event of a cashless society, almost all the banks' representatives interviewed, except for one, agreed on the fact that they are seeing the transition as a challenging opportunity, rather than as a limitation or a threat. [B3] argued that this is a threat, but they are confident that they will be able to turn it into an opportunity, and to this effect they are monitoring the issue and how fintech organisations are acting. A fintech company can be defined: “as an organisation, that offers financial services using software and modern technology. Some fintech developments have improved upon the traditional brick and mortar services, for instance by introducing mobile applications.” (Capital n.d.). Additionally, [B4] stated that currently, the bank is in an ideal position, since it can offer both aspects, whilst on the other hand fintech companies can only offer the technological aspect. To this effect, the bank has stated that its objectives are specifically to improve the systems and deal with issues such as loans that people tend to come to banks for. On the contrary, [B2] stated that this issue of relevance may be perceived as a threat. However, the bank is undertaking certain activities to ensure that it remains relevant. The bank is focused on implementing KYC (know your clients) activities to ensure that banks continue to monitor and identify the changing needs and wants of the customers.
Creating awareness among the general public on the implications of a cashless society

The senior bank managers interviewed were asked to what extent they think that the general public is aware of the implications relating to the use or non-use of cash in financial transactions. Among the respondents, 85.7% stated that they think that in general, the public holds a “poor level of understanding” – and thus strong marketing campaigns that emphasise on the awareness of moving towards a cashless society are required. On the other hand, 14.3% of respondents stated that the general public holds a “good level of understanding”, however, there are several issues for why cashless methods are still not the most popularly used method of transacting. It is significant that the responses gathered from this question, are identical to the outcome responses of the report issued by the Central Bank of Malta: “Finally, the survey indicates that there is lack of information on the various payment instruments and their benefits.” (CBM 2018).

One common factor why people tend to stay away from cashless methods, according to the respondents, is related to the fees imposed on cashless transactions by banks. [B1] stated that they are aware of such barriers and that at the moment, they are trying to find a solution for this issue:

Internal changes are being addressed and as time passes our reaction to change is becoming faster than before. In fact, we are also working on reducing the fees that merchants have to pay when receiving a payment through a cashless method. [B1]

Theme 3: Sustainability and Security Issues in a Cashless Society

This theme is designed in order to give the researcher a deep understanding on the sustainability and feasibility of a cashless society, given that several critics state that, cash is king, and that a cashless society can be considered as the evil of all evils.

Resistance to change from the general public

Resistance to change is one of the most difficult challenges that an organisation or a country faces. In this research study, all the participatory banks offer to some extent cashless transactions, with some of them being totally cashless, while other banks offer both services.

When asked about this issue, 28.6% of participants stated that they found low resistance, and another 28.6% indicated that they found high resistance. On the other hand, the largest percentage of respondents stated that they found a fair resistance when implementing certain measures to incentivise the application in practice, of cashless methods and this amounts to 42.8%.

Steps taken regarding the shift towards a cashless society

According to the respondents interviewed, in order to enhance the shift towards a cashless society, several steps and actions must be pursued, mainly in the form of incentives. According to [B1], the steps taken by the organisation proved to be successful
vis-à-vis the shift towards a cashless society, and they quantified it thusly, “To this effect we introduced cards with loyalty scheme such as the gold card. When we introduce an incentive, we always see spikes in the sales.”[B1]

Additionally, [B2] stated that their bank launched an electronic method of payment that includes several incentives, with the aim of penetrating the market, and ultimately acknowledges the benefits of such e-payment methods affected by the general public:

We provide a number of incentives to shift the general public to cashless transactions. In particular, we provide benefits to retail customers where they get interest free period and also loyalty points, when they use e-methods of payments. [B2]

**Sustainability of a cashless society**

One of the main concerns relating to cashless transactions is the sustainability and security issues of a cashless economy. In February 2019, a hacking attempt on Bank of Valletta’s (BOV) internal system was made which, unfortunately, proved to be successful. This attempt raised a number of concerns, especially when the funds were not totally recovered. The hack on BOV compelled the organisation to shut down its operations after €13 million were falsified in transactions. All of the bank’s functions, including those at its branches, were temporarily suspended, and its website was down (The Malta Independent 2019)

The interviewees were asked to what extent they perceive that an economy dependent on cashless transactions is feasible, sustainable and secure. Of the respondents, 57.1% claimed that they regard a cashless economy as, “sustainable and secure”. On the other hand, the remaining 42.9% stated that they view a cashless society as a “highly sustainable” system. Crucially, none of the respondents were of the idea that a cashless society is neither highly unsustainable, nor not sustainable.

**Theme 4 – Shifting Malta’s strategies and adapting towards a cashless economy**

This theme was designed in order to give the researcher a deep understanding of the upcoming strategies that local banks are designing to minimise the impacts, as much as possible, and bring along a cashless society.

**Key prerequisites for a cashless society to be feasible**

Regarding the key prerequisites for a cashless society to be viable, all the respondents came up with elements that have already adopted by Sweden, such as the issue that no bank can work in isolation.

I think that primarily, for a cashless society to be feasible, no banks can work in isolation. If we want a society to move towards cashless it has to be on a national level.[B1]
To this effect, nearly all the respondents referred to the Swedish case study, whereby local banks are closely monitoring the developments already taking place, in order to adopt the best practices, and avoid the false steps that Sweden and other countries made over the years, mainly due to inexperience in the field.

The main prerequisites recommended by the respondents include: Education; rewards and incentives; marketing campaigns; investment in technology and infrastructure; security measures; and, legislative framework.

**Upcoming steps towards a Cashless Society**

“If you fail to plan, you plan to fail”(quote attributed to Benjamin Franklin n.d.), and the most important aspect when it comes to planning is identifying the current opportunities and threats, and following up this process by acting upon the strengths and weaknesses of the organisation. All the banks are aware of the shift towards a cashless economy, however, due to various reasons – such as size of the company, strategic objectives and current market share – the upcoming steps in the pipeline may vary from one bank to another.

The respondents commented upon various steps that they are about to adopt, with some of the respondents stating that they cannot reveal the upcoming steps at this stage. Some of the banks recommended steps that are also identified by the CBM: “Technological and security enhancements play a vital role in facilitating how everyday payments are made. In fact, modern payment channels are continuously being developed, introducing more efficient and convenient methods of payment.” (CBM 2018). These steps include: A hefty investment in the firm's systems, processes and infrastructures to reduce costs and maximize convenience and control; an investment in technology and tools that support cashless methods; launching of a TCR (teller cash recycler) – a machine that authenticates incoming bank notes and securely stores the cash in an internal vault, and provides the capability to process automated cash transactions for the tellers from the cash inventory, including deposits and withdrawals.

**Recommendations**

Similar to other studies investigating Malta's economy, this study shows that cash usage is still relevant, and in fact it is still the primary payment method. This attitude may be partly due to the reluctance of the general public to change habits, and may also reflect the lack of availability for alternative electronic means of payment by suppliers or service providers. Even though electronic payment instruments and channels are highly efficient and convenient, there may also be constraints within the business community around not accepting non-paper means of payment.

Maltese households also seem to underestimate the costs involved in maintaining and processing traditional paper-based payment instruments. Finally, this research study indicates that there is a lack of information on the various payment instruments and their benefits. This could further explain why some households have a strong preference towards using cash, the traditional payment instrument, which they are conversant in.
Research Objective 1: To analyse the advantages and disadvantages of going cashless and the effect on financial services organisations operating in Malta

All the respondents demonstrated a high understanding of the opportunities and limitations that a cashless society brings along, and all of the interviewees unanimously agreed upon the fact that the opportunities and advantages it poses are relevant when compared to the disadvantages and limitations. Respondents in this research study claim that the main areas affected by a cashless society are: reduced costs; more transparency and traceability; increase in the country’s GDP; and, accurate and timely transactions.

This is in line with Leaviss (2015), who argues that by obliging everyone to spend via electronic means, the authorities will have far better tools to deal with recessions and economic booms.

<table>
<thead>
<tr>
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<th>Disadvantages</th>
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<tbody>
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<td>Traceability of funds</td>
<td>Lack of liquidity</td>
</tr>
<tr>
<td>Reduced risks of cash leakages</td>
<td>Reliance on third party provider</td>
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<tr>
<td>Less Costs</td>
<td>Infrastructure</td>
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<td>Less funds allocated to money laundering</td>
<td>Security in the initial stages of the transition</td>
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Table 2: Advantages and disadvantages of cashless transactions in the banking sector (Source: Leaviss 2015)

Research Objective 2: To discover how other banks in Europe have dealt with and progressed in a cashless society

All those interviewed, are knowledgeable about the adaptation of cashless transactions in Sweden, and they are closely monitoring this issue to ensure that the right steps are taken and implemented locally, since Sweden’s shift incurred a number of setbacks throughout the process.

To be fair when analysts mention Sweden, everyone simply mentions where they have arrived but unfortunately no one mentions the journey throughout. [B2]

To this effect, banks are closely monitoring the latest features that Sweden has introduced, which seek to add security and fraud risk management measures. One practical successful case is the introduction of the EMV chip cards, which provide strong two factor authentication and counterfeit protection through 3D security. Additionally, local banks are also looking into the recently approved regulations of Payment Services Directive 2.
Main areas which international banks explored

| Introduction of EMV chip cards |
| Amendments in the policies and regulations |

*Table 3: How international banks dealt with the shift towards cashless transactions (Source: Committee for Payments and Market Infrastructures 2018)*

Research Objective 3: To propose a set of recommendations for local banks to follow in the eventuality of Malta becoming a cashless society

All the banks agreed that the key-players in moving towards a cashless society should be the local government, the Central Bank of Malta and the two core banks, namely, Bank of Valletta and HSBC. Additionally, there are several other recommendations for local banks to implement prior to this paradigm shift. Accordingly, before any system is introduced, thorough stress-testing should be conducted, since without confidence and the public’s trust no system will succeed. This should be tackled in a way that reduces money laundering whilst also preventing crimes related to identity theft, cyber-crime and online scams. The best possible infrastructure should be introduced to make this system a success. It should be preceded by a pilot project that tests key elements, such as: the power supply; the technological infrastructure; customer support services; and other regulatory framework measures.

A nationwide educational campaign will be needed to inform the general public and the business community on the features, advantages and risks associated with the various payment channels, and which could better assist economic agents to make better informed decisions and better choices when affecting payments.

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<th>Main Recommendations</th>
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<td>A nationwide educational campaign</td>
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<td>Investment in the organisation's infrastructure and technology</td>
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*Table 4: Main recommendations for Maltese banks*

Main stumbling blocks to be removed

Arguably, in order for this shift towards a cashless society to be executed successfully, a number of stumbling blocks have to be eliminated. The findings of this study found that there are two main stumbling blocks that would need to be removed within the local scenario. These are the development of a technology that meets the requirements and the required legal and regulatory changes. The aforementioned stumbling blocks, are directly in line with what countries such as Sweden have tackled successfully in order to move towards a cashless society.
Development of technology that meets the requirements

Having all the money available to consumers entirely reliant on the private sector would likely not fulfil the central banks’ mandate to consumers to provide a safe and efficient payment system. Therefore, for a cashless society to truly exist, it is imperative that central banks start to offer an alternative technical substitute for consumers.

Drastic change in laws and regulations

The second challenge, relates to the current laws and regulations in place, locally. While in almost all European countries, the public is charged to withdraw cash, locally it is the other way round, whereby the public is charged when paying by electronic means. In order to incentivise the public to go for cashless transactions, there needs to be a drastic change in the current laws and regulations, in this regard.

Conclusion

The data and outcomes from this research study, demonstrate that Malta is still far back when it comes to the shift towards a cashless economy, even though the usage of cashless payments is on the increase, in line with the willingness of local banks also looking towards increasing alternative methods of payments. Technological and infrastructural innovations, as well as new legislation that spurs competition among stakeholders, have influenced and will continue to influence the landscape of card payments both in Europe, and locally. With all these elements in place, education should be the next feature implemented as part of this shift. Education is an important factor, since the younger generations tends to be more attracted to cashless payments, while the less literate population, and older generations, tend to be more resistant to change.
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