



Turning point:  
calling time on cash.

## Executive summary

The Reserve Bank of Australia (RBA) statistics reveal that the average Australian makes 500+ electronic payments a year. That makes us the sixth most cashless society in the world. Indeed, there are projections that Australia could become Asia-Pacific's first cashless society by 2022.

At the November 2018 Australian Payments Summit, RBA Governor Dr Philip Lowe said, "it is now easier than it has been to conceive of a world in which banknotes are used for relatively few payments, that cash becomes a niche payment instrument."

The important message in his speech for Australian business is that the average cost of cash transactions is likely to rise as the volume of cash transactions falls.

Yet little thought is given to the operational costs associated with cash, beyond the bank and cash courier fees to deposit cash. To name a few, there are costs involved in manual handling and fraud mitigation, such as requiring two staff be involved in manual handling of cash. There's also the capital expenditure associated with the physical cash register including separate secure storage and CCTV, as well as the time-consuming investigation of the all-too-common discrepancies that arise when reconciling cash deposits.

Furthermore, as the amount of cash collected falls and low interest rates prevail, for some businesses the cost to deposit cash daily may now exceed the cash flow benefit.

While many consumers value the convenience and choice of payment methods on offer, non-cash payments don't work for everyone yet. Swedish and UK reviews have found that going completely cashless can leave behind vulnerable members of society.

Nevertheless, Sweden and China have demonstrated that falling cash acceptance by merchants and retailers is more likely to drive the death of cash than government mandates.

This paper seeks to raise awareness of the rapid decline in cash payments and the certain increase in costs. We encourage and support businesses to consider the impact and develop a strategy to reduce cash costs.



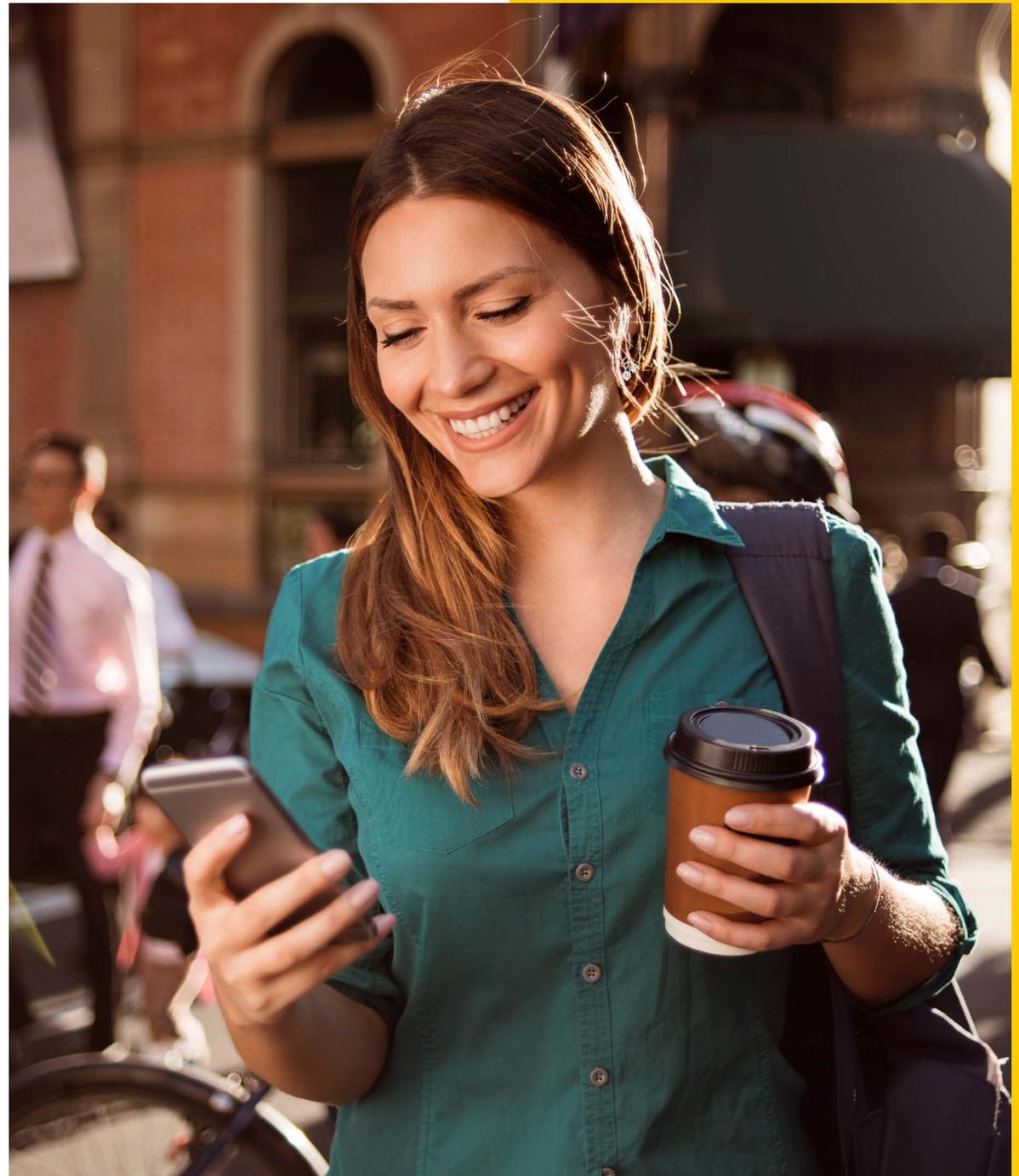
**This is not a story of one pivotal moment which ignited a revolution, but rather many moments that contributed to the end of the reign of cash in the consumer psyche.**

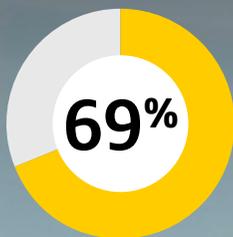
On Valentine's Day 53 years ago, decimal currency was introduced in Australia<sup>1</sup>. Just eight years later, in 1974, the first Bankcard was issued, and in just 18 months, more than one million Australians were able to use their card at 49,000<sup>2</sup> merchants across Australia.

Bankcard closed in 2006, unable to compete with the international acceptance of Mastercard® and Visa®, who combined had 16 million cards in circulation by June 2015, with access to 891,400<sup>3</sup> eftpos terminals.

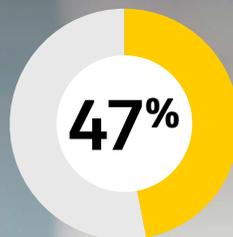
As of January 2019, electronic funds transfer at point-of-sale (eftpos) access has continued to grow, exceeding 975,000 terminals (one of the highest penetration rates in the world), whilst Automatic Teller Machines (ATMs) in Australia are declining, falling below 30,000<sup>4</sup> devices for the first time since December 2010.

1. National Film and Sound Archive of Australia - Decimal Currency in Australia
2. creditcard.com.au – A Brief History of Credit Cards
3. Australian Payments Network – Device Statistics – EFTPOS Terminals
4. Australian Payments Network – Device Statistics – ATM Terminals

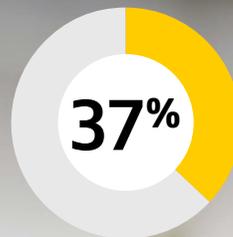




of 2007 Australian payments were made in cash



of 2013 Australian payments were made in cash



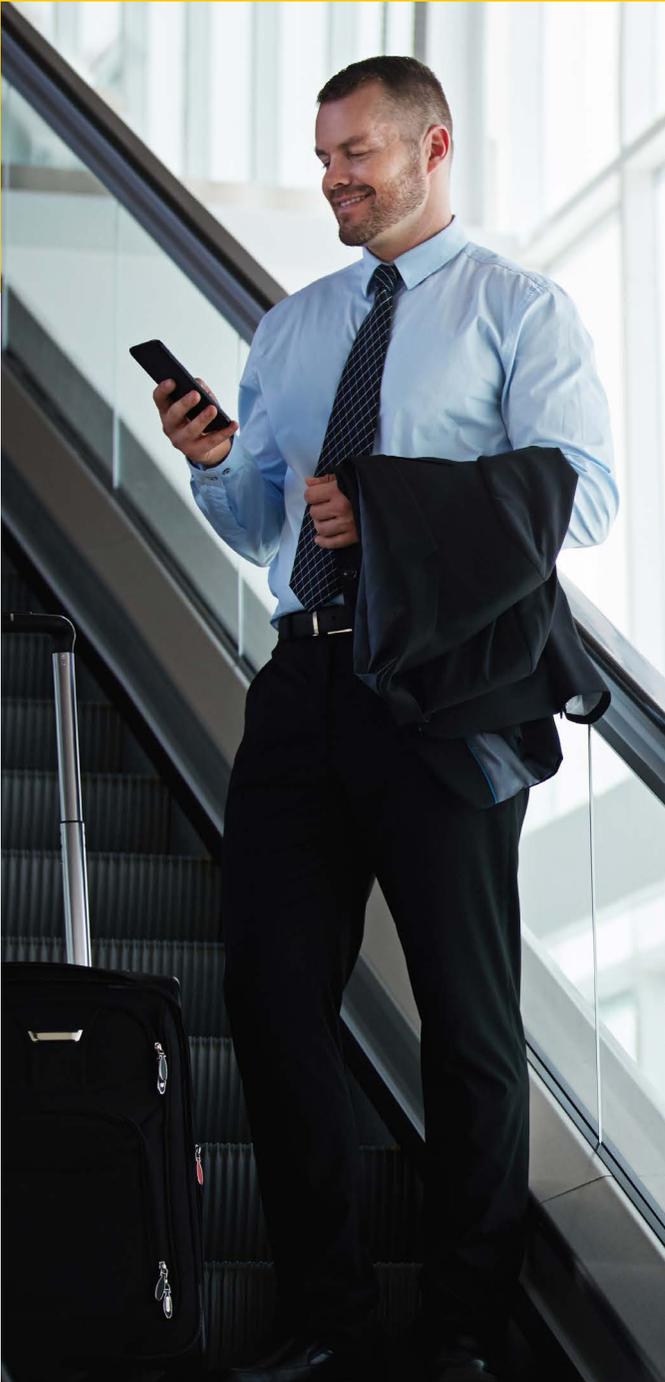
of 2016 Australian payments were made in cash



**Australia could be cashless by 2026,** if the trend revealed in the RBA’s Consumer Payment Methods survey continues, with data confirming a steep fall in cash payments from **69% in 2007, 47% in 2013 to 37% in 2016.**

The decline in cash payments quickened with the introduction of ‘contactless’ or ‘Tap and Go’ convenience in 2013, which accounted for 60%<sup>5</sup> of point-of-sale card payments in the 12 months ending Nov 2013. The Global Mobile Payment Methods 2019 report confirms that Asia-Pacific countries (including China and Singapore) lead the world in mobile payment growth, projecting that Australia could become the region’s first cashless society by 2022.

5. How Australians Pay: Evidence from the 2016 Consumer Payments Survey – RBA Research Discussion Paper



Leading global point-of-sale analyst house, Juniper Research, confirms that more than half of all point-of-sale transactions will be contactless by 2022, held back by slow adoption in the world's largest economy, the United States. Another leading research company, RBR London, forecasts that by 2023, the average spend on a card will fall from \$67 to \$62 as the influence of contactless cards grows, displacing cash in smaller retailers for goods such as drinks and snacks. We are already seeing that in Australia.

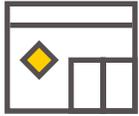
It should be no surprise, in his speech<sup>6</sup> to the Australian Payment Summit in November 2018, that the RBA Governor, Dr Philip Lowe, said “...it looks like a turning point has been reached. It is now easier than it has been to conceive of a world in which banknotes are used for relatively few payments; **that cash becomes a niche payment instrument [and] the average cost of cash transactions is likely to rise as the volume of cash transactions falls**”.

The decline in cash as a payment instrument is the key point of Dr Lowe's speech. However the inevitable increase in cost as volumes fall, is an important message for Australian business. Maybe it's time for business to consider whether the cost of accepting cash payment now outweighs the value?

**“it looks like a turning point has been reached. It is now easier than it has been to conceive of a world in which banknotes are used for relatively few payments.”**

– RBA Governor, Dr Philip Lowe

<sup>6</sup> RBA Governor Philip Lowe's speech  
A Journey Towards a Near Cashless Payments System



## It's not just about bank fees?

The vast majority of businesses who offer in-person payments typically accept card, cash payments and less often cheque. However, it is card acceptance costs that have attracted the greatest regulatory scrutiny, focussing attention on the fees that banks charge for card payments.

**“In terms of card payments, merchants in Australia currently pay less than merchants in many other countries.”**

*– RBA Governor, Dr Philip Lowe*





This is not to say that bank and cash courier fees to deposit cash are not highly visible to businesses, but there is often little thought given to the operational costs associated with cash.



- Manual handling – this is the ‘hidden cost of cash’. It includes the time required to accept the amount tendered, return any change (rework when an error is detected), daily counting and reconciliation, packaging, and finally, delivery of each days takings to the bank (sometimes queuing for it to be processed and receipted).



- Fraud mitigation – Loss Prevention Managers acknowledge that cash represents a risk made more tempting when “times are tough”, and according to the National Australia Bank (NAB) consumer index, close to 40% of those surveyed experienced financial hardship during the last quarter. Mitigation often includes operational procedures that require two staff be involved in manual handling of cash.



- Capital expenditure or fitout costs for the physical cash register, for some separate secure storage (where cash is held pending delivery or collection), and increasingly CCTV should be considered as part of the ‘cost of cash’.



- For larger businesses where finance teams aren’t located at the point of acceptance, and centralised reconciliation of cash deposits are frequently automated, discrepancies are a common occurrence. Investigating these is a rigorous, time-consuming process for finance, management and operational staff involved.



## Cash is dead – long live ‘cash flow’!

As the amount of cash collected has fallen and low interest rate settings prevail, **the cost to deposit cash every day, may now exceed the cash flow benefit** (including, maximising interest earned on credit account balances / or minimising interest paid on debt) for some clients.

We see this as businesses continue to reconcile cash every day, but are holding deposits for a number of days, consolidating visits to the bank or collection by cash couriers to a fewer number of occasions each week.

The reduced delivery or collection frequency reduces operational costs, however the accumulated cash increases OH&S, fraud risks and greatly increases the difficulty of investigating discrepancies.

## Business resists moving to cash-less?

For some industries, cash payments are seen as integral to ensure inclusion, where it's one of a range of payment choices, guaranteeing access to everyone, without exception.

For retailers, the goal widens to “**reducing friction**” in the sales process or purchase decision, where seeking payment other than the offered cash, is seen as creating friction. However, some of the most forward looking bricks and mortar retailers are now eliminating the traditional counter area of point-of-sale, in their efforts to provide the frictionless experience.

They are looking to match the best online retailers who offer a seamless experience, increasing consumer choice and convenience, supported by a plethora of non-cash payment options, such as ePal, PayPal®, ApplePay® and buy now pay later options such as Afterpay® and ZipPay.

Importantly for business, it's not just the millennials or generations that follow who are going digital. According to Ernst & Young<sup>7</sup>, Baby Boomers (and their bigger wallets) represent 25% of the population who are digitally engaged, with 20% spending more than 20 hours a week online.

And don't discount the 65 – 75 age group, where smartphone ownership grew to 78% in 2017<sup>8</sup>, more than half of whom were motivated by access to online banking.

We should all take some comfort in our retiree population going digital, as carrying less cash makes them less of a target to the opportunistic or unscrupulous.

Australians remain at the forefront of digital adoption, with 84.3% of the population predicted<sup>11</sup> to hold a smartphone in 2019.

**25%** of the population are Baby Boomers with bigger wallets

**78%** 65-75 year old smartphone ownership in 2017



**84.3%** of the Australian population predicted to hold a smartphone in 2019

**20%** of Baby Boomers are spending 20+ hours/week online

**50%** + of 65-75 yo were motivated by access online banking



**5.3M** Australian downloads of the CBA iPhone app

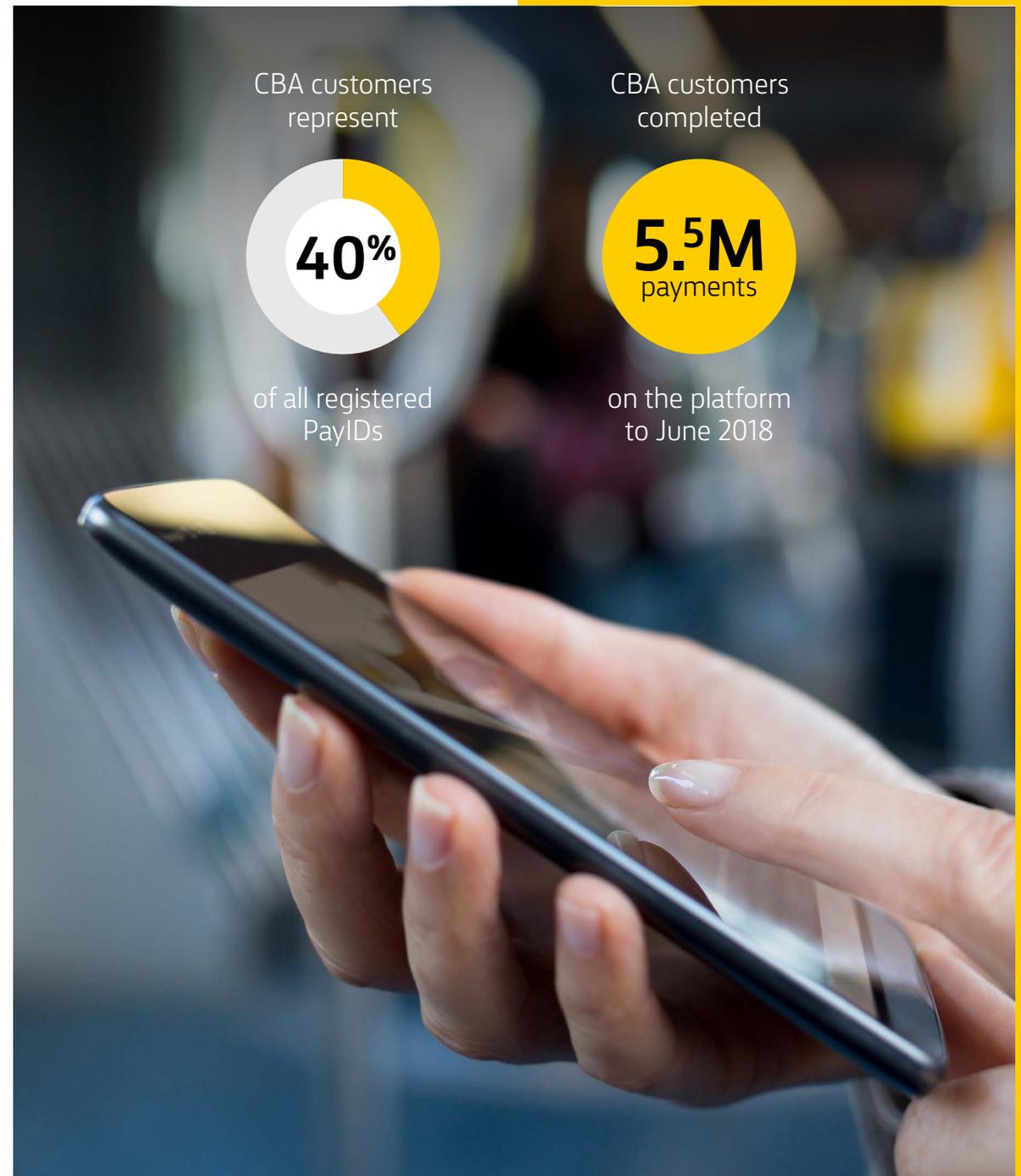
## The New Payments Platform

Dr Lowe expects that the extra functionality offered by the New Payments Platform, “**will further reduce the use of cash in the economy...**” with the number of transactions in November 2018 reaching 400,000<sup>12</sup> per day, just 10 months after it became available. In comparison, ATM withdrawals fell below 1,750,000<sup>13</sup> transactions per day for the first time in 2017.

In November 2018 the NPP platform reached

**400K**  
payments per day

<sup>12</sup>. New Payments Platform Australia and ABSIA webinar Mar 29th 2019  
<sup>13</sup>. Australia Payments Network Milestones Report  
 – The Digital Economy – Ninth Report, June 2018





## The cashless society – lessons from abroad

The removal of cash as a payment is not yet on the Australian agenda, however businesses often comment that a government-driven mandate would be a logical trigger point. Economies, like Sweden's, are leading the way with cash used for only 2%<sup>14</sup> of payments, however the Swedish government has recently halted removal of cash as the impacts are leaving behind vulnerable members of society.

The UK "Access to Cash Review"<sup>15</sup> completed in March 2019, was commissioned in response to the rapid decline of cash used in Britain, which saw 6.3 billion contactless payments in 2018. It concluded that 17% of the British population would struggle to cope in a cashless society and called out the need to act quickly before change was irreversible.

The recommendations of this report are:

- Guarantee access to cash
- Ensure cash remains widely accepted
- Create a more efficient, effective and resilient wholesale cash infrastructure
- Make digital payments an option for everyone
- Ensure joined-up oversight and regulation of cash.



**6.3B** contactless payments  
in 2018 in the UK



**17%** of the UK would struggle to  
cope in a cashless society



**2%** of Swedish purchases  
are made with cash

<sup>14</sup>. The Guardian – Sweden leads the race to become cashless society – Jun 5th 2016

<sup>15</sup>. Access to Cash Review – Final Report - March 2019

Spending is expected  
to increase by  
**\$16B**  
through welfare  
and aged pensions

## Australia's social compact

There are clear parallels between the UK and Australia making the recommendations largely applicable here, but the Committee for Economic Development of Australia's report "Community pulse 2018 – the economic disconnect"<sup>16</sup> points out a critical consideration.

The report confirms that Australians expect government to provide the core services that keep us healthy, comfortable and safe, emphasising that sustainably funding this social responsibility relies on a robust tax base.

It's worth noting that the Parliamentary Budget Office report "Australia's ageing population"<sup>17</sup>, recently updated projections showing revenue over the next decade is projected to fall by ~\$20 billion as a result of fewer workers and less tax being paid. In addition, government spending is expected to increase by ~\$16 billion mainly through increases in welfare and aged care pensions.

Further risks to a robust tax base were highlighted in the October 2017 report by the Australian Federal Treasury's Black Economy Taskforce<sup>18</sup>, which notes the "...ease with which large anonymous cash payments can be used to avoid tax and reporting obligations..." and unfairly disadvantage honest business.

Clearly this is not a mandate for a cashless economy, yet funding community expectations has increasingly seen government focussed on improving the collection of tax and reducing loopholes.

16. <https://www.ceda.com.au/Research-and-policy/All-CEDA-research/Research-catalogue/Community-pulse-2018-the-economic-disconnect> Results of a nation-wide poll of community attitudes to growth & development
17. [https://www.aph.gov.au/About\\_Parliament/Parliamentary\\_Departments/Parliamentary\\_Budget\\_Office/Publications/Research\\_reports/Australias\\_ageing\\_population\\_-\\_Understanding\\_the\\_fiscal\\_impacts\\_over\\_the\\_next\\_decade-Report\\_02/2019](https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Publications/Research_reports/Australias_ageing_population_-_Understanding_the_fiscal_impacts_over_the_next_decade-Report_02/2019)
18. Source: The Australian Government the Treasury [https://static.treasury.gov.au/uploads/sites/1/2018/05/Black-Economy-Taskforce\\_Final-Report.pdf](https://static.treasury.gov.au/uploads/sites/1/2018/05/Black-Economy-Taskforce_Final-Report.pdf)

## Cash not accepted here

Advertising that a business does not accept cash protects the staff from being exposed to the risk of armed hold up and minimises the temptation of dishonest staff. It also seeks to create a better customer experience by forewarning customers that cash is not a payment option.

Small cashless businesses, such as Bar Pho (a Vietnamese restaurant in Sydney CBD's Barrack Place) are recognising the reduced risk, costs and improved customer experience through contactless payments and self-service options. These are now being recognised and valued by their customers.

Momentum in contactless payments is continuing to build, with mass transit systems using seamless Tap and Go payments.

In stark contrast, cash based train journeys now attract a premium over the equivalent card based ticket, with QLD commuters paying >30%<sup>19</sup> for a single paper ticket over the equivalent Translink closed loop 'go Card' fare. For NSW, a similar story exists where commuters pay >18% more<sup>20</sup> for a single (non electronic) trip ticket over the equal Opal card or open loop channel.

Public Transport Victoria<sup>21</sup> has taken this one step further with paper ticketing only available on some 'regional' services.



19. Source: QLD Translink Apr 2019 <https://translink.com.au/tickets-and-fares/fares-and-zones/current-fares>

20. Source: NSW Transport Apr 2019 <https://transportnsw.info/tickets-opal/opal/fares-payments/adult-fares>

21. Source: Public Transport Victoria Apr 2019 <https://www.ptv.vic.gov.au/tickets/fares/>



## Why is cash needed?

Many won't be surprised to learn that card payments are more popular than ever, with Australians making over 8.3 billion card payments in 2017 or almost 23 million transactions each day.<sup>22</sup> However, it's worth noting that almost seven in ten card payments were made with a debit card and 4.9 million<sup>23</sup> per day were made using eftpos, not linked to a credit card scheme.



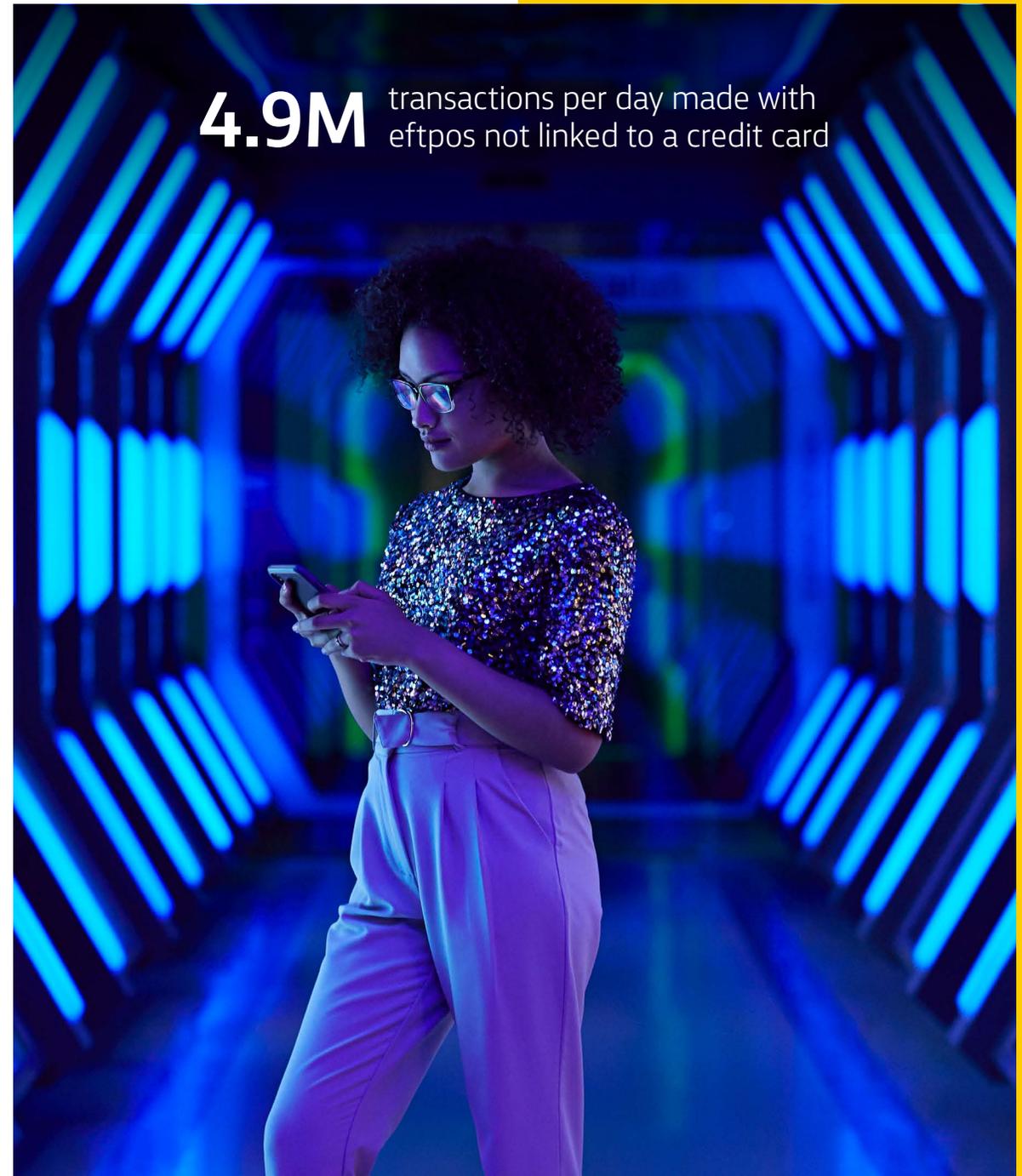
**8.3B** card payments  
in 2017



**23M** transactions  
per day

<sup>22</sup> Australia Payments Network Milestones Report – The Digital Economy – Ninth Report, June 2018

<sup>23</sup> Source : eftpos Australia <https://www.eftposaustralia.com.au/about/performance-highlights/> FY 2018



**4.9M** transactions per day made with  
eftpos not linked to a credit card



Lack of access to a cash alternative (typically card based or a smartphone mobile wallet) is not the reason for using cash, with a UK report finding that “Poverty is the biggest indicator of cash dependency, not age<sup>24</sup>”, and that digital payments don’t yet work for everyone. The report points out that some of the more challenging issues for digital payment adoption were for those with physical or mental health issues or those who rely on others to make purchases.

The UK report also notes risks associated with overspending and accumulating debt were reasons for using cash – which echoes the RBA’s 2016 survey finding that around 14 per cent<sup>25</sup> of Australians having a preference for using cash as a budgeting tool; “If it’s not in my pocket – I can’t spend it”.

The digital response is growing, with additions like the award-winning CommBank app recently adding a Goal Tracker tool<sup>26</sup>, helping customers create better financial habits.

And evidence is building that ‘smart money<sup>27</sup>’ can bring everyone on the journey, with the successful partnership between CSIRO’s (Data61) and Commonwealth Bank of Australia empowering participants in the National Disability Insurance Scheme to deliver a seamless, cashless experience.

For the average Australian, RBA statistics reveal we make 500+ electronic payments a year, placing increasingly greater value on convenience, to make us the 6th most cashless society in the world.



In the UK poverty is the biggest indicator of cash dependency, not age



The average Australian makes **500+** electronic payments per year



Australia is the **6th** most cashless society in the world



**14%** of Australians have a preference for using cash as a budgeting tool

<sup>24</sup>. Access to Cash Review – Final Report - March 2019 <sup>25</sup> How Australians Pay: Evidence from the 2016 Consumer Payments Survey – RBA Research Discussion Paper <sup>26</sup>. Source: Commonwealth Bank of Australia <https://www.commbank.com.au/guidance/newsroom/commonwealth-bank-launches-goal-tracker-tool-201904.html> <sup>27</sup>. Source: Commonwealth Bank of Australia – Making Money Smart [https://www.commbank.com.au/content/dam/commbank-assets/business/industries/2018-11/making\\_money\\_smart\\_report.pdf](https://www.commbank.com.au/content/dam/commbank-assets/business/industries/2018-11/making_money_smart_report.pdf)



## Conclusion

You could be forgiven for thinking that this whitepaper predicts an end to cash in Australia, driven by the increasing efforts of government to improve tax revenue and fund community expectations. However, whilst it's difficult to imagine Australia legislating a cashless society, the Australian Payments Plan<sup>28</sup> (2019 update pending<sup>29</sup>) will provide direction for cash and our payment system.

What we do know is that Sweden and China have demonstrated that **falling cash acceptance by merchants and retailers is more likely to drive the death of cash** and as RBA Governor Dr Lowe noted “...the average cost of cash transactions is likely to rise as the volume of cash transactions falls”.

Rather than setting a date for the end of cash, this paper seeks to raise awareness of the rapid decline in cash payments and the increase in costs, so business can consider the impact and develop a strategy to reduce cash costs.

For businesses, ‘Cash-At-Bank’ is an asset that quickly becomes non-performing anywhere else.

<sup>28</sup>. Source: Australian Payment Council – Australian Payments Plan – Dec 2015 <https://australianpaymentscouncil.com.au/wp-content/uploads/2015/12/Australian-Payments-Plan-December-2015.pdf>

<sup>29</sup>. Source: Australian Payment Council – 2019 Consultation <https://australianpaymentscouncil.com.au/australian-payments-plan/>

## Client Consulting

For our largest clients, a Financial Operations review can map the end-to-end process of each Accounts Receivable channel, calculate the true cost of each process, benchmark against peers, and identify opportunities for improvement.

If the problem seems too large to tackle on your own, a Design Thinking workshop, delivered by the Client Consulting team, uses a proven framework to develop a range of options to address any challenge.

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For more information relating to this white paper, contact Adrian Yee, Director Client Consulting, Transaction Banking Solutions, CBA Institutional Banking and Markets.

**[Adrian.Yee@cba.com.au](mailto:Adrian.Yee@cba.com.au)**



