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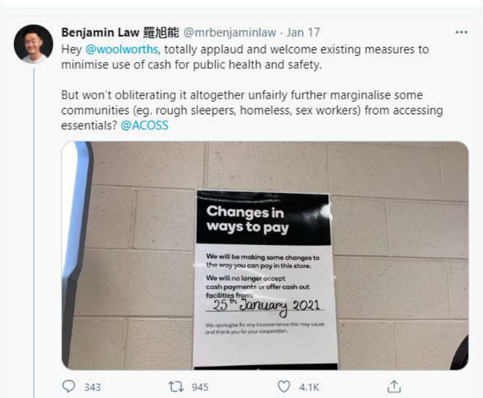
Inclusion impacts of banning cash payments

By Anna Shaw - Head of client insights at RFi Group

Recent news that certain Woolworths stores in Sydney and Melbourne would be banning cash payments has led to criticism from consumers who were frustrated that they would be limited in how they are able to make purchases.

It has also sparked discussion about the implications of banning cash for vulnerable populations or those who rely on cash as their main source of income and payments.



The COVID-19 pandemic led to health concerns associated with handling cash payments, and RFi Group data from May 2020 showed that 1 in 3 (33 per cent) of consumers indicated that they were using cash less often to avoid handling it, and 1 in 4 (26 per cent) of consumers indicated they were making contactless (tap & go) payments more often.

The share of volume for cash payments has been declining, with a particularly steep drop in May 2020 where RFi Group data saw the lowest proportion of payments being recorded in the 7 day Payments Diary Study being made using cash.

In November 2020, use of cash increased slightly, however remains below pre-COVID-19 levels recorded in 2019. RFi Group forecasts that cash usage will continue to decline over the next five years, after a slight recovery in usage in 2021.

RFi Group data also shows that cash is typically used by consumers aged 55 years and above, while debit card and eftpos card usage is dominated by those aged under 35 years.

Despite the pandemic exacerbating the decline in cash payments, older Australians still rely on cash and use it across different types of payment categories.

According to RFi Group data, the top categories cash is used for including leisure and entertainment, dining including takeaway and stores such as supermarkets and retail stores.

Cash is still one of the top payment methods for purchases under $20, despite the growth in low value debit card, eftpos card and credit card purchases in May 2020.

Cash is also the top preferred payment method for low value items such as coffees and newspapers, with over 1 in 3 (37 per cent) of consumers indicating this is their top preference.

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While preference for debit card payments for low value purchases continue to increase, (32 per cent of consumers indicating it is their preference in November 2020) it remains in second place, following behind cash as the top preference.

1 in 2 (49 per cent) of consumers indicated they cannot imagine a scenario where they will stop using cash, and these consumers are typically older than average, have a lower personal income, use fewer payment methods on average and are more likely to be out of the workforce.

Considering this, if cash payments are to be banned further in Australia, particularly in large retailers and stores, there is the potential for increased financial exclusion where some consumers who rely on cash to make purchases will be unable to do so.

Financial Resilience Australia CEO Vinita Godinho comments that "Australians who are more likely to be financially and/or digitally excluded, such as those on low incomes, the elderly, those from non-English speaking backgrounds such as Aboriginal and Torres Straits Islander people, and Culturally and Linguistically Diverse communities, will struggle with the withdrawal of cash payments.

They rely more heavily on cash transactions for a number of reasons - including the high cost of some financial products/services; low financial and/or digital literacy; and access to digital devices".

Looking globally at examples of the banning of cash payments, a recent study in the UK highlighted that over a third of shoppers had been unable to pay with cash during the pandemic, despite the Bank of England highlighting that risk from handling cash should be low. Cash payments were most likely to have been refused for groceries, pubs and restaurants.

Co-Founder and CEO of Move 78, Mariko Braswell, added some further global context, commenting that "cashless stores such as Amazon Go, Grabango and AiFi, have started cropping up in the US as well, but have been facing backlash, and have been banned already in Philadelphia, San Francisco and the state of New Jersey; Massachusetts has required establishments to accept cash since 1978. In the US, 25 per cent of households are unbanked or underbanked (according to a 2017 survey by the Federal Deposit Insurance Corp.)."

Making reference to South East Asia, Braswell also commented "up to 75 per cent of adults are un/under-banked.

Cashless stores are no doubt exclusionary currently" and highlighted "rather than instilling bans and impeding potential progress, this is an opportunity for governments and innovators to prioritize bridging the gap for these underbanked individuals to be able to participate as well; such as physical cards that can be topped-up similar to many cities' subway transit passcards."

While cash may continue to decline in Australia and other markets as use of contactless debit and credit cards continue to increase, cash still maintains a place in society particularly for vulnerable populations. It is therefore critical that financial inclusion is considered when organisations and businesses are making decisions on payment acceptance to not increase financial exclusion, particularly during a climate of financial uncertainty and stress.