The Cash Industry In Transition: Analysis & Report by Currency Research
Overview

Cash will experience a decline globally – this will be faster than the cash industry predicts, but slower than the payments industry anticipates.

Central banks must work to preserve cash as a societal good and as a contingency.

Historically there were three barriers to a totally cashless society: technological, financial, and political.

The first two barriers have been mostly overcome. The political barrier will increasingly come to the forefront.

The change in cash presents as many sectors with opportunities as those sectors facing the need to change.
An Industry in Transition

• The cash industry must hasten its planning for a less-cash society while maintaining a robust cash industry – not an easy task.

• New payment methods must be “as good as cash.”

• Central Banks are navigating through truly uncharted territory and must be pragmatic in planning and preparing for a less-cash future.

• Banknotes and coins are key to a central bank’s role and mandate.
• Durability
  • Less production, substrate, ink, fewer authentication features, and less printing
  • Decreases can more than offset increases in cash in circulation

• Security
  • Reduced need for new note/coin design

• Processing equipment
  • Improved machines and sensors now make more precise sorting decisions for soil detection, mechanical fitness, and folded corners.

• Coin authentication
  • New authentication techniques may lead to more successful replacements of low denomination notes
Internal factors: A few stats on note life

- Notes destroyed in most countries reduced from over 40% of sorted notes to less than 20%
- US $1 note lifespan increased from 22 months in 2010 to 71 months in 2017
- RBA destruction reduced dramatically following polymer introduction (5.7% - 1%)
• Cash in circulation continues to increase, but cash volumes produced are decreasing.

• State print works are struggling to keep their employees busy and the government satisfied.

• Pressure is increasing on countries to close and “outsource” their print works.
  
  • Sweden, Denmark, Norway, the UK, and Ireland have already done so.
Internal factors: ATMs and cash withdrawals

• ATM decline in many countries
  • Numbers of machines
  • Cash withdrawal amounts

• In Norway
  • Roughly 100 ATMs removed 2016-2017
  • Value and total number of withdrawals fell by 12.2% and 16.8%

(source: Norges Bank)
• Outsourcing

• Started with Central Banks outsourcing to commercial banks,

• Focuses commercial banks’ attention on notes in circulation, costs involved, and efficiency

• Commercial banks then outsourced to CMCs
Commercial banks exit the cash market

• Investments in cash have slowed or stopped altogether, and a general move to outsourcing is underway.

• Like central banks, commercial banks are also in transition, and outsourcing cash.

• Why?

  • Open banking, standards, and legislation are making it easier for non-banks and third-party payment service providers (PSPs) to offer traditional banking services.

  • Big technology companies have their sights squarely set on the financial services sector.
Environmental and inclusion concerns

• Should central banks take action to legislate or protect the cash marketplace for the remaining 10-20% who still rely on cash?

• New studies are comparing the environmental impact of payments.
  
  • De Nederlandsche Bank’s recent study addressed the ecological impact of debit payments versus cash.
  
  • Cash has a larger impact on the environment and climate change than debit cards.
  
  • Consumers can feel good paying with debit cards as they are more “green” than cash.
ONE APP FITS ALL: THE SOCIAL ECONOMY OF WECHAT, FACEBOOK, ALIBABA…

• WeChat Pay
  • Over 40 countries/regions and 13 currencies
  • 800 million users have linked their bank accounts or credit cards

• Online shopping growth in developing economies

• Smartphone penetration – lower costs, better infrastructure

• $100 billion in US venture capital invested in fintech
FinTech is exploding • Fastest growing venture capital area
  • Global fintech investment hit a record US $111.8 billion in 2018.
  • Growth is driven by mega deals like the US $12.86 billion acquisition of WorldPay by Vantiv.

• Card companies are not exempt from the payments revolution.
  • Global reach and infrastructure can hasten the pace of change to the detriment of cash.
  • Cards must also adapt to lower margins and increased competition in order to maintain market share and growth.
Network and system failures do not change consumer behavior

Other external factors

• Government pressure to increase financial inclusion, reduce crime and tax evasion, and track terrorist financing

• Central bank initiatives
  • Open banking regulations, real-time payment systems, interoperability and common standards
Privacy and security issues do not change consumer behavior

- Short-term effects on card use after data breaches/privacy incidents
- The US, arguably the most hacked nation on earth – and the most concerned about personal freedom and privacy – has not experienced a concurrent rise in cash spending due to privacy breaches.
• Cash management companies (CMCs) are benefiting from the changes taking place in the payments ecosystem.

• Commercial banks are moving away from cash and central banks are reengineering their cash cycles.

• Large CMCs are adopting various growth strategies to survive in this highly competitive market whilst exploring new end-user segments to expand business operations.
• Cash handling equipment suppliers will likely experience continued growth.

• Retailers and CMCs are striving to reduce cash handling costs by using technology.

• Banks are investing mainly in technology with proven short-term ROI (< 2 years).

• Retailers and CMCs have slightly longer time horizons (3-5 years).
Declining domestic demand leads to available capacity

Central bank/government wants to retain printworks for national pride, and secure domestic supply

Available Capacity + Desire to Produce = Export
• Consumers are moving away from cash to digital payment methods at an increasing rate, fueled by instant payments.

• With rising consumer demand for fast, easy, and cheap digital payments and myriad solutions being developed and offered to meet this demand, the cash industry must prepare for disruption.
Central banks attitudes are evolving

- Central banks would be justified in maintaining the status quo.
  - Very little risk to the economy or to the bank’s reputation
  - Physical currency generates seigniorage.
  - Disruptive technologies do just that – disrupt – and involve reputational and financial risks that are challenging to quantify.

- Central bank payments departments, meanwhile, anticipate the disruption brought on by constant evolution and new models in the fintech space.

- Central banks find themselves caught in the middle.
  - They must regulate and define the landscape while dealing with a constantly moving future target.
Cash is an enigma

• Many countries show a gentle decline in cash transactional usage but cash value in circulation continues to grow.

• Countries that have deliberately attempted to move consumers away from cash have seen just how resilient cash can be and how difficult it is impose behavioral change.

• Increased connectivity allows the capability to pay digitally.
  • With increased adoption of non-cash methods comes the responsibility to safeguard cash for vulnerable populations and for resilience during crisis.

• Many barriers to large-scale cash replacement, both financial and technological, have been removed. This leaves the political barriers.
A less-cash society

• We cannot predict the absolute speed of cash decline - but the decline will certainly happen.

• We will not be seeing cashless societies anytime soon; rather, the next few decades will see more and more less-cash societies.

• In this phase of transition, companies that can provide efficiency and optimization solutions are well placed to seize opportunities.
THANK YOU.

Tom Mitchell
Managing Director – Europe
Global Sponsorship Director –
Premium Global Products

tmitchell@currencyresearch.com

REQUEST YOUR FREE COPY
OF THE REPORT IN FULL:

currencyresearch.com/transition