Cash is no longer king. All hail digitisation

By Peter Alkema

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Cold, hard cash has been on the decline in mature first world economies since the 1990s when electronic banking started becoming popular. In recent years, countries such as India, South Korea and France have started regulating the use of cash to further reduce its usage, often with transaction thresholds or by eliminating certain note denominations.

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Other countries have moved instead to restrict the use of alternatives to cash and, in some cases, have banned digital currencies such as bitcoin which is seen as a growing threat to sovereign currencies, and might disrupt traditional banking. A recent survey by ING Research across 13 European countries, America and Australia found that more than 20% of people living in Europe and America already rarely use cash and have completely adopted electronic payments.

Recently India's government enforced demonetisation aimed at curbing tax evasion and money laundering. However in many cases it is the banking industry tha's leading with digital alternatives to cash. FNB reported that cash withdrawals by middle-income earners from ATMs reduced for the first time in February 2017 compared to the same period in 2016. These customers are opting to use point of sale devices, other electronic transactions and cash-at-till advances where the customer just adds "cash" to their grocery list at popular retailers.

Cutting down on crime

Although this still channels cash back into circulation it saves a trip to the ATM and the free service to the customer also reduces cash held on premises at the retailer. Bank customers can further save money and earn rewards by changing their behaviour with regards to cash. Despite a 12% increase in card swipes, CEO of FNB value banking solutions, Ryan Prozesky says customers are still withdrawing money unnecessarily. Conversely, "contactless payments are fast becoming the norm, especially as big retailers are starting to adopt the technology, creating a spike in these types of payments".

Retail businesses are actively adopting innovative solutions in a bid to reduce their cash handling volume which creates significant risk, especially when in transit. The South African Banking Risk Information Centre (Sabric) has reported 98 cash heists so far this year, which is an increase of 32% on the same period in 2016, however the incidents are increasingly militarised and “deliberately extreme in their violence”.

Digital forms of value can still be stolen by more advanced, less violent cyber-criminals, but the physical danger to public spaces is drastically reduced when there is less cash moving around. South Africa boasts one of the most advanced and innovative banking industries in the world, however according the South African Reserve Bank (Sarb), R130bn of physical cash still circulates every year. Government has announced plans for a specialised task force to deal with high-value cash crime but the long-term solution remains a continued drive towards alternative forms of exchanging or storing value.

Consumer's role in migration

Consumer demand plays a huge role in the migration to cashless as they will adopt cheaper, more convenient transactions if available and trustworthy. The 2016 *Citibank Digital Money Index* showed that although developed economies invest in consumer education and drive migration strategies, it doesn’t show results unless consumers become more inclined to new ways of transacting. The report tracks 90 countries in their journey to digital money and in the 2017 report, Singapore took the top spot from Finland and South Africa moved up one place to 30.

While there was some regression since the previous index in upper and lower sections, there is a definite trend of low-income countries being at risk of falling “irretrievably behind in the digital economy”. Although digital alternatives to cash will attract the banked and under-banked population, it is often unbanked participants of the informal sector that have low interest in switching. In the last four years, Italians have added €90bn to their stockpile of “mattress money”, mainly due to a loss of faith in their crisis-ridden banking system, which also holds $1trn of the Eurozone’s bad debt which is nearly a third of that monetary region’s bad loans.

By contrast, Sweden boasts one of the oldest and most traditional banking systems in the world, but is fast becoming the most progressive as it recorded a 40% reduction in circulation of its hard currency since 2009. Over half of that country’s 1,600 bank branches no longer keep cash on hand or accept cash deposits and many don’t have ATMs any more, especially in rural areas.

Mobile money

Mobile money solutions across Africa have also targeted low-income regions and the 10-year-old Mpesa in Kenya is now considered by treasury officials in that country as a “plausible fiscal risk”. Nearly half of Kenya’s $60Bn GDP was transacted by its 25-million customers in 2015 and globally it is the leading mobile money platform. It benefitted from looser regulation when it was introduced but the widespread adoption and huge role it plays in the economy is now receiving far more attention by lawmakers.

While mobile money appears a natural alternative to small-value cash transactions in the largely unbanked base of the economic population pyramid, it has not been successful in all markets.

Locally, MTN’s Mobile Money and Vodacom’s Mpesa franchise were closed in 2016 after failing to achieve the market penetration originally hoped for. All the banks have digital solutions for sending money to someone who is completely unbanked and although physical cash is still introduced back into circulation, it digitises the peer-to-peer transaction and enhances financial inclusion by familiarising unbanked people with banking services. Other innovations in South African banking include contactless payment and cellphone banking, which offer a range of digital banking channels that non - raditional banking players and new entrants struggle to compete with.

Disruptive initiatives by government and the private sector continue to test the supply-and-demand equilibrium for hard cash with consumer behaviour being the dominant market force for price points and adoption. Of the four stages of digital money readiness in Citibank's index, South Africa is categorised as "in-transition", which recognises that solutions and accelerators of financial digitisation do exist but further investment in regulatory innovation and the digital financial ecosystem is required.

Our score for propensity to adopt is one of the highest in this category meaning that South African consumers are likely to move towards innovative solutions which is already evident with the exponential growth of services such as Uber and Airbnb in this country. Counterintuitively, the previously cashless Uber service actually introduced physical cash payments during 2016, which were highly successful in other African countries of operation such as Nigeria and Kenya. While causing concerns for driver safety, it actually reduces apprehension by passengers about their credit card information being compromised.
Data privacy remains a key concern for consumers in their adoption of fully digitised services, regardless of convenience or how much safer they are as an alternative to carrying cash.

Lower income groups remain focused on physical possession of cash, rather than depositing, with micro-traders in the informal economy continuing to be cash only, and cash-consuming. Penetrating this market with trustworthy brand promises and convenient digital alternatives has not proven to be easy but is likely to be the last stage of global digital currency adoption. Much like mobile telecommunications experienced leap-frog adoption in Africa it is possible that evolution of money could follow the same path. According to Citibank the benefit would be significant – a 10% increase in global digital money adoption equates to 220-million more people participating in the formal financial sector.

ABOUT PETER ALKEMA

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