Cashless volumes – The war on cash continues

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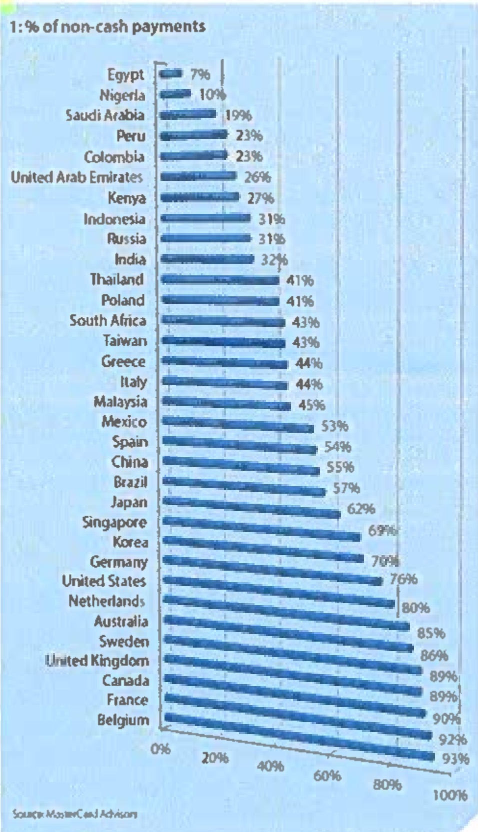
New fronts in the war on cash are being opened up worldwide through a range of innovative services and payments products.

Is the dream of a cashless society far-fetched? While we are unlikely to see the disappearance of cash any time soon, a slew of recent studies show that non-cash payment methods are gaining ground worldwide, particularly at the expense of incumbents like cheques – writes **by Victoria Conroy**

The 2013 Federal Reserve Payments Study, published in December 2013, is the fifth in a series of triennial studies conducted since 2001 by the Federal Reserve System to estimate aggregate trends in non-cash payments in the US. The 2013 study reports the total number and value of all non-cash payments estimated to have been made in 2012 by consumers and businesses, including for-profit and non-profit enterprises and federal, state, and local government agencies.

The estimated number of non-cash payments, excluding wire transfers, was 122.8 billion in 2012, with a value of $79.0 trillion. The number of non-cash payments in the US increased at a compound annual rate (annual rate) of 4.4% from 2009 – the year examined in the previous study – which was down slightly compared to the annual rate of 4.7% over the 10-year period from 2003 through 2012.



1: % of non-cash payments

Credit card payments (including both general-purpose and private-label)—which declined slightly from 2006 to 2009—returned to growth from 2009 to 2012. The number of credit card transactions grew at an annual rate of 7.6%, rising from 21 billion in 2009 to 26.2 billion in 2012. The number of private-label credit card transactions, which led the decline from 2006 to 2009, grew most quickly from 2009 to 2012, increasing at a 17.1% annual

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rate. The number of general-purpose credit card transactions, which were relatively flat from 2006 to 2009, increased to a total of 4.2 billion or 6.8% annually from 2009 to 2012.

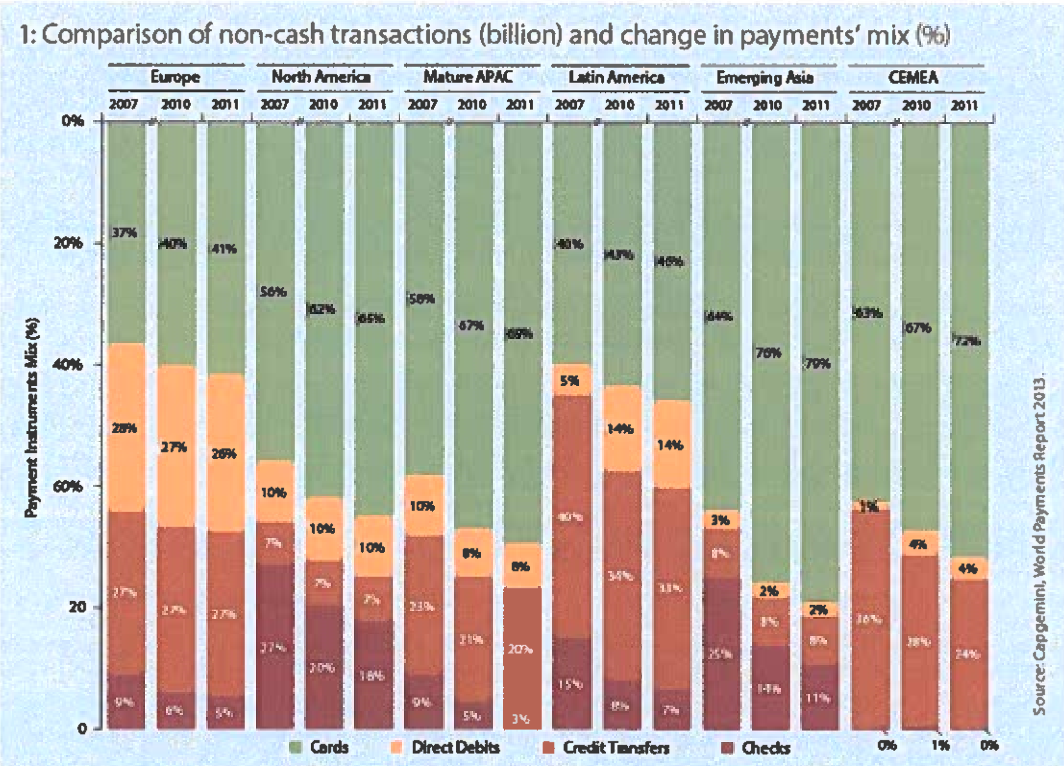
Meanwhile, the number of debit card payments exceeded the number of credit card payments for the first time around 2004. By 2012, the number of debit card payments had reached 47.0 billion – much higher than the 26.2 billion credit card payments in the same year. Prepaid cards are a type of debit card, but also a distinct category of non-cash payments that are considered separately. Compared with credit, debit, ACH, and cheque, prepaid card payments (including both general-purpose and private-label) increased at the fastest rate from 2009 to 2012 (15.8% annually), reaching a total of 9.2 billion transactions in 2012. The number of prepaid card payments increased 3.3 billion from 2009 to 2012, which is higher growth than reported in previous studies.

The number of ACH transactions grew at an annual rate of 5.1% from 2009 to 2012, resulting in 22.1 billion payments in 2012. During most of the 2000s, growth in ACH payments was driven by conversion of cheques to ACH. As cheque writing continued to decline, the number of cheques that could be converted declined as well, offsetting some of the gains associated with other ACH activity.

Cheques fall out of favour

The number of cheques paid continued to decline, falling to 18.3 billion in 2012 – less than half the number of cheques that were paid in 2003. Despite the continued decline in the use of cheques, the cheque clearing process continued to gain efficiencies and has become virtually 100% electronic. Most cheques continued to be deposited in paper form, but the number of cheques deposited as electronic images increased since the last survey. In 2012, among all cheques deposited at the bank of first deposit, 3.4 billion (17%) were deposited as electronic images compared with 3.0 billion (13%) in 2009.

Differences in the average values across payment types reflect how each payment type is typically used. The average value of cheque payments has continued to be significantly lower than that of ACH payments and significantly higher than the averages of the various types of card payments. Cards are typically used for POS transactions largely because of their convenience, while ACH payments tend to be used primarily for bill payment, payroll, and other larger-value transactions.



2: Comparison of non-cash transactions (billion) and change in payments' mix (%)

The average value of card payments (including credit, debit, and prepaid) decreased from $66 in 2003 to $55 in 2012. Although the growth in the number of card payments was driven by the replacement of both cash and cheques, the long-run decline in the average value of card payments was likely primarily due to the replacement of low-value cash payments. The share of non-cash payments made by card increased dramatically, from 60% in 2009 to 67% in 2012. Card payments still only represented a small share of value: 6% of the value of all non-cash payments in 2012 compared to 5% in 2009.

From 2009 to 2012, card payments increased by 17.8 billion, while non-card payments decreased by 3.1 billion, leading to a net increase in non-cash payments of 14.7 billion. Although the average value of card and non-card payments both rose, the massive shift toward card payments (which averaged just $55 in 2012), combined with the decline in non-card payments averaging $1,839 in 2012, led to a decrease in the average value of all non-cash payments from $668 in 2009 to $643 in 2012. In 2012, card and ACH payments made up 85% of all non-cash payments by number and 67% of total value, with cheque payments making up the remainder.

On a global basis, two separate pieces of research indicate how non-cash transactions are gaining speed, particularly in emerging and developing markets. The 2013 World Payments Report from Capgemini and Royal Bank of Scotland found that global non-cash payments transactions grew 8.8% in 2011 to reach 307 billion transactions, with mature markets accounting for 77% of the total volumes and developing markets showing higher growth rates of 18.7% versus 6.2% in the mature markets in 2011.

Much of the growth in the developing markets was driven by Emerging Asia, and Central Europe, Middle East, Africa (CEMEA). These regions have a low share of the global total of non-cash transactions, but investments in payments services and infrastructure are helping them to grow significantly off a low base. Emerging Asia, with a 6.5% share of the global market, grew 22.1% during 2011 while CEMEA, with a slightly higher share of 6.9%, grew 21.9%.

Within those regions China and Ukraine grew by more than 30% each in 2011, with cards the fastest growing non-cash instrument, as has been the case in most markets. In Latin America, which accounts for 9.5% of the global total, growth rates reached 14.4%. The strong performer in this region was Brazil, which contributed more than 70% to the total volume of non-cash transactions in the region during 2011, mainly due to increased use of payments cards.

Non-cash payments growth in the Middle East and Africa (MEA) has been fuelled by a mix of public and private initiatives, including investments in infrastructure and innovative solutions based on mobile technologies.

Of the more developed economies, mature Asia-Pacific recorded the strongest growth; from a market share of 9.8%, transaction volumes grew by 11%. Within the region, South Korea stood out with growth of 12.2%. Again, cards fuelled the increase here, aided by the tax breaks for their use introduced by the government in early 2000. Strong credit card growth helped Japan to an 11.6% increase in non-cash transactions. This was driven to a large degree by the growing popularity of e-wallets, which are based on credit cards, in the country.

The report also revealed a divergence in recovery in the other mature markets; North America's growth rate was among the highest in the mature markets, while Europe's was the lowest. However, despite these differences, the mature markets together, with an increase in transactions of 13 billion, still accounted for about half of the global net increase of 25 billion, meaning that their contribution remains significant. Developing markets may be growing at a faster rate, but still have a relatively smaller base, and hence it is unlikely that they will reach the volumes seen in mature markets anytime soon.

According to the report, based on a hypothetical and perpetual 20% CAGR for developing markets and 5% for developed markets, it would take at least ten years for volumes in the developing markets to overtake those of the developed markets.

During 2011, cards continued to take market share from every other non-cash instrument, in every region studied. Credit card transaction volumes grew by 12.3% globally, while debit card volumes increased by 15.8%. North America is the most significant cards market, with 65% of non-cash transactions made via a payment card. Cheques remain relatively popular in the region, at 18% (although in decline), while direct debits totalled 10% and credit transfers 7%. In Europe, cards accounted for 41% of non-cash transactions compared with direct debits at 26%, credit transfers at 27%, and cheques at 5%. The amount of cheque use within Europe, however, varies significantly by country.

However, while non-cash instruments are recording strong volume growth, the amount of cash in circulation also continues to grow rapidly. In the Eurozone from 2002 to 2011 the amount of cash in circulation per inhabitant nearly doubled, although the growth rate decreased slightly during 2011 to 6.8%, compared with 8.1% during 2002-2010.

Key factors driving non-cash growth

Meanwhile, a MasterCard Advisors 2013 report, "The Cashless Journey", which tracks how 33 major economies are progressing from cash-based to cashless societies, has also highlighted how new technologies, government programmes and consumer preferences are key factors that are driving this shift, creating more productive and inclusive economies.

The report focused on the value of all consumer payments ($63 trillion in total spend), including those that happen beyond retail POS. In 2011, 34% ($21 trillion) of total global consumer spend was done with cash, with cashless payments accounting for 66% ($42 trillion).

The report identifies Belgium (where an estimated 93% of the value of consumer spend was cashless), France (92%), Canada (90%), the UK (89%), Sweden (89%), Australia (86%) and the Netherlands (85%) as countries where cashless payments are nearly ubiquitous, and attributes the broad movement away from cash to the uptake of new cashless payment technologies such as mobile, contactless and EMV chip and a modern payments infrastructure.

Countries such as the US (where an estimated 80% of the value of consumer spend was cashless) and Singapore (69%) are approaching the "tipping point" to becoming nearly cashless, and remaining cash use is largely a product of consumer habit. Conversely, emerging economies such as Indonesia (31%), Russia (31%) and Egypt (7%) are just embarking on their cashless journey, but are in many cases changing cash share of payments at a much faster pace than developed nations. Having relatively recently put all the elements of a modern consumer payments infrastructure in place, countries such as Brazil (57%), Poland (41%) and South Africa (43%) are now in a transitioning stage, and are quickly shifting share away from cash.

The most rapid recent shift away from cash was observed in China, where cash share of the value of consumer payments is estimated to have declined by as much as 20% between 2006 and 2011. China (where an estimated 55% of the value of consumer spend was cashless) and the United Arab Emirates (26%) are among a group of countries where the respective governments have taken strong leadership in promoting electronic payments to support their social and economic goals. Kenya (27%) is an example where disruptive technology is contributing the most to decrease cash share of consumer spend.

"What seems to be overlooked in the policy dialogue is that cash takes time to access, is riskier to carry, and costs a country up to 1.5% of its GDP. We can't expect the journey from cash toward electronic payments to be completed overnight, yet driven by technological advances and public-private partnerships this trend has gathered significant momentum over the past few years," said Peer Stein, director of access to finance advisory services at the International Finance Corporation.

MasterCard Advisors' research indicates that how ready a country is to move to a cashless society is determined by factors like the accessibility and affordability of financial services; the scale and market share of retailers.

Rachelle St Ledger, commercial director of retail and e-commerce at PrePay Solutions, told *PCM*: "Probably the most distinctive payments innovation that 2013 witnessed was the introduction of NFC payments from mobile phones. The rise of contactless payments without the need for a card of any kind, often known as the mobile wallet, is still in the early stages with only a few mainstream products, but has already prompted predictions of the end of cash. While this still seems a very unlikely prospect, developments in mobile payments are having an immediate and significant impact on the payments landscape.

"We predict that contactless mobile payments – and the integration of mobile devices as a tool for managing spending – will move into the mainstream, bringing us a step closer to a cashless society."

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