



The Continued Importance Of Cash – A Global Perspective



THE CONTINUED IMPORTANCE OF CASH – A GLOBAL PERSPECTIVE

Wherever we look in the world, cash continues to play an important role, whether as a store of value or as a medium of exchange.

Why do we differentiate? Because in many countries where cash payments may be declining (particularly during the pandemic) cash circulation has continued to increase. To give just one example, in the UK where the proportion of cash payments has fallen in recent years, the volume of cash in circulation has increased year on year since the early 1990s.

While it is important to consider the reasons people continue to hold cash, the continued use of cash as a means of payment worldwide puts into perspective claims that **we are inevitably 'speeding' towards a cashless society**. In considering the continuing role of cash as a means of payment we will need to look at the situation in a number of individual countries and address issues particular to their circumstances. In this context we need to consider not just people's attitude to cash but also the reasons they continue to use it when other payment methods are available.



CASH PAYMENTS WORLDWIDE

An overview of retail transactions worldwide reveals the remarkable resilience of cash as a payment instrument of choice.

In the US, the Federal Reserve Bank of San Francisco Diary of Consumer Payments Choice (June 2019) reported that in person payments accounted for 73 percent of transactions. **Of these payments 35 percent were made using cash, compared with 30 percent using debit card and 25 percent credit card.** Elsewhere in North America, Payments Canada reported in December 2019 (Canadian Payment Methods and Trends Report) that there were 4.5 billion cash payments in 2018 to the value of \$92.1 billion or 21 percent of total transaction volume. The report pointed out that there were still significant numbers of 'heavy cash users' (15 percent of adults) and 'there are many businesses that prefer cash payments to cards'.

Across Europe, in comparison, Statista considered the payments situation in 2019. Using 'Europe wide surveys from 2017 to 2019' it made its own ranking on how much cash consumers use in **38 European countries** and concluded that in the euro area only in the Netherlands, Finland and Estonia did cash account for less than 50 percent of payments. **For Germany the figure was 77 percent, France 59, Italy 82, Spain 83 and Greece 80.** At the same time a study carried out by the ECB found cash accounted for 73 percent of all transactions and 48 percent by value across the nineteen countries of the euro area. Meanwhile in the UK cash continues to play an important role. There were 9.3 billion cash payments in 2019 and a Bank of England survey found cash accounted for 37 percent of transactions (20 percent by value).

CASH PAYMENTS

WORLDWIDE [continued]

This pattern is repeated elsewhere. **‘Cash is still a major player across the Middle East, North Africa and Pakistan.** In the UAE, often touted as a leader in the charge towards a cashless society, consumers made 40 percent of their transactions with cash in 2019’. (checkout.com 8 December 2020 – What does the corrosion of cash across MENAP mean for merchants?)

The MENA Financial Inclusion Report recognises that there has been some shift towards card payments and states that ‘almost one in three transactions won’t involve cash in just four years’. That’s still a lot of cash!

Meanwhile, according to the 2020 McKinsey Global Payments Report, in India cash still accounted for 89 percent of transactions, compared with 96 percent in Indonesia, 72 percent in Malaysia and 54 percent in Japan.

‘IN INDIA CASH ACCOUNTED FOR 89 PERCENT OF TRANSACTIONS’.

Source McKinsey Global Payments Report 2020

It’s true that in some countries there has been a significant change in the way customers pay in recent years, but even in Australia central bank figures indicate cash payments still account for 27 percent of all transactions. Again though there is a trend towards digital transactions in New Zealand, a 2017 RBNZ report found that 96 percent of New Zealanders use cash, and a more recent 2019 Consumer Insights report found that the average individual carries **\$70 in their pocket** every week.

In Latin America, many adults do not have access to formal financial services, and this is reflected in cash usage figures of 74 percent of transaction volumes for Brazil, 86 percent in Mexico and 87 in Argentina.



SO WHO USES CASH AND WHY?

According to the World Cash Report published by G4S, 'People trust cash. It's free to use and readily available to consumers, its confidentiality can't be hacked and it doesn't run out of battery power'.

Obviously one determining factor for the use of cash, at least on the consumer side, will be the availability of and access to alternative means of payment. In this context it is important to note that access to many non cash payments is contingent on having a bank account. Even in the US, the FDIC Survey of Household Use of Banking and Financial Services, published in October 2020, revealed that 5.4 percent of US households (7.1 million) are unbanked and an article in Payments Journal (21 October 2020) recently questioned whether, after a consistent decline since 2009, this number is now set to increase. We should also note that another significant 16 percent are categorised by the Federal Reserve as being 'under banked', having some sort of bank account but also relying on alternative financial services (Forbes Advisor 28 July 2020 – The costs of being unbanked or under banked). That's a total of 63 million adults unbanked or underbanked.

This situation is certainly not unique to the US, indeed a recent article confirmed that the Banking Population of Europe is 77.4 percent.



63M US ADULTS
Unbanked | Underbanked

37M EU ADULTS
Lacked Formal Financial Services



SO WHO USES CASH AND WHY? [continued]



This reaffirms an earlier report which claimed that in 2016 37 million adults in Europe lacked access to formal financial services and that the issue was particularly acute in countries like Romania (39.2 percent unbanked), Bulgaria (37 percent), Slovakia (22.8), Hungary (27.7) and Poland (22.1). In the same vein the 2020 McKinsey report on Cash Usage noted the high levels of unbanked individuals in Latin America and concluded that ‘cash usage will likely remain resilient’.

Even where individuals have access to some basic banking services it doesn’t necessarily follow that they will switch means of payment. According to the 2020 MENA Financial Inclusion report there are 381 million unbanked in the area, but this is not the only issue. RBR (November 2020) also points out that **‘In many places card payments are made mainly by the wealthier echelons, while the majority of the population uses cards for cash withdrawals only’**.

In this context it is interesting to note that the number of ATMs continues to grow in MEA according to the latest RBR figures (November 2020).

SOMETIMES IT JUST COMES DOWN TO CHOICE

In countries like Germany, historical reasons (fear of inflation, wish to remain anonymous) may contribute to people's preference for cash and in some countries fear of fraud may still be a determining factor. One would assume, for example, that as online payments become more important so will payments be more likely to be digital. This is certainly the case in Europe, where **the ECB reports that 96 percent of online transactions were cashless**. However, compare this situation with the Middle East, where (according to an article published on 8 December 2020), 'cash on delivery still accounts for 75 percent of online purchases in some countries'. In recent years online companies such as Amazon have recognised the importance of offering their customers cash payment options, particularly in those countries that still have relatively low numbers of cashless payments.

Many of the reasons for using cash are common to consumers in all countries. In this context it is interesting to note the conclusions of a study carried out by the Reserve Bank of New Zealand in 2017. When asked why they used cash, 39 percent said they carried it for emergencies, 33 percent because they preferred to use it for small purchases. As for the other reasons given, 17 percent said they used cash because merchants didn't accept other forms of payment, 12 percent said they had 'always used cash', 11 percent said cash is quicker and more convenient and 10 percent said they can keep better track of their spending. Less important reasons for using cash in New Zealand were fear of fraud (2 percent), avoiding surcharges (4 percent) and discounts (4 percent).

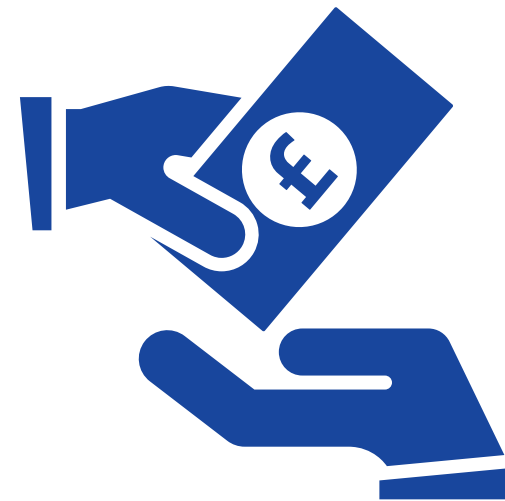


SOMETIMES IT JUST COMES DOWN TO CHOICE [continued]

Part of the cashless myth is that cash remains the preserve of older customers. But the evidence provides a different picture in many countries. In the US, for example, cash usage is highest among under 25s. 34 percent of payments made by those aged between 18 and 24 are in cash, compared with 33 percent of total payments for over 65s. What is noticeable both in the US and New Zealand surveys is that cash is far more likely to be used for smaller value payments.

Of course there are two sides of a transaction. It was interesting to note in the New Zealand survey that consumers highlighted a number of merchants only accepted cash. In this context, in the UK a 2020 British Retail Consortium (BRC) report noted that **'cash remains the most cost effective payments acceptance channel for retailers with an average transaction cost of just 1.4 pence per transaction. They found debit card transactions were four times as expensive and credit card transactions were three times as expensive to process as debit cards'**.

In this context as well as stressing the benefits of relatively low cost cash acceptance the BRC has highlighted that access to cash is an area of concern for retailers and reiterated its support for the UK governments Access to Cash review and pledge to legislate to protect access (BRC Payments Survey 2020).



'CASH IS THE MOST COST EFFECTIVE PAYMENT METHOD COSTING JUST 1.4P PER TRANSACTION'.

Source British Retail Consortium (BRC) 2020

RECOGNISING THE ONGOING IMPORTANCE OF CASH

In an increasingly digital age cash continues to play an important role and this is being acknowledged by regulatory authorities in a number of countries. In the UK and in much of Europe for example, a significant Visa outage in May 2018 emphasised the importance of cash as a standby and gave impetus to concerns regarding 'access to cash'. In the year that followed, **Which? reported that 7 million people in the UK had been blocked from card payments by IT glitches.** The UK government has recognised the need to 'bring forward legislation to provide access to cash for those who need it and to ensure that the UK's cash infrastructure is sustainable in the long term' (Access to Cash: Call for Evidence, 15 October 2020).

Meanwhile in the US there has been legislation in a number of states aimed at guaranteeing the continued acceptance of cash in retail outlets. In New York City (where over 360,000 residents do not have access to a bank account) a ban on businesses

refusing cash became law on 19 November 2020. This followed action taken in San Francisco in May 2019 and Massachusetts, Rhode Island and New Jersey have all now introduced legislation that prohibits discrimination against those wishing to pay using cash (Reuters 14 August 2020).

Sweden has long been heralded as a leader in the 'race' to a cashless society. According to the Riksbank in 2018 only 13 percent of payments were in cash. However, the government has been 'compelled to step in and protect access to cash' (Which? 20 December 2019) after a number of potential social problems had been identified. All major banks now have to offer cash services throughout Sweden.

The ECB, as part of its 2030 strategy has a vision to preserve euro cash as a 'generally available, attractive, reliable and competitive payment instrument and a store of value of choice'.



**'IN NEW YORK,
OVER 360,000
RESIDENTS
DO NOT HAVE
ACCESS TO A
BANK ACCOUNT'.**

Source
Reuters 14 August 2020

CASH IN THE TIME OF COVID



There is no denying that the pandemic has led to significant changes in the way people shop as well as the way they pay for goods and services. What we do not know, at this stage, is the extent to which these trends will be reversed when some sort of 'normality' is re-established.

With non-essential retail outlets being closed for significant periods in most countries there has been a shift to larger numbers of online transactions and with it a shift, in most instances, to larger numbers of digital payments.

In many countries, the volume of cash payments has been effected by a shift to contactless, though we need to look closely at the reasons for this shift. We need to consider actions taken by governments, banks and retailers in conjunction with any shift in consumer behaviour.

CASH IN THE TIME OF COVID [continued]

To take the example of Germany, whereas of January 2021, the Bundesbank reported that 60 percent of customers preferred cash over other forms of payment (UK 29 percent, France 18), from March 2020 the government had recommended raising the limit for contactless payments from €25 to €50.

According to RBR, 'nearly 60 percent of all survey respondents made contactless debit payments between August and October and 21 percent have started making contactless payments since the pandemic started'. When asked why they had chosen contactless people highlighted hygiene and 'being encouraged to do so by store staff'.

In reality there has been a great deal of misinformation around the risks surrounding shopping and in particular those attached to handling cash. A Bank of England study that assessed the risks attached to handling notes goes some way towards dispelling such fears.

The research looked at what can be considered a worst case scenario, with notes being infected to a level consistent with someone sneezing on them, and concluded that 'a few hours after infection, even at high doses, the level and therefore associated risk of infection remains low'. Of course there will be implications for the way we shop in retail outlets going forward, particularly in regard to the use of sanitizers and social distancing, because what the research does confirm is the danger from breathing in inhaled droplets when in close proximity to an infected person. It also highlights potential threats from use of 'high touch objects' such as trolley and basket handles, PIN Keypads, touchscreens and products on open shelves. The Bank of England research was echoed in the findings of the ECB reported in [medicalxpress.com](https://www.medicalxpress.com) on 28 April 2020.



**'CONTACTLESS DEBIT
PAYMENTS HAVE
BEEN ENCOURAGED IN
STORES DURING COVID'.**

Source RBR

CASH IN THE TIME OF COVID [continued]

It was found that ‘the survival rate of coronavirus is **10 to 100 times higher** on a stainless steel surface, like a door handle, than on **euro banknotes** in the first few hours after contamination’.

However you pay going forward the most effective means of risk prevention will involve social distancing. It is important to note that there are various ways to minimise contact around payments without resort to contactless. New technologies ensure this can be achieved with automated cash payments and innovative retailers are already addressing this issue.

Elsewhere in Europe Cartes Bancaires has reported that contactless payments in France increased from 3 billion in 2019 to 4.6 billion a year later after the maximum transaction level was increased from €30 to €50. And in the UK a July 2020 Bank of England survey showed that following government advice

to retailers to avoid contact and encourage contactless transactions, 71 percent were using less cash than before the pandemic. Indeed 42 percent of people surveyed had visited a shop that did not accept cash in the previous month (July 2020) compared with 15 percent in January. 56 percent of UK customers were happier using contactless than they were a year previously (Paysafe survey). Again when asked why they were using less cash, 44 percent said it was because some retailers were refusing to accept cash and 35 percent said it was due to hygiene concerns. To put these changes into some sort of context going forward, a November 2020 Bank of England Quarterly Bulletin article entitled Payments in a time of Covid clarified that ‘the risk of transmission via banknotes is low’.

So how will payments behaviour change going forward? One thing we do know from research in the euro zone by ECB during

July 2020 is consumers believe that electronic payments have been made more convenient during the pandemic. This is certainly true as contactless payments are more readily accepted for higher value payments. However we should also note that for security reasons a significant proportion of these transactions still require PIN entry.



STORE OF VALUE AND THE PARADOX OF BANKNOTES – THE CASH CONUNDRUM

At the same time, it is interesting to note that people choose to hold cash during a time of crisis and one example of this is demonstrated by a spike in ATM withdrawals noted in the US and Germany at the start of the pandemic. To some extent this can be explained by cash's store of value function.

'The UK is not alone in experiencing a sharp increase in the value of cash in circulation. **In both the US and the euro area, total currency in circulation in September (2020) was more than 10 percent higher than a year before**, with a similar pattern in Canada and many other countries'.

This is the paradox of bank notes. At any one time large numbers of notes are being held other than for use in transactions. Historically, more notes may be held during a period of low interest rates because the opportunity cost of cash holding has declined. Increased cash may also be held during a period of uncertainty for the economy and certainly if there are questions regarding the operations of banks. A weakened currency, too, has been given as a reason for increased holding of large value notes.

In the UK currently the Bank of England has noted rising cash holdings as interest rates are at unprecedented low levels and as elsewhere, the economy faces a period of uncertainty.



CASH IN THE FUTURE

Wherever you are on your cash automation journey – just starting out, working with outdated cash deposit devices or last generation recyclers – now is the time to move forward to the latest technology.

Give time back to your staff and to your customers. Deliver a better customer experience and enhance the profitability of your business.

Let's start a conversation to see how GLORY can help you.

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Glory, Infinity View, 1 Hazelwood, Lime Tree Way, Chineham, Basingstoke, Hampshire RG24 8WZ, UK

+44 (0)1256 368000 **info@uk.glory-global.com** **glory-global.com**

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