Is Cash in Terminal Decline?

This submission concerns itself with Section 4.3 of the Issues Paper and builds on the International Responses to Declining Cash Use, to comment on how interested parties in other countries have dealt with these challenges.

As outlined in the introduction to the Issues Paper, the use of cash in Australia has changed, particularly with less use of cash as a means of payment. There is a danger that the decline in cash usage will result in this becoming a self-fulfilling prophecy. Cash has become more difficult to use as a payment instrument mechanism, as merchants move to preferring digital payments. At the same time cash is becoming more difficult to access, with the number of ATM's deployed in Australia falling 8.5% to just under 30K, over the 12 months to September 2021. Bank branch numbers have also declined, particularly in regional areas, prompting the November 2021 Issues Paper from The Treasury, establishing a Taskforce to assess the impact of bank branch closures in the regions.

Cash however continues to have a strong attraction to Australians as a store of wealth. Figures from the Reserve Bank of Australia's weekly balance sheet in November 2021, show A$101.34 billion in currency as being in circulation. However, in reality less than $10 billion is actually 'in circulation', as in being used as a means of payment. The attraction of cash as a store of wealth, is demonstrated by around 73 per cent of the number and 94 per cent of the value of banknotes in circulation being composed of by the $50 and $100 notes. In times of uncertainly, it would appear that human beings have an attraction to 'real' assets, for example cash and property. The anonymity of cash as a store of wealth only adds to its attraction.

Bearing the self-fulfilling prophecy in mind, I would like to put forward a case for cash to be designated as a Public Good that is made available to all members of society. Clean water and electric power are two examples of Public Goods. The two main criteria that distinguish a Public Good are that it must be non-rivalrous, in that it does not dwindle in supply as people consume it and that it is non-excludable, meaning that it is available to all citizens. Thus, it could be argued that being denied access to cash, is tantamount to being excluded from society.

So, what can we learn from other countries with regard to their responses to declining cash use?

In September 2020, the European Union declared cash to be a Public Good, stating that "Cash is a means of payment that offers instant settlement in face-to-face transactions, without any technical infrastructure. It is still the only form of money individuals can hold directly and as such, it should remain widely accessible and accepted". The Court of Justice of the European Union (CJEU), subsequently also stated that people must be allowed to make payments in cash for goods and services.

In the USA, concerns about the access and usage of cash provoked U.S. representative Donald Payne to introduce the Payments Choice Act in 2019, to preserve the right of Americans to pay in cash and to prevent merchants from rejecting it. He reintroduced the

Act in July 2021, with 37 bi-partisan co-sponsors of his bill and it should be noted that the key word in the proposed Act is ‘Choice’. Some American cities and States have already passed laws to prevent merchants from not accepting cash as a means of payment. Washington D.C.; Philadelphia: San Francisco and New York have enacted such laws, as have the States of Colorado; Massachusetts and New Jersey.

In the United Kingdom, Universal Service Obligations (USO’s) already exist for essential services such as water, electricity and postal services, and Age UK is currently lobbying the Government to introduce a USO for cash. The Financial Conduct Authority (FCA) has also made it clear that maintaining access to cash in local communities remains a regulatory priority that the financial institutions should take on board, when making decisions on the future of their branches and ATM’s.

The FCA as a watchdog, has set out expectations for financial institutions when they are considering closing branches or withdrawing ATM’s from service. These include putting in place alternative access arrangements, such as sharing services with other providers, providing mobile banking or cash delivery services. The FCA now expects to be kept informed of any plans to close branches or withdraw ATM’s and that the financial institution involved will need to provide an analysis of the needs of customers who currently use their services; the impact of the closure on those customers and alternatives that could reasonably be put in place.

The industry sponsored Community Access to Cash Pilots (CACP) initiated a 12 month pilot through Link, the UK’s largest cash machine network, to test a service called Cashback Without Purchase, which enabled customers to withdraw any amount up to £50 at small retail merchants across the UK, without having to first make a purchase. The success of this pilot resulted in more than 24,800 cash withdrawals being made, with an average value of £27.81p. Link is now rolling out this service across the UK.

Under the purview of the UK’s Payments Systems Regulator (PSR), Link is required to have in place policies, measures and reporting obligations to ensure that maintenance of a broad geographical coverage of free-to-use ATM’s in the UK. This is central to the PSR’s desire, ‘to support the ATM network and ensure that the UK’s cash system remains sustainable, resilient and accessible to those who need it’.

So, is cash in Australia in Terminal Decline? Well, it may not be Terminal, but it does appear to be in need of Intensive Care!

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