Reinventing Cash for Your Future Digital Vision

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Introduction

Has fear of making the wrong decision inhibited truly valuable progression within the financial services industry? Defining and designing a five-year road map of service offerings and consumer journeys in an increasingly complex market is tougher than ever, and often results in a focus on short-term wins where outcomes can be quantified and recognised much more quickly.

As the pace of change within society operates at a much greater rate than advancements within the industry, shifting the focus from reactive customer services to meaningfully planning for the future quite often requires a new mindset and turning current priorities on their head.

Is Industry Inertia Holding Us Back?

Disruption: an opportunity or a risk?

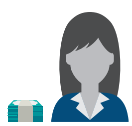
Digital disruption has led to a huge shift across the banking and payments landscape. In the last few years, digital payments have seen a meteoric rise, powered by new technologies and consumer uptake. Digital progression has also removed many of the barriers between channels, giving consumers more choice and better accessibility than ever before. As a result, fewer transactions now happen in person. Even for those that do, there are a range of available payment options to choose from.

It's clear that public opinion on cash varies and whilst some people regularly use notes as one of their payment options, others always rely on digital options. However, for many reasons, cash is still seen as a vital payment method—and it's not disappearing nearly as fast as predicted. As global GDP rises, the value of cash in circulation is still increasing to meet demand. In fact, research shows that only two out of 47 global economies have decreased the amount of cash in circulation over the last few years[1].

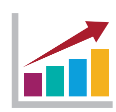
It's also clear that the infrastructure and physical costs of supplying and managing cash can be very expensive to maintain using a traditional approach and legacy processes. With cash operations still accounting for an average 5-10% of a bank's entire operating costs[2], it can seem a painful burden for cost-conscious financial institutions.

Although cash usage is predicted to continue its decline over the coming years, it is still expected to remain at more than four billion cash transactions per year by 2032[3], so more efficient cash infrastructures and processes are absolutely vital.

There are over
£70 billion
worth of notes in circulation...



which roughly equates to
£1,000
per person.



That is around
twice as much
as a decade ago.

Source: Bank of England

[1] Global Cash Report, Cash Usage Worldwide, G4S Cash Report 2018
[2] Attacking the cost of cash, McKinsey, 2018
[3] UK Finance, ibid

A Step Into the Future: Working Backward From Long-Term Priorities.

With so much focus on cash costs and reactively making plans to handle the nation's notes, could it be that there is a greater opportunity to proactively plan for cash as part of your organisation's strategy for delivery of future consumer journeys and outcomes?

Reimagining plans to proactively make cash a vital part of effective delivery of the consumer experience could lead to a shift in the approach to cash: rather than it being a costly burden, it could actually enhance journeys and deliver a competitive edge.

A fresh approach

In the last few years there have been several initiatives in the Nordics and Europe to create national cash utility models, or shared networks. For example, in Sweden, the five largest banks have formed a joint company to help streamline their cash storage and transit operations, helping to significantly reduce the costs and resources for managing cash supply to their ATM network. In the Netherlands, the three largest commercial banks have formed a partnership to map the best distribution of ATMs which will form a shared network—an initiative which is set to complete in late 2020.

This type of collaboration between financial institutions is an area to watch and consider. The opportunity to instil standardisation of technology and processes, share costs and the responsibility for cash supply is undoubtedly appealing. It can potentially work to serve the greater good of meeting consumers' needs at an acceptable cost. However, designing and implementing this kind of initiative is a very complex challenge which involves support and collaboration not just between key banks, but also between regulators, governments and a range of other stakeholders.

Collaboration is key

Of course, this isn't the only option for collaboration or partnerships. The Post Office, for example, has played a key role in driving the accessibility of cash in the UK, allowing the majority of bank customers to deposit and withdraw money using post office branches.

There is also the opportunity for banks and payment services providers to team up and reinvent the way that cash and other services are offered to consumers as part of a more holistic approach. This is certainly a sentiment which is supported by Sarah John, Chief Cashier at the Bank of England. "For cash to remain a viable payment method in society," she noted, "this innovation needs to continue and the Bank will do what it can to support that innovation."

Envisioning the future of cash in this way brings a new perspective onto "reactive" versus "proactive" management of cash as a payment option for consumers. However, effective planning for such a transition is vital. In recent months, for example, officials in Sweden (the country closest to becoming a cashless society) have said that they should have planned better for the declining use of cash and have warned how difficult it can be to rebuild cash infrastructure once it's gone . This is a warning that other markets should heed—highlighting the importance of creating a sustainable cash roadmap.

Cash Management: Is the Investment Worth it?

In the UK, there are still 2.2 million people predominantly using cash. The Access to Cash review shows that 25 million people in the UK, nearly half the population, would struggle without access to cash. Financial inclusion is a huge concern for many geographies, especially those with declining cash use or poor banking infrastructure. Many of those relying on cash payments come from rural or poor communities, as well as the elderly and homeless who struggle with access to bank accounts and digital services. Research also shows that 94% of Britons who give money to homeless people or street buskers do so in cash[4]. Donations of loose change are also worth an estimated £320m a year for the charity sector, according to 2018 YouGov research commissioned by the Charities Aid Foundation.

Technology risk

New technology is core to innovation, and investment in new digital payments systems is essential. But, among others, the European Central Bank has been vocal in its concerns about the risk involved in becoming a cashless society and the over-reliance on a digital-only infrastructure. Digital payments are vulnerable to cyberattacks, energy blackouts and network system failures—not to mention the potential for terrorists taking over the payments system. This can put the entire economy at risk, particularly if one of these problems persists and there is no alternative means of making payments. For many central banks, cash is still a fundamental part of crisis planning. Without cash as a backup, a significant IT system failure could leave us without any means of accessing money.

While the use of cash is in decline, maintaining a cash infrastructure can offer economic resilience and support a more robust national payments network.

Supporting consumer choice

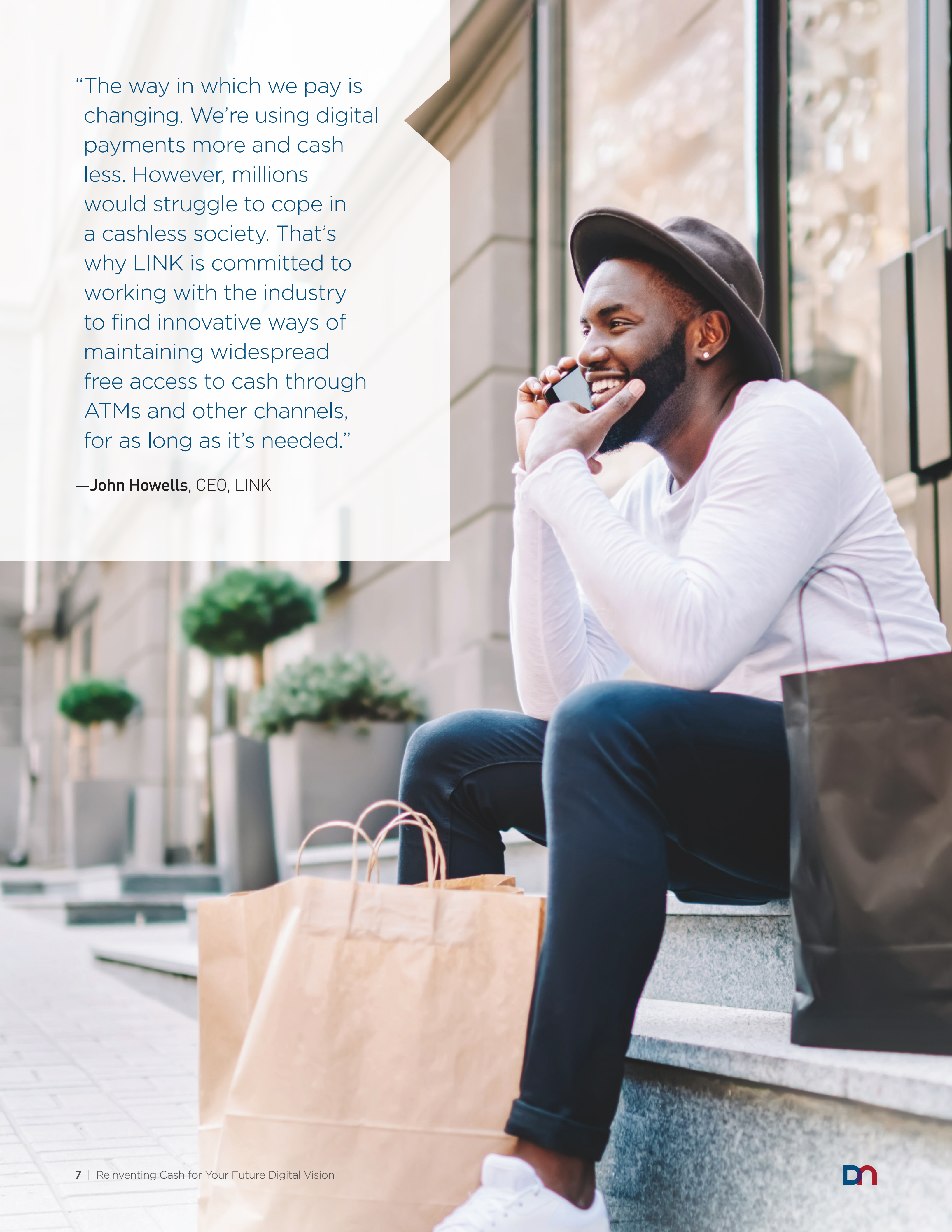
The ability to cater to consumer preferences is vital in today's customer-driven banking and retail landscapes, with choice an expected part of the experience. Certain demographics still prefer cash and for those with limited access to digital means, cash is essential.

Our beloved notes are still the second most popular payment method and according to UK Finance, around 2.2 million consumers mainly used cash for their daily shopping last year, even though nine out of 10 of them had a debit card.

Ultimately, the progression of the consumer journey is only effective if it's aligned to consumer wants and needs—and this must include having a choice of channels and services. Digital payments do not yet work for everyone and they also don't work seamlessly in all situations. Cash can be an important constant to maintain while digital payments mature—and for as long as cash is wanted and needed by consumers and businesses.

To make sure that financial services providers can support cash in a way that is profitable, they must look for ways to reduce friction across the cash journey and therefore the consumer journey. This will enable the right balance between digital progression, financial inclusion and consumer choice.

[4] Access to Cash Review, 2019



"The way in which we pay is changing. We're using digital payments more and cash less. However, millions would struggle to cope in a cashless society. That's why LINK is committed to working with the industry to find innovative ways of maintaining widespread free access to cash through ATMs and other channels, for as long as it's needed."

—**John Howells**, CEO, LINK

Why people still use cash

34%

Like to **have a choice** when paying for things

20%

Feel **more in control** when using cash

16%

Find it **easier to manage** household budget

Why people carry cash

67%

To **pay** for small things

55%

For **peace of mind**

35%

Like to **have the option** of how to pay

19%

Find it **easier to manage** money

15%

Prefer paying by **cash**

14%

To **settle debts** with friends and family

Source: Access to Cash Review

Overcoming Obstacles: What's Stopping Meaningful Progression?

Breaking down the barriers

Cash management processes are currently archaic and heavily manual, with research from McKinsey revealing that nearly half of banks rely on manual calculations (e.g. spreadsheets) to forecast cash needs for branches and ATMs. These resource-intensive processes play a big part in making cash expensive to support.

Financial institutions need to implement a best-in-class level of efficiency to make the cash management process more profitable and sustainable—this means playing catch-up with technology.

There are a number of newer technologies and processes that can help keep cash as a viable, cost-effective option. The focus needs to be on the end-to-end optimisation of cash processes, which can deliver significant savings across the total cost of ownership and the effort to maintain the right level of cash availability.

Making cash smarter

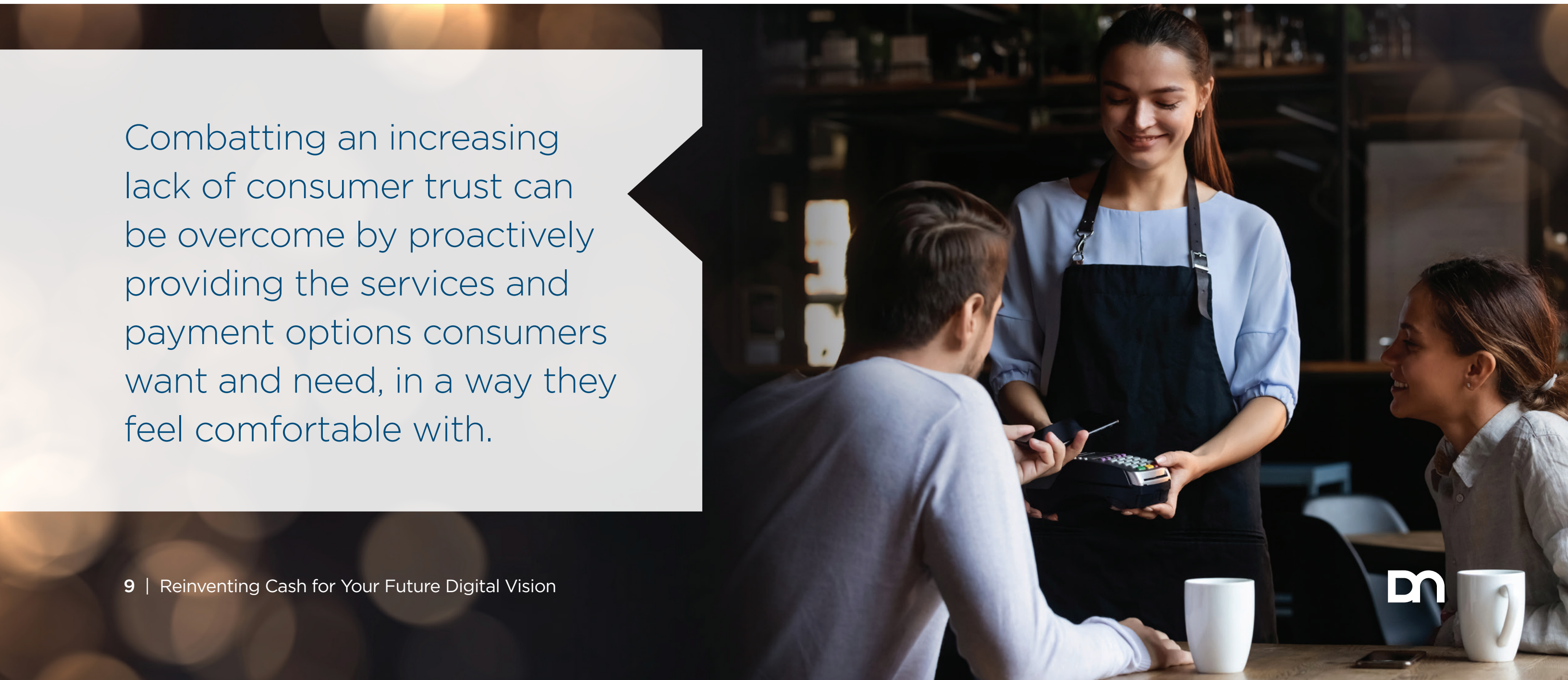
Cash management is becoming more of a focus for financial institutions as they address the need to offer cash as part of the overall consumer journey. To make this work, it needs to be integrated and aligned with the organisation's end-to-end offering.

There is a growing trend towards cash recycling, with many banks taking advantage of the larger capacity and deposit capabilities of ATMs. For example, allowing small-business owners and merchants to deposit their daily takings into a recycling ATM can simplify and reduce the cost of cash supply and provide added convenience for business owners. It also enables the cash-in required to drive daily dispensing and reduces the need for manual cash handling.

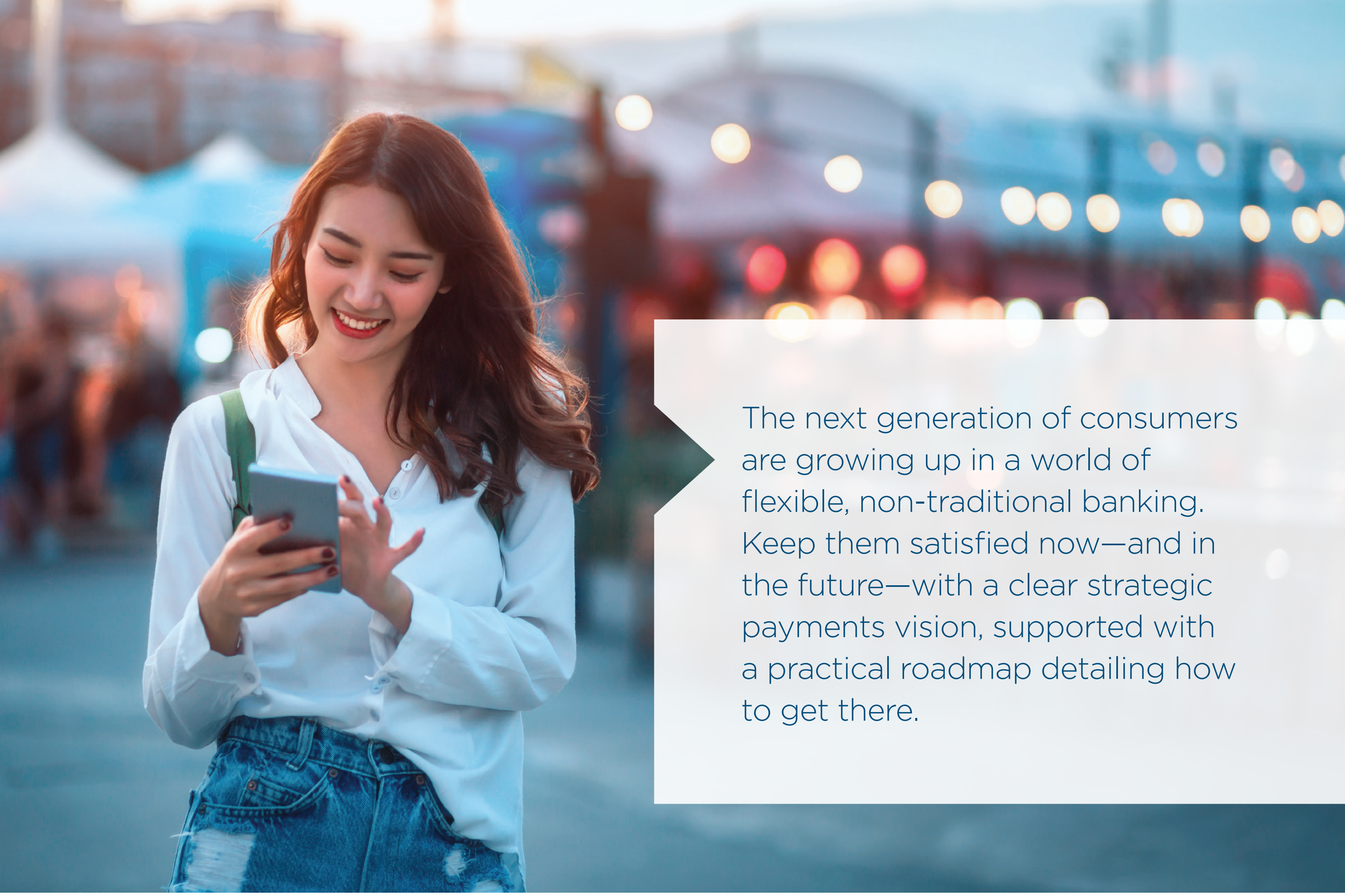
Using big data to build a comprehensive view of your cash inventory

Leading-edge analytics can also provide valuable insight, powering informed cash management strategies that support efficiency and excellent customer service. Analysing the data on deposit and withdrawal rates across your self-service network can determine the exact locations where recycling would make sense and identify how and where cash-in-transit visits, and therefore costs, could be reduced.

Data analytics combined with cash optimisation strategies can also help target reductions in inventory and replenishment costs by tailoring the processes to meet the requirements of each individual self-service system. Software-aided evaluation of historical data allows for more accurate forecasting and the ability to proactively cater to consumer needs at each location. This can support a just-in-time approach to cash replenishment and even offer the ability to tailor the amount and mix of cash to suit the needs of typical consumers at each system, or even for specific events (for example a sporting event in a certain location) or times of year.



Combatting an increasing lack of consumer trust can be overcome by proactively providing the services and payment options consumers want and need, in a way they feel comfortable with.



The next generation of consumers are growing up in a world of flexible, non-traditional banking. Keep them satisfied now—and in the future—with a clear strategic payments vision, supported with a practical roadmap detailing how to get there.

A Consumer-Centric Future for Cash – Which You Can Control.

Consumers often want to use different payment methods at different times and for different purposes, so it's important to offer choice and flexibility. The progression of the consumer journey is only effective if it's aligned to their wants and needs—and this includes having a choice of channels and services. It also means planning ahead for the evolution in consumer demand that will inevitably continue.

Financial institutions will need to plan carefully for the right balance of cash and digital payments to serve all consumer and business groups—whatever their need or preference. This means rethinking the way cash is accessed, supplied and managed but also crucially starting with long-term strategic planning and building cash management into the successful delivery of such plans.

In this process, it is important to remember that cash and digital are not mutually exclusive. Beyond the intelligent tools and technology that can help make cash operation more cost-effective, there are many opportunities to use cash as part of an integrated consumer journey.

By understanding consumer trends, preferences and needs, and implementing the right technologies, financial institutions can continue to support consumers' choices and deliver the services relevant to those needs, even as they change. Cash is set to remain an important part of the future of payments in many markets purely because it is still a top payment method of choice for consumers. For this reason, it is vital that cash continues to be included as part of the reinvention of payments, for as long as it is needed to serve.

> "We need to prepare for a world with less cash usage, without knowing exactly what path cash will follow, and be prepared to respond effectively and sensitively as society's payment preferences change over the next few years."
>
> —**Sarah John**, Chief Cashier, Bank of England