

The state and the payments

Summary of the report of Betalningsutredningen

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Summary

Remit of the Inquiry

The Inquiry's remit was to investigate the role of the State in the payment market and consider what that role should be in the future. This assignment has been carried out on the basis of a thorough and broad analysis of the respective roles of the State and other participants in the payment market, the changes in the financial and payment markets resulting from technological development and digitalisation, and the emergence of new means of payment and the reduced use of traditional means of payment in the form of banknotes and coins (cash). The Inquiry has analysed a number of possible development scenarios in the payment market, based on developments in Sweden and other countries. In some areas, the Inquiry is submitting legislative proposals or proposals for other public interventions.

In adopting its position on what the role of the State in the payment market should be, the Inquiry has taken into account the requirements that follow from Sweden's membership of the EU, and that Sweden does not have the euro as its currency.

The State's role in the payment market

A payment is fundamentally a transfer of economic value (or purchasing power) from one natural or legal person (the payer) to another (the payee). Digitalisation has meant that not only economic value but also information is transferred between payer and payee (e.g. who the payer is, and to which account the payment is to be made). Means of payment, payment services and payment instruments are in essence just different ways of (albeit efficiently) 'encapsulating' value and information. The ability to make digital payments requires a well-functioning infrastructure and efficient actors. Similarly, central

banks, banks, card networks, etc., are mechanisms for validating, coordinating and journalising payments when the technology and the society have evolved.

To understand the role of payments in society, but also the role that the State should play in the payment market, it is thus the payment as such that should be the focus. The emergence of new ways to pay, new market participants and the many connections between them, make it apt to use the term ‘payment ecosystem’.

Everyone makes payments. Paying is by far the most common legal act performed by a person. But above all, payments have a very great significance for the way the whole of society functions. Payments must be efficient, accessible and secure. The State has an interest in ensuring this, not least through legislation. However, the basis of the State’s role in the payment market has changed. Most payments are now made digitally. This creates new opportunities but also imposes new and different demands on the State and market participants alike. The digitalisation of society has had – and will continue to have – great significance for development in the payment market.

The Inquiry notes that far too many people lack access to digital as well as cash payments. That is why the State needs to assume a greater responsibility for everyone being able to make payments. Private initiatives and innovations are driving technological development. This is providing access to new payment services that are making life easier. This is true for most people. However, digitalisation has excluded large groups of people, which has made many people highly dependent on others. This applies in particular to the elderly, people with disabilities, and those with legal representatives. The solution to this digital exclusion problem is not simple. However, one part of the solution is that the State is clearer in its approach to its interventions so that they are indeed focused where they do the most good. Digital exclusion from the payment market is also a reflection of generalised digital exclusion. Measures therefore need to be taken in additional policy areas beyond the payment market.

In the first instance, the State should assist more people to enter the digital payment market – not make it less costly and onerous to remain excluded from it. At the same time, the possibility of paying with cash is also important for a more inclusive payment market, but also from a civil preparedness point of view. In this respect, too, there are reasons for the State to assume a greater responsibility.

The State also needs to assume a greater responsibility for the security of the payment ecosystem. Payments should be secure, and this must apply to the individual, as well as critical infrastructure. The far-reaching digitalisation of society creates vulnerabilities. The serious security situation, in particular since Russia's large-scale invasion of Ukraine on 24 February 2022, has placed civil preparedness in sharp focus. Given that payments constitutes a basic public service, payment systems and their infrastructure are vital services.

The legislation surrounding digital security and civil preparedness has been strengthened and broadened. However, there are reasons for the State to take further steps to make digital systems less vulnerable and more dependable, and to improve civil preparedness in the area of payments. This includes making critical services more robust by placing high demands on cyber security and operational continuity on banks and infrastructures. This also applies to technical support services such as the Swish service and the BankID e-identification service. In these respects too, the State has been given greater scope to set requirements and new legislation has been proposed. Additional legislative measures should not be ruled out. Furthermore, the State needs to ensure that the legislation allows market participants – in both the payment market and in commerce – to design payment solutions that work even when electronic communications in particular do not. It should be pointed out that digital systems are not by their nature more vulnerable than physical systems. In serious crises, it can be at least as difficult to maintain physical infrastructure as digital infrastructure.

To be able to deal with the challenges and deficiencies mentioned here requires well-functioning cooperation within central government as well as with market participants and civil society. Previous crises, most recently the COVID-19 pandemic, have clearly revealed shortcomings in both cooperation and operational command capability. Cooperation between ministries and public authorities needs to be stepped up and occur across the boundaries and areas of responsibility defined by financial markets legislation. In some respects, the division of responsibilities between public authorities with a responsibility for preparedness in – or relevant to – the payment area may need to be clarified.

A stronger role for the State does not mean that the public sector should provide payment services or operate infrastructure to a greater

extent. Such measures should not be ruled out, but in most cases market participants are considerably better suited to develop fit-for-purpose and cost-effective solutions. It is absolutely key that the public sector imposes relevant and unequivocal requirements on market participants who perform indispensable services (e.g. payment services). For example, in public procurement or in similar requirements, the public sector should ensure that these companies cannot themselves choose not to perform indispensable services when market conditions change.

Development in the payment market in Sweden

The payment market has been rapidly digitalised over the past two decades. Sweden is at the very forefront of this development and is not the country of ‘everything in moderation’ when it comes to payments. Along with Norway and to some extent Denmark and Finland, the retail payment market in Sweden is one of the most digitalised in the world. The use of manual (physical) means of payment such as cash, cheques and paper-based credit transfers has declined rapidly.

In traditional commerce, payments with cards are the predominant form of payment. In addition, over the past decade the Swish service has replaced cash as the most used way to pay or transfer money between private individuals. Swish is also becoming an important service for businesses, in e-commerce in particular, but increasingly also in traditional commerce and the services sector.

The use of cash for payment purposes has gradually declined over a longer period of time and is now comparatively low. At the same time, demand for cash has remained virtually unchanged in the past five-year period. One reason may be that the public wants to hold cash for preparedness purposes. Analysts have concluded that development is clearly towards (in principle) a cashless society, especially in Sweden. The statistics, however, do not point to such a development, at least not that this will occur in the foreseeable future.

The Swedish population are generally favourably disposed towards how the payment market works and the most common forms of payment for private individuals, i.e. card payments and payments with the Swish service. Important factors for the further digitalisa-

tion of the payment market are that digital payments are safer and more secure in the event of a crisis or war, and that payment data is protected.

One form of cross-border payments that does not receive much attention is remittances. A remittance is a relatively low-value cross-border money transfer between private individuals. In comparison with other comparable countries, Sweden has low levels of outward remittances.

Options for all to make payments and access to payment services

While the digitalisation of the payment market has made it easier for many to access – often much appreciated – payment services that have made it easier to make payments, many people face various obstacles that prevent them from accessing or using these services to the same extent as others. A first obstacle is that some people are excluded from the digital payment market, for example because they do not have access to a payment account or an e-id. A second obstacle is what is commonly referred to as digital exclusion. Digital exclusion means that although people have access to digital systems, the systems themselves are designed without much care for their usability and accessibility, thus excluding users, or users may lack the knowledge or equipment necessary to make digital payments.

The Inquiry proposes that the objective of access to basic payment services at reasonable prices decided by the Riksdag (Swedish parliament) be replaced by a technology-neutral and futureproof objective – that everyone in Sweden should be able to make payments at a reasonable cost, regardless of the means of payment. Like the current objective, this objective should be decided by the Riksdag. There have been major changes in the payment market since the objective for basic payment services was decided by the Riksdag in 2007. These changes concern both payment habits – where fewer and fewer payments are being made using cash – and legislation.

The proposed new objective imposes somewhat different demands on public interventions. Interventions should continue to support access to basic payment services. Beyond this, these interventions should focus on creating good opportunities for all to make pay-

ments and adapt to developments in the digital payment market. The Inquiry is also of the opinion that public interventions need to be evaluated.

Access to payment accounts

Access to a payment account is a prerequisite for the individual to be able to make payments. At the same time, money laundering and terrorist financing are a very serious social problem and it is essential to prevent the payment ecosystem from being used for such purposes. Consequently, in some cases it is legitimate for an individual to be denied a payment account or to have their account cancelled. However, the lack of data makes it difficult to assess how many people do not have access to a payment account with basic features, and whether there are specific groups that face the greatest problems in this regard.

The Inquiry is of the opinion that current legislation provides credit institutions with all they need for an appropriate compliance with the provisions governing money laundering and terrorist financing, and the right to a payment account with basic features. However, there is evidence of failures in credit institutions' compliance in the area of access to payment accounts. Failures in oversight and monitoring in this respect can also be noted.

The Inquiry assesses that, where the risk of money laundering or terrorist financing in the individual case is deemed to be too high, credit institutions or branches of foreign credit institutions should more often offer payment accounts with a more limited range of services than the statutory basic features provided for in Chapter 4a of the Payment Services Act (a low-risk account), rather than refusing access to a payment account with basic features.

The Inquiry also takes the view that the Swedish Financial Supervisory Authority has sufficient power to issue regulations concerning the necessary statistics on access to payment accounts with basic features. This power should be exercised as soon as possible in order, among other things, to get a picture of the number of consumers who are denied such an account. In addition, the Inquiry makes the following proposals for measures:

- All factors and types of evidence of potentially lower risk specified in Annex II of Directive (EU) 2015/849 (4th Anti-Money Laundering Directive) shall be inserted into Chapter 2, Section 4 of the Act on Measures against Money Laundering and Terrorist Financing (2017:630).
- Clarification of the legal duty to enter into a contract under certain circumstances in Section 11d of the Deposit Guarantee Act (1995:1571) via a new provision in the Deposit Guarantee Act which gives the Swedish Government, or the authority designated by the Government, the power to issue regulations on the basic terms and conditions for such an account.
- Requiring credit institutions to test in particular whether other measures can be taken to limit the risk of money laundering and terrorist financing rather than cancelling a payment account with basic features.

The position of consumers in the digital payment market

The State has a key duty to protect consumers in the digital payment market. The position of consumers in the digital payment market is affected by multiple factors and thus by interventions in several policy areas.

The digitalisation of the payment market has made it significantly easier and faster – in short, seamless – to make payments compared to paying with cash. However, simpler payments risk leading to over-consumption and, at worst, over-indebtedness. Another downside to the digitalisation of the payment market is the emergence of a new type of fraud. At the same time, it can be noted that more traditional forms of crime, such as robbery, have decreased. Crime linked to payments damages not only the private finances and the sense of security of its victims, but also confidence in the digital payment market as a whole.

The digitalisation of the payment market requires consumers to understand and decide themselves on the advantages and risks of various payment services and means of payment in order to make conscious and wise choices. Payment services can be experienced as complex, and consumers are often at an information disadvantage in

relation to the payment service providers. The expansion of e-commerce has helped to blur the line between what is a payment and what is credit. For these reasons, interventions to promote the financial literacy and awareness of individuals constitute an important task for the State.

In order to increase the financial literacy and awareness of young people, the Inquiry considers that payments and consumer loans should be included as an express part of the instruction in household finances that is part of the key content of the syllabuses for compulsory civics courses in upper secondary school. The clarification of this key content should apply to both higher education entrance programmes and vocational education and training programmes in upper secondary school.

The Inquiry is of the opinion that the work of the Swedish Financial Supervisory Authority on financial adult education needs to be clarified. The Inquiry therefore proposes that a new provision be introduced in the Authority's instructions to the effect that the Authority must submit a separate report annually to the Government listing the interventions and results of its work with financial literacy for adults.

Trust and integrity in the digital payment market

The digitalisation of the payment market raises questions about privacy, secure identification and processing of personal data, and what the effects of failures in these respects could have on public confidence in the payment market and, ultimately, for the financial system.

If central government is responsible for primary identification of an individual, a national e-id at the highest level of assurance and security can be used to obtain other electronic IDs and trust services without the need for companies offering these services to carry out an equally comprehensive identification process for a new customer. The Inquiry is of the opinion that primary identification of citizens and residents is a central government responsibility. In view of this, the Inquiry assesses that it is extremely urgent that a national e-id be introduced with the highest level of security as soon as possible. The Inquiry welcomes the recent initiatives taken by the Government to enable such a solution.

Central government has a very important responsibility to ensure that e-id:s are accessible and secure. At present, the oversight of e-id:s and trusted services is spread across several central government authorities. The Inquiry therefore is of the opinion that the Government should review responsibility for the oversight of e-id:s and trusted services in order to achieve a more coherent, clear and efficient oversight structure.

The Inquiry is of the opinion that the protection of individuals' payment data is covered by adequate regulation. However, an obligation to consult on matters relating to the protection of individuals' personal data in the financial area should be introduced into the respective instructions of the Swedish Financial Supervisory Authority and the Swedish Authority for Privacy Protection. Finally, the Inquiry is of the opinion that the Government, or the authority designated by the Government, should provide clear guidance on the financial secrecy provisions – from a modern perspective and in relation to the EU's data protection rules, among other things.

Competition in the ecosystem for payments

Effective competition is important for private individuals and businesses to have access to efficient and inexpensive payments adapted to their needs. In recent years, established financial corporations, in particular banks, have been challenged by new market participants, of which a large number operate in the ecosystem for payments. All in all, evidence shows that the conditions for competition in the payment ecosystem in Sweden are relatively good, but this does not mean that there is no need for measures to promote competition.

The conditions for competition differ in the different layers of the ecosystem for payments in bank money. Competitive pressure is highest in the services layer, i.e. the layer closest to the users. There is less competition in the payment system and clearing layer, and in the settlement layer, i.e. in what is known as the payment infrastructure, in particular because economies of scale and network effects in both these layers are strong. However, in these layers too, increased digitalisation and transformation is occurring, for example, due to the establishment of new market participants that provide infrastructure services.

Much of the payment infrastructure in Sweden has been successfully built up by the major Swedish banks and international card networks. From the competition point of view, it is important for new market entrants (provided they meet certain requirements) to be allowed access to the necessary services and infrastructure on objective and non-discriminatory terms. Otherwise, their potential for offering payment services in downstream markets may be impeded. In the opinion of the Inquiry, there is a risk that credit institutions could restrict competition in relation to payment service providers by denying access to other services (other than payment accounts), which would impact a payment service provider's potential to provide its services in a seamless and efficient manner. In light of this, in the opinion of the Inquiry, the meaning of payment account services should be explicitly defined in statute. The Government, or the authority designated by the Government, should therefore be empowered to issue regulations on what constitutes payment account services under the Payment Services Act.

Authorities monitoring competition should have a good overview of how the payment ecosystem is developing so that they can deliberate more effectively on the need for interventions by them, but also to propose measures that the Government or public authorities should take. In light of this, the Government should instruct an authority to conduct an in-depth analysis of competition in the payment market and, if necessary, propose measures. The analysis should be carried out with the aid of a market investigation tool. The purpose of using a market investigation tool is to detect anti-competitive behaviour that needs to be addressed through specific measures that go beyond what is possible under traditional competition law (restrictive legislation). Competition authorities can thereby turn their attention to more general competition problems without being dependent on competing companies calling attention to instances of non-compliance with competition law.

The payment infrastructure in Sweden

Digital payments require a comprehensive machinery which ensures that a payment is correct, timely, final and can be made as cost-effectively as possible. This machinery – the payment infrastructure –

consists of systems for clearing retail payments and the central banks' systems for the settlement of (large) payments between banks, and the payment systems operated by banks and international card networks.

The payment infrastructure in Sweden, as in much of the world, is undergoing major changes. These changes have been driven by three factors in particular. Firstly, there is a need to upgrade legacy infrastructure and make it better adapted to the changing needs of consumers and companies. A clear trend is that more and more payments are being made (virtually) instant, 24 hours a day, all year round. Secondly, the payment infrastructure is fragmented, which impedes cross-border payments in particular. Thirdly, there is increased European and Nordic cooperation in order to jointly bear the significant costs involved in upgrading and integrating the infrastructure.

The Inquiry can note that the current legislation in Sweden concerning the clearing of payments is dated and is too principle-based, which makes it difficult for the Swedish Financial Supervisory Authority to set clear requirements in an authorisation process and for effective oversight. Furthermore, the current legislation is contributing to poor harmonisation of the capital requirements imposed on different types of financial infrastructure companies, and creates regulatory uncertainty for these companies. Neither is the legislation adapted to the growing incidence of instant payments which can be expected to have an even greater impact in the future. The legislation has, finally, not been updated in relation to global standards and regulation in the EU. In light of this, the Inquiry welcomes the proposal for a new act for clearing and settlement, which the Riksdag is expected to consider in autumn 2023.

Civil preparedness within the ecosystem for payments

In order for the exchange of goods and services, as well as the payment of salaries, for example, to function even in a peacetime crisis situation or in a heightened state of alert, it must be possible to make payments even when the payment infrastructure is under great strain, for example in the absence of functional electronic communications. For this reason, good preparedness in the payment ecosystem is of great importance for civil preparedness in Sweden.

The Inquiry proposes that the power for the Government, or the authority designated by the Government, set out in Chapter 39, Section 10 of the Tax Procedures Act (2011:1244) be extended to also potentially permit the Swedish Tax Agency to decide on exemptions from obligations relating to cash registers in the event of a peacetime crisis or a heightened state of alert. The proposal aims to reduce uncertainty for business operators as to whether it is possible to receive payments in cash without violating the cash register provisions in the Tax Procedures Act.

The Inquiry makes the assessment that, as a starting point, business operators who supply essential goods (in which category the Inquiry includes prescription medicines, food and fuel) should accept multiple means of payment, including the kind that function in the event of major disruptions in the electricity supply or electronic communications. The Inquiry also assesses that, in peacetime crisis situations or a heightened state of alert, there is a need for a public guarantee to enable digital payments to be made offline, i.e. when electronic communications are not working, when buying essential goods. Such a guarantee is to apply to the credit risk for liquidity loans to business operators who receive digital payments offline under such circumstances. The Inquiry therefore proposes a new Act that regulates such public credit guarantees. The Act would regulate, among other things, the circumstances under which a credit guarantee can be issued and outline the conditions for such a guarantee.

With the introduction of the current Sveriges Riksbank Act (2022:1568) and the Ordinance on Central Government Authorities' Preparedness (2022:524), changes in the responsibilities, duties and powers within civil preparedness in the payment area have been decided. The Inquiry is of the opinion that these changes give the relevant authorities better conditions for taking the lead in preventive efforts, and for acting faster, cohesively, and decisively in crisis situations. However, the responsibilities and tasks of the Swedish Financial Supervisory Authority and of the Riksbank in both crisis preparedness and crisis management work need to be clarified. In addition, more effective forms of cooperation, particularly when it comes to operational crisis management, should be considered in the context of a comprehensive review. Consideration should also be given to whether the Riksbank, through an amendment to the Sveriges Riksbank Act, should be obliged to consult with or inform the Swedish

Financial Supervisory Authority during peacetime crisis situations and in a heightened state of alert.

Finally, the Inquiry is of the view that the Government should undertake a comprehensive review of how central government can ensure that payments of social security entitlements are made in a heightened state of alert, taking into account how the payment ecosystem in Sweden has developed and can be anticipated to develop in the future. Such a review should not be limited to entitlements under the Social Insurance Code.

Cyber security in the payment ecosystem

Cyber attacks against businesses, public authorities, regions and municipalities as well as critical infrastructure have become more common. According to the public authorities responsible for detecting, mapping and preventing cyber attacks, the most serious threats come from state actors who have a very high level of endurance and capacity to carry out cyber operations. Since the possibility of making payments is a basic service, the issue of cyber security in the payment ecosystem is a key part of society's civil preparedness and of safeguarding financial stability.

The Inquiry assesses that it is important that work on strengthening cyber security in the financial system should continue and be intensified. This should be done by taking cyber security measures based on an integrated approach. The Inquiry is of the opinion that cooperation between the Government and the Government Offices should be strengthened, in particular between the ministries responsible for Sweden's national cyber security centre (Nationella cybersäkerhetscentret), the National Security Adviser and their Office, and the Ministry of Finance.

Legal tender

Under Chapter 4, Section 12 of Sveriges Riksbank Act, the banknotes and coins as well as what is termed 'contingency money' issued by the Riksbank are legal tender. This means that a creditor or other payee is obliged to accept banknotes and coins issued by the Riksbank as payment. However, derogations may be made to this general

rule. A derogation of this kind may be regulated in law. In addition, the parties in a private law context are free to agree on the means of payment in which payment is to be made. However, in the case of fees and charges governed by public law, according to case law, there is an obligation on the creditor to accept cash payment. A proviso is that the legal relationship between the parties is in substance not of a civil law nature and should therefore be assessed in accordance with civil law rules.

The Inquiry proposes that a new means of payment act (*lagen om betalningsmedel*) should be introduced and that the provision in Chapter 4, Section 12 should be transferred to the new Act. It is also proposed that – in order to strengthen the position of the Swedish krona – the new Act should include a provision obliging a creditor or other payee to receive payment in Swedish kronor, unless otherwise agreed or legally required. The Inquiry also proposes that the Act should contain a rule that a creditor or other payee should be obliged to accept legal tender as payment, unless otherwise agreed or legally required. Furthermore, case law in this area should be codified as regards the authorities and a person who exercises public authority or provides publicly funded services. These operators should therefore be legally obliged to accept legal tender for fees and charges, provided that the legal relationship between the parties is chiefly of a public law nature. However, the obligation is limited to 0.25 price base amounts and a maximum of 50 coins for a single fee or charge transaction.

The Inquiry also proposes that the option to pay taxes and charges regulated in the Tax Procedures Act with legal tender up to an amount equivalent to 0.25 price base amounts, and a maximum of 50 coins per transaction, should be inserted in Chapter 62, Section 2 of the Act. The same amendment should be inserted in the Acts that regulate taxes not covered by the Tax Procedures Act.

The Inquiry also proposes that a provision be inserted in Chapter 2, Section 6 of the Medicinal Products (Trading) Act to the effect that a person authorised to sell medicinal products to consumers must accept payment by physical means of payment issued by the Riksbank for the purchase of medicinal products and goods which are covered by the Pharmaceutical Benefits Act (2002:160).

The Inquiry is of the opinion that a general obligation for a creditor or other payee to receive payments in banknotes and coins should

not be introduced. However, it is important for society, not least for reasons of inclusion and civil preparedness, that essential goods such as medicinal products, food and fuel, in particular, can be paid for using many possible forms of payment, including banknotes and coins. The Inquiry assesses that the arguments against specific legislation governing cash payment for food and fuel currently outweigh the arguments for, but that the development must be followed closely.

The Inquiry makes the assessment that the Government, or the authority designated by the Government, should review the position of cash and access to cash services by 2025 at the latest. The review should at least cover the options for making cash payments, in particular for essential goods such as medicinal products, food and fuel, access to cash services, and the development of the cash infrastructure, including the distribution of banknotes and coins. Should such a review show that the possibility of paying for essential goods in cash is clearly impaired, legislative measures should be considered.

Crypto-assets

Over the past decade, new forms of private digital means of transferring value from one party to another have emerged. With block chain technology, a completely new way of creating and transferring value without the involvement of any central third party has arisen. After Bitcoin, several types of crypto-assets have arisen in the market. However, the significance of crypto-assets as a means of payment is as yet limited, and they are primarily used as investments.

The Inquiry assesses that there are potential risks, primarily for financial stability, but that these are currently limited. However, an widespread use of (some) crypto-assets cannot be ruled out. This applies in particular to global 'stablecoins'. Because consumer protections covering crypto-assets are weak, they entail a high risk for consumers investing in them. The Inquiry assesses that it is important that crypto-assets are subject to an appropriate regulatory framework proportionate to the specific risks that crypto-assets could pose to the financial system and the monetary system as a whole. As far as possible, new rules should be anchored in principles and standards set at global level.

Digital central bank currencies

Digitalisation has meant that means of payment are mainly supplied by private actors. Despite several financial crises, this has not happened at the cost of an unstable monetary system in which the public has no confidence. In addition, the payment ecosystem has become more efficient and accessible to the vast majority. However, the fact that the means of payment issued by the State are playing an increasingly minor role in the everyday lives of most people, combined with the remaining deficiencies in the payment ecosystem and increased competition from crypto-assets, has aroused the interest of central banks in modernising the means of payment issued by the State by giving them a digital form, called central bank digital currencies (CBDC). Central bank digital currencies do not have any generally accepted definition, but there are a number of common denominators. A central bank digital currency is:

- issued by the State through the central bank (i.e. high-powered money),
- accessible to the public,
- a digital form of high-powered money, and
- both a means of payment and a store of value.

Central bank digital currencies have already been introduced in 11 countries. A large number of central banks, including the Riksbank, the European Central Bank (ECB), the Federal Reserve, the Bank of England and Norges Bank (the central bank of Norway), are analysing, testing or considering the introduction of a central bank digital currency in some form. The motive for issuing a central bank digital currency varies from country to country due to differences in economic, institutional, geographical and political circumstances.

Central bank digital currencies entail risks and opportunities. The risks that are often highlighted and which have been analysed most frequently are that the banks' lending will be adversely affected, and that the banking system will become less stable. In both cases, the risks arise as a result of the public choosing to hold their money in the central bank digital currency and not as bank deposits. The opportunities include ensuring public access to a risk-free means of

payment, that competition in the payment market could increase, and that the payment ecosystem could become more resilient by giving the ecosystem an additional ‘payment rail’.

Besides purely economic effects, questions about how to reconcile a central bank digital currency with reasonable requirements for anonymity and data protection, as well as what arrangements would be needed to ensure that the central bank digital currency is not used for money laundering and terrorist financing, have been foregrounded. The introduction of a central bank digital currency can also be anticipated to affect the costs and revenues of payers, payees (merchants), banks and other payment service providers, as well as public authorities.

Although more and more central banks, and also researchers and international bodies, are analysing the effects of central bank digital currencies, there are still big gaps in knowledge and much work remains to be done to analyse and test the conditions for issuing a central bank digital currency, especially in larger countries (or common currency areas) with more complex economic and financial systems.

The need for a central bank digital currency in Sweden

The parliamentary Riksbank Committee dealt with the question of whether the Riksbank has the right to issue a central bank digital currency – an e-krona – under the Sveriges Riksbank Act in force at the time. A provision to the effect that it is the role of the Riksdag to determine whether the Riksbank is permitted to issue an e-krona (or digital means of payment, in the language of the Act) has been included in the Sveriges Riksbank Act that entered into force on 1 January 2023.

The Riksbank Committee did not carry out any analysis of either the need or the risks of introducing a central bank digital currency in Sweden, but expressed its support for further investigation of these matters. This then became one of the questions in the Inquiry’s remit.

The State has a responsibility to ensure access to widely accepted means of payment and to safeguard the monetary system and thus also the Swedish krona. As far as the Inquiry can assess, banknotes and coins will be in demand and used for the foreseeable future, but they are not viable in all contexts. Recent legislative amendments

and the Inquiry's proposals in other parts of the report strengthen the possibility of paying with banknotes and coins, even in crisis situations.

In the opinion of the Inquiry, the monetary system in Sweden is stable and enjoys the confidence of the public, even in the case of digital means of payment created by banks. These are subject to a comprehensive regulatory framework and financial supervision. In addition, central government has a number of tools to ensure the stability of and confidence in the system, and to safeguard Sweden's monetary sovereignty. A central bank digital currency can make the payment ecosystem more efficient and inclusive, above all by facilitating competition and innovation with new means of payment, outside traditional banks. In addition, a central bank digital currency can help to improve society's preparedness. However, the State also has several other tools – in the first instance regulation and oversight – to achieve these objectives.

The Inquiry therefore does not currently see sufficiently strong societal needs for the Riksbank to issue an e-krona. Given that development is occurring rapidly, economic, political and technological changes may prompt a new assessment. Although Sweden has chosen not to introduce the euro as its currency, the Swedish economy is strongly linked to the euro area. The digitalisation of commerce and payments makes these links stronger. In the EU, steps are being taken to introduce a digital euro and legislative proposals in this direction are anticipated in 2023. This raises the question of whether, in the long run, a digital euro could mean that the euro is used more widely for payments in Sweden. Such a development could make monetary policy less effective and make work with financial stability more difficult.

Against this background, it is the opinion of the Inquiry that the Riksbank should continue to evaluate the basis for introducing an e-krona in order to enable an introduction within a reasonable time-frame in the event that the Riksdag makes such a decision. The Riksbank should therefore come back with a petition to the Riksdag during 2024 with an assessment of whether there are sufficient reasons to introduce an e-krona.

If the Riksbank determines that there is a need for an e-krona, it should

- be based on and support the Riksbank's tasks and goals,
- be a complement to banknotes and coins,
- be able to be used by private individuals to make daily payments and person-to-person transfers, but it should be possible to restrict the public's holdings of or transactions with e-krona,
- be compatible with applicable legislation in relation to measures against money laundering and terrorist financing, as well as the protection of personal and payment data,
- be supplied on terms of competitive neutrality where all actors, including the Riksbank, are responsible for their costs, and
- meet stringent security requirements and enable payments to be made offline.

In addition, a central bank digital currency should be accessible to all members of society, including those with poor digital literacy or who for other reasons find making digital payments difficult, based on a technological infrastructure that is open to multiple actors and innovation, and be compatible with Sweden's climate goals.

The Inquiry has taken a position on the need for legislation to enable a potential e-krona to function as a new means of payment. The Inquiry considers that no amendment of the Instrument of Government of Sweden is required. However, an amendment should be considered in order to ensure that digital and physical means of payment issued by the Riksbank are granted equivalent legal status and to make the legislation technology-neutral. The definition of cash in the Sveriges Riksbank Act should be made technology-neutral.

In the assessment of the Inquiry, the introduction of an e-krona does not prompt any amendment of the Electronic Money Act (2011:755). The Inquiry is of the view that legislation on a possible e-krona needs to take into account relevant EU-level regulation (e.g. with regard to the regulation of payment services and the money laundering acquis), including any adaptations to such legislation made to enable a digital euro. Beyond this, the introduction of an e-krona would give rise to the need for specific legislation containing provisions on, among other things, the Riksbank's exclusive right to issue and redeem e-kronas, the rights and obligations of various market participants, and any restrictions on the features and use of the e-krona.

An e-krona should have the same legal status as physical means of payment issued by the Riksbank (legal tender), provided that it is designed to be used in a similar way. As is the case for banknotes and coins, a general obligation for creditors to receive central bank digital currency should not be introduced.

Central government payments

Through, for example, all payments of transfers from the welfare systems, as a buyer of goods and services, and as a recipient of taxes and other payments, central government is an important participant in the retail payment market. In 2021, the total payment flows processed within the central government payment model amounted to in total approximately 7 800 billion Swedish kronor.

The central government payment model – the framework for central government payments – needs to be adapted to changing circumstances. New payment services, as well as the modernisation and internationalisation of the payment infrastructure, affect central government payments in several respects. In addition, a number of EU regulatory frameworks in the area of payments are going to be revised. The Swedish National Debt Office has been working for several years now towards the goal that the central government payment model should meet the Government's express requirements for efficiency, security, information and freedom of choice, and that central government's relationship with the banks should be non-competitive. According to the Inquiry, this work should be continued and clarified by means of the National Debt Office's instructions stating that the Debt Office is responsible for developing the central government payment model with the aim of achieving efficiency, security and continuity in central government payments.

When a person is legally entitled to a certain benefit, they should be able to have recourse to the funds to which they are entitled, whether or not they have a bank account. For natural persons who do not have a bank account or for any reason have not provided account details to the payer public authority, it is generally more to their advantage to get access to and utilise these benefits from central government via a rechargeable card than via a money order, as is

often the case today. In addition to the difficulties of redeeming money orders, the redemption itself may entail high costs for the individual.

There is no provision stipulating the way in which central government authorities are to pay benefits to individuals. Therefore, the Inquiry proposes that a new provision on how benefits are to be paid from central government authority bank accounts to individuals be inserted in the Ordinance on central government authorities' payments and funds management (2017:170). As a rule, payments to individuals should be made to a bank account. If the authority does not have the bank account details of natural persons, rechargeable cards or other equivalent services for this need are to be used. Only when for some reason it is not possible for the authority to make a payment via a rechargeable card or equivalent service, or if the amount is small, should the authority have recourse to the use of money orders or equivalent ways of payment.

Public authorities usually have payment service agreements with one (1) bank under a framework agreement. This means that central government authorities' payments are vulnerable to major disturbances at the framework agreement bank. The Inquiry proposes that the Government, or the authority designated by the Government, shall issue regulations requiring public authorities with large volumes of payments to ensure that continuity solutions are in place that will enable payments to be made in the event of major disturbances at the authority's framework agreement bank. In the first instance, authorities should call off payment services from more than one framework agreement bank.

Comprehensive review of rounding provisions

Provisions on rounding are found in the Act on rounding off certain amounts in öre (1970:1029). The Inquiry is of the opinion that the provisions in this Act should remain in place as long as the öre remains as an accounting unit. The Act on rounding off certain debts to the nearest krona (1972:180) includes provisions for rounding debts in public and private cases to the nearest krona and dispensing with the residual öre figure. This is an established system for the handling of these cases. No reason for any departure from this arrangement has emerged, neither in terms of the handling of public and

individual cases within the Swedish Enforcement Authority nor from a creditor's point of view. In light of this, the provisions in this Act should also remain. While a drafting and linguistic revision of the provisions in these Acts is called for, it should not be a priority until such time as substantive changes are required.

Entry into force and transitional provisions

It is proposed that the new acts and other legislative amendments enter into force on 1 July 2024. However, the ordinance amendments should enter into force on 1 January 2024.

Banknotes and coins issued before the proposed means of payment act enters into force are to remain legal tender, unless otherwise specifically provided for. No other special transitional provisions are needed.