

CASH USAGE: PRESENT AND FUTURE TRENDS

INTRODUCTION

For many years, analysts have been channeling their inner Nostradamus and predicting the imminent end of cash as a major consumer payment instrument. Despite the frequent ill-boding predictions on the future of consumer cash use, however, consumers around the world still turn to one of the oldest forms of consumer payment on a regular basis. As a result, its naysayers notwithstanding, cash remains as relevant today as it was half a century ago. The continued importance of cash in today's society is no more evident than in the announcement made by the Dutch central bank (De Nederlandsche Bank, or DNB) in late June 2013.ⁱ In a bulletin posted on its site, the DNB stated that it was fully committed to the use of cash in Dutch society, writing:

"DNB expects cash to remain indispensable for some time to come. For this reason, cash should remain generally available as an all-purpose means of payment, implying that consumers must be readily able to withdraw and deposit cash from and into their bank accounts. Retailers, in turn, should have easy means at their disposal to deposit counter receipts into their bank accounts."

The Dutch central bank isn't alone in expressing how significant cash remains today. In the 2012 Annual Report of the Federal Reserve Bank of San Francisco,ⁱⁱ President and CEO John C. Williams wrote:

"[T]o paraphrase Mark Twain, reports of the demise of cash are greatly exaggerated. In fact, they are plain wrong. It's undeniable, of course, that alternative payment methods are growing rapidly and significantly increasing their market share. But cash lives on."

Although electronic payment alternatives to cash continue to proliferate, these solutions find the core strengths of cash—namely universal acceptance, anonymity, and budget control—difficult value propositions to unseat. The statements by the DNB and the Federal Reserve Bank in San Francisco show that even in the Netherlands and in the United States, both highly developed and mature payments markets, consumers and financial institutions understand the importance and value of cash in society today and for the future.

ⁱ <http://www.dnb.nl/en/news/news-and-archive/dnbulletin-2013/dnb292813.jsp>

ⁱⁱ http://www.frbsf.org/files/2012_Annual_Report_Essay.pdf

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U.S. CASH USE TRENDS

Although pundits point to the United States as a prime candidate to be a cashless society of the future, in fact the U.S. has been one of the world leaders in consumer cash growth for the better part of the past decade. In Market Platform Dynamics (MPD) research that looked at total cash use growth in 10 countries between 2000 and 2011, the U.S. ranked highest overall (see Figure 1 on page 3). According to the 2011 Federal Reserve Bank of Boston's Survey of Consumer Payment Choice (SCPC), cash use in the U.S. grew considerably between 2008 and 2010, with the share of cash in all transactions representing nearly 29 percent in 2010, an 8.1 percent increase over 2008. Furthermore, total cash transaction volume is expected to remain relatively stable in the United States; Mercator Advisory Group has estimated that in 2014, cash payment volumes in the United States will total in excess of \$1.1 trillion for the year.

INTERNATIONAL CASH USE TRENDS

When considering cash use around the world and its prospects for the future, the debate inevitably turns to the different levels of cash use between developed and developing countries. Trends across these markets overall reinforce cash as a major form of consumer payment in both environments.

For example, in developing (emerging) economies, cash may have the best opportunity to remain a significant consumer payment instrument over time. Commonly described as "cash cultures," many developing markets continue to exhibit extremely high use of cash despite the encroachment of electronic payment methods. For example, the central bank of Russia estimates that more than 90 percent of goods and services purchased by consumers in that country are paid for with cash and that 85 percent of all transactions at automated teller machines (ATMs) occur on payday.

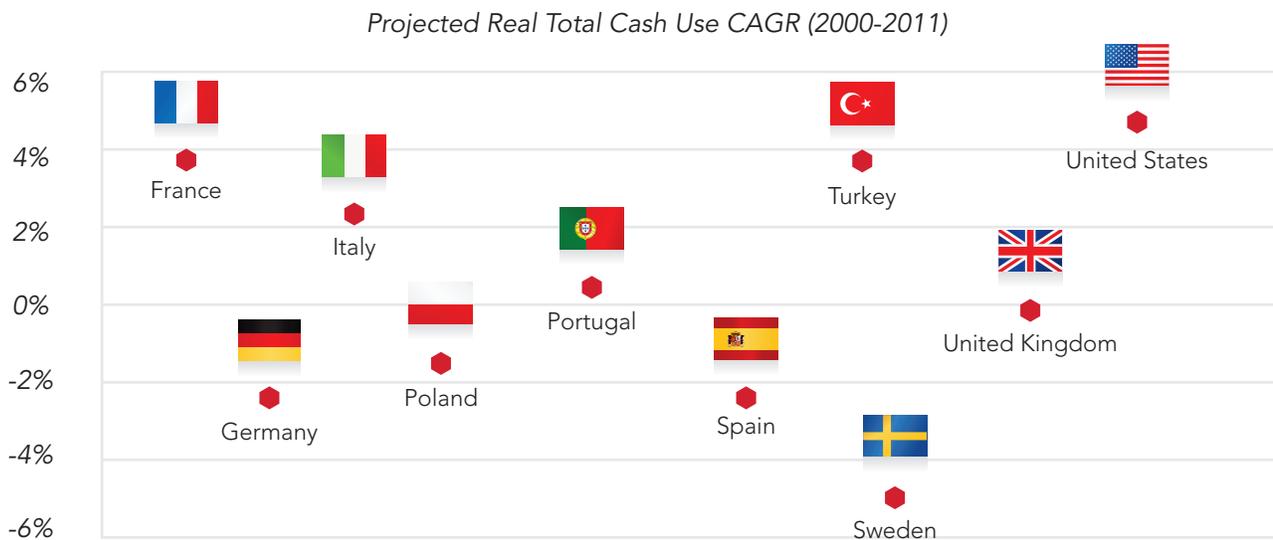
Russia is just one example of the high level of consumer cash use. Other prominent developing markets like Brazil, India, and China demonstrate similarly elevated levels of cash use. According to the Bank for International Settlements (BIS), the compound annual growth rate (CAGR) of ATM cash withdrawals in the BRIC countries (Brazil, Russia, India, and China) averaged 15.7 percent between 2007 and 2011, with India and China surpassing 20 percent growth, respectively.ⁱⁱⁱ

Even though developed economies may not demonstrate the same high level of cash use as emerging markets, the use of cash has grown in some, such as France, Italy, Turkey, and Portugal. Figure 1 highlights the varying degrees of consumer cash use across 10 international markets between 2000 and 2011. The sustained use of cash by consumers in large, developed markets like the United States and France is significant, given the growing number of payment alternatives available to consumers and points to the resilience of cash in these markets.

ⁱⁱⁱ <http://www.bis.org/publ/cpss107.pdf>

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FIGURE 1: DEVELOPED MARKETS' CASH USE GROWTH



Source: Market Platform Dynamics

FACTORS DRIVING CONSUMER CASH USE PERSIST

Consumers behave toward payments in the same way they do other repetitious, habit-forming activities. One could argue that of all payment types, cash is the most highly rationalized and familiar for most consumers, including the very youngest. Cash remains so integral to some consumers' lives that according to the U.K. Payments Council (the organization responsible for ensuring the effectiveness of payment services in the United Kingdom), in 2012 over 7 million adults, or roughly 14 percent of the adult U.K. population used cash for all of their day-to-day purchases.

While 14 percent of the adult population is a sizable minority, the rest of the adult population in the U.K. and in other developed countries uses cash in a variety of transactions that electronic payment instruments have not been able to fully serve. For example (as illustrated in Figure 2 on page 4), to consumers across a number of age and income demographics in the U.S., cash remains the most convenient payment type for small transactions.

Mere convenience for small transactions is not enough to preserve the status of cash as a premier payment instrument, however. Cash also remains important to consumers for the following reasons:

- ❑ **Personal payments.** Although the number of payment firms trying to develop effective person-to-person (P2P) electronic payments has grown in recent years and will likely result in some cash substitution, P2P is just as likely to compete against other electronic methods for personal payments.
- ❑ **Use at merchants that don't accept card payments.** While the practice of merchant steering is strongly discouraged, the high number of consumers who report that merchants do not always accept debit cards shows that issues related to the cost of card acceptance are leaving the door open for more cash transactions. (According to a survey by Javelin Strategy & Research, around 70 percent of merchants in the United States, or approximately 19 million, do not accept electronic payments today.)

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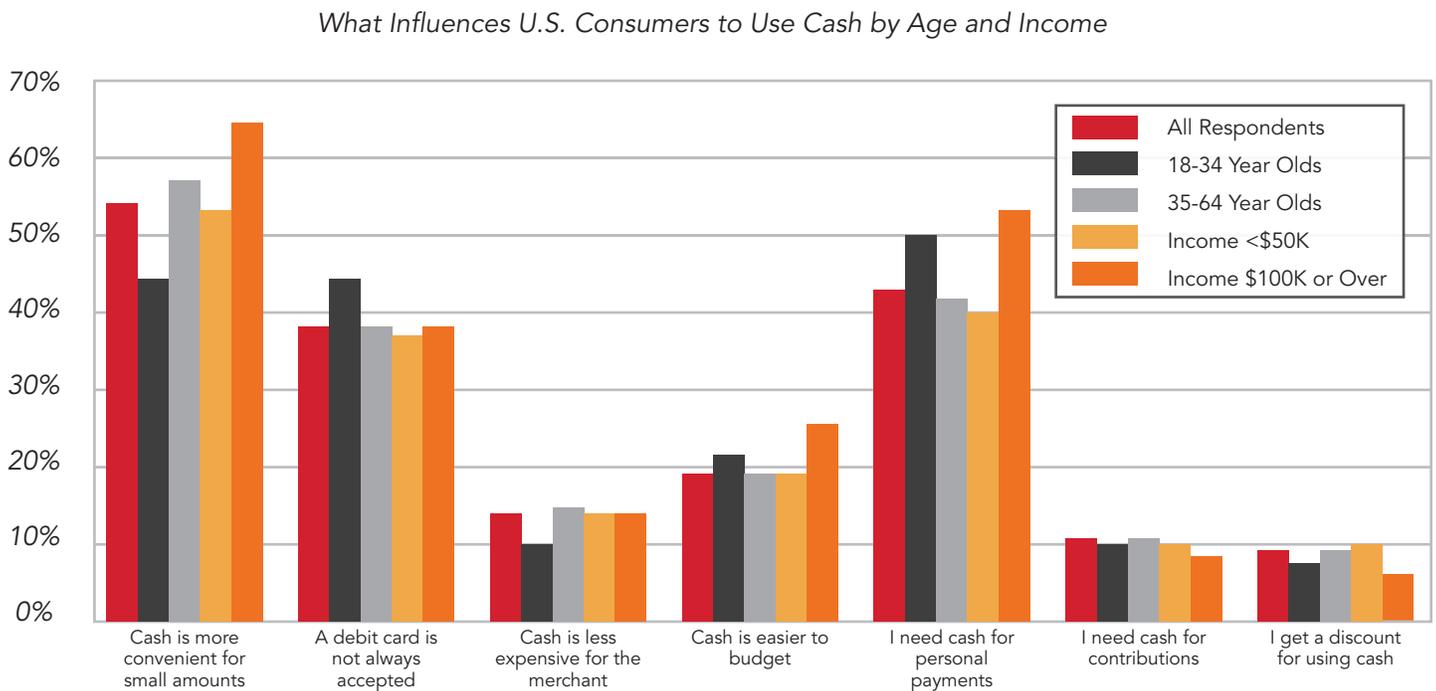
Budgeting purposes. The recent recession illustrated how valuable cash can be as a budgeting tool as both the volume and value of ATM withdrawals increased in the years following the event. According to the U.S. Census Bureau, the average value of an ATM transaction grew by \$8 between 2006 and 2009, from \$100 to \$108. Furthermore, the self-budgeting feature of cash is a highly rationalized value across all demographics.

More difficult to quantify are the intrinsic values of cash that represent the other influences that drive consumer usage. Primarily, these values are the anonymity of cash payments and what might be called “the thrill factor” of carrying and using cash that is immediately recognizable as tacit acknowledgment that an individual “has money.”



As for the value of anonymity, despite the raised eyebrows and knowing glances of the underground economy, there are plenty of legitimate reasons that someone might want to make an anonymous payment—in particular for safety and gift giving. In the offline world, there are places where it may make more sense to pay cash. For example, bars and restaurants are notorious for card-fraud risk because servers disappear with cards for several minutes to settle a tab. In those places, patrons may want to use cash in order to avoid having to worry about whether their card has been skimmed or a transaction has been run incorrectly.

FIGURE 2: INFLUENCES IN CONSUMER CASH USE



Source: Mercator Advisory Group Customer Monitor Survey Series 2012

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WHAT MOBILE PAYMENTS?

As a popular consumer payment instrument, cash transactions have been targeted by firms trying to shake up the payment ecosystem and usher in the so-called cashless society. Unfortunately for the firms trying to advance this agenda, cash has shown time and time again that it is incredibly resilient. Consumer adoption of payment instruments was examined in the Federal Reserve Bank of Boston’s Survey of Consumer Payment Choice in 2011. The findings of that survey and the Survey of Consumer Finances suggest that even though consumers are increasingly using new electronic payment instruments, they are not turning away from cash use.

These Federal Reserve survey findings highlight that new payment alternatives are taking market share away from newer payment alternatives rather than from cash and are also experiencing relative volatility in terms of consumer popularity. In comparison, cash use remains stable, which illustrates the challenge faced by mobile payment developers striving to replace core cash use by consumers. For example, Mercator Advisory Group estimates that mobile payments initiated using devices equipped with Near Field Communication (NFC) technology in the U.S. will account for less than \$100 million in 2013.



FIGURE 3: THE RESILIENCE OF CASH



Source: Federal Reserve

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Although the figures will certainly grow over the coming years, industry insiders indicate that mobile payments will continue to have only a minimal impact on consumer use of cash in the future. In 2012, the Federal Reserve's Cash Product Office surveyed industry stakeholders at the International Commercial Cash Office Seminar (ICCOS) regarding the impact they foresaw mobile payments would have on cash usage in 10 years. Of the respondents, 44 percent said that mobile payments would cause only a small reduction in cash usage, while a further 26 percent said that mobile payments would create no reduction in cash use at all.

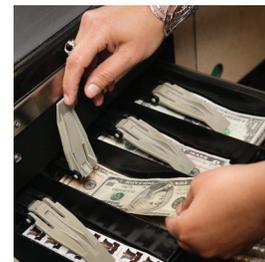


BLENDING TECHNOLOGY AND CASH

The fact that mobile payments has yet to live up to its much anticipated promise does not mean that mobile technology in general cannot be used to support consumer cash use. When looking at the future use of cash by consumers, predictions of decline in cash use are largely based on the belief that technologically advanced modern payment instruments will displace cash use, but this is not necessarily the case. Given the continued popularity of cash among consumers, the opportunity exists to blend new technologies with the use of cash. Around the world, new financial services are being brought to market that tap into the advantages of cash as well as new technologies.



For example, in Russia and other nations in the Commonwealth of Independent States (CIS), Qiwi and Visa have teamed up to boost the nascent e-commerce market through the use of cash. Consumers visit Qiwi kiosks and deposit cash, which in turn can be used to pay bills, top off mobile phone minutes, or pay for e-commerce goods and services through self-service terminals.^{iv} In Kenya, the extremely popular mobile payment service M-Pesa is similarly built on the consumer use of cash, with consumers able to deposit or withdraw cash at local agents in addition to using mobile funds transfer and payment functionality. The success of M-Pesa has resulted in offshoots of the program in other parts of the world, including India.^v



In the United States, cash-to-online payment products like PayNearMe, Walmart's Pay with Cash, and Kmart's Pay in Store have been developed to allow cash-centric consumers to shop online but use cash for payment or to electronically pay bills. In the United Kingdom, Royal Bank of Scotland (RBS) and its sister financial institution NatWest have launched services that allow customers to withdraw money from the banks' ATMs without using their debit or ATM cards by instead using personal identification number (PIN) codes that they receive through their mobile phones.^{vi} Besides enabling the cardholder to obtain emergency cash in the event the cardholder's card has been stolen or lost, the service is also advertised as a means of saving time because customers can withdraw cash and avoid the hassles of paying by card for small-ticket items. Given that personal payments and paying for small purchases remain significant reasons for the use of cash (as seen in Figure 2), combining a mobile service with ATMs to deliver an efficient P2P system or to help pay for small-ticket items could be a significant means of maintaining future consumer cash use.

^{iv} <http://www.paymentsjournal.com/Page.aspx?id=17012&terms=qiwi>

^v <http://www.paymentsjournal.com/Page.aspx?id=16124&terms=M-pesa>

^{vi} <http://www.natwest.com/personal/online-banking/g2/mobile-phone-banking.ashx>

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CONCLUSION

In this transformative stage of the payments industry, the “dream” of a so-called cashless society may appear to have never been closer to reality. Individuals are experimenting with and blogging about living cashless, governments are outlawing cash use for certain size payments, and mobile devices capable of standing in as credit and debit cards are all contributing to the sense of possibilities and notion that paper money is a form factor whose day is past. The mere fact that so much time and energy are being put into proclaiming cash’s demise suggests that consumers in developed countries like the United States believe there is an issue at stake. This briefing, however, illustrates that consumers and merchants still find cash a viable and desirable form of payment whose convenience and value are difficult, if not impossible in some cases, to replicate.

KEY TAKEAWAYS

- ❑ Even as some payment providers speak of a line-of-sight to a so-called cashless society, Federal Reserve research has shown cash to be resilient, suggesting that even though consumers are increasingly using new electronic payment instruments, they are not turning away from cash.
- ❑ Although electronic payment alternatives to cash continue to proliferate, these solutions seemingly find the core strengths of cash—namely universal acceptance, anonymity, and budget control—difficult value propositions to unseat.
- ❑ Online and mobile payment alternatives are proliferating in quantity, but not necessarily mass consumer adoption.
- ❑ Given the continued popularity of cash among consumers, the opportunity exists to blend new technologies with the use of cash, creating new financial services that tap into the advantages of cash as well as new technologies.

ABOUT CARDTRONICS

Making ATM cash access convenient where people shop, work and live, Cardtronics is at the convergence of retailers, financial institutions, prepaid card programs and the customers they share. Cardtronics owns/operates the largest retail ATM network in U.S. and international locales. Whether Cardtronics is driving foot traffic for America's most relevant retailers, enhancing ATM brand presence for card issuers or expanding card holders' surcharge-free cash access on the local, national or global scene, Cardtronics is convenient access to cash, when and where consumers need it. Cardtronics is where cash meets commerce.



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