Cash to digital in 30 years…?

You could regularly hear the disapproving 'tuts' in banking halls all over the country, why are there never enough cashiers at peak times when customers want to use the bank's services? Over the past 10 years banking halls have undergone a dramatic facelift, not only are there less of them, as a result of branch closures, they are becoming more automated with greater use of the "digital cashier", ATMs that allow you to pay in cash and cheques, access key bank services and even withdraw cash. Our banks appear to be following the Swedish model where approximately 900 of Sweden's 1,600 bank branches no longer keep cash or take cash deposits; most rural branches have removed ATMs. Why the drastic measures? According to Sweden's central bank the Riksbank, cash transactions made up barely 2% of the value of all payments made in Sweden last year and forecasted to reduce further to 0.5% by 2020. In shops, cash is now used for barely 20% of transactions, half the number five years ago; circulation of Swedish krona has fallen from around 106bn in 2009 to 80bn last year.

We are not quite there in the UK yet. In 1853 the first fully printed bank note was issued by the Bank of England, disrupting the previous 160 year old practice of cashiers filling in the name of the payee and signing each bearer note individually. Another 160 years on we are witnessing further disruption. According to the Payments Council, 2015 was the first year in which 52% of payments made by consumers, businesses and financial organisations in the UK was made up of electronic transactions, ranging from high-value transfers to debit card payments, as well as cheques. With increasing investment into FinTech companies, and the rise of digital payment solutions such as PayPal, the trend towards a cashless society is likely to continue. The Payments Council report highlighted newsagents (84.8%) and convenience stores (78.5%) with the highest proportion of cash payments, however advances in Near Field Communication (NFC) and the adoption of "wearable digital wallets" consumers at these retailers will expect to use their phone or watch in addition to contactless enabled cards in the future.

So is the existence of cash under pressure? A recent study by the Harvard Business Review assessed which countries are best positioned to go cashless by examining the cost of cash (bank costs such as ATM network, transit costs, tax gaps – the proportion of money owed to government that is uncollected due to under-reported and unreported cash transactions) versus the adoption of digital alternatives. The graph below clearly illustrates that Sweden along with the UK have the highest digital scores and lower cost of cash scores, both countries at the vanguard of the march towards a cashless society.

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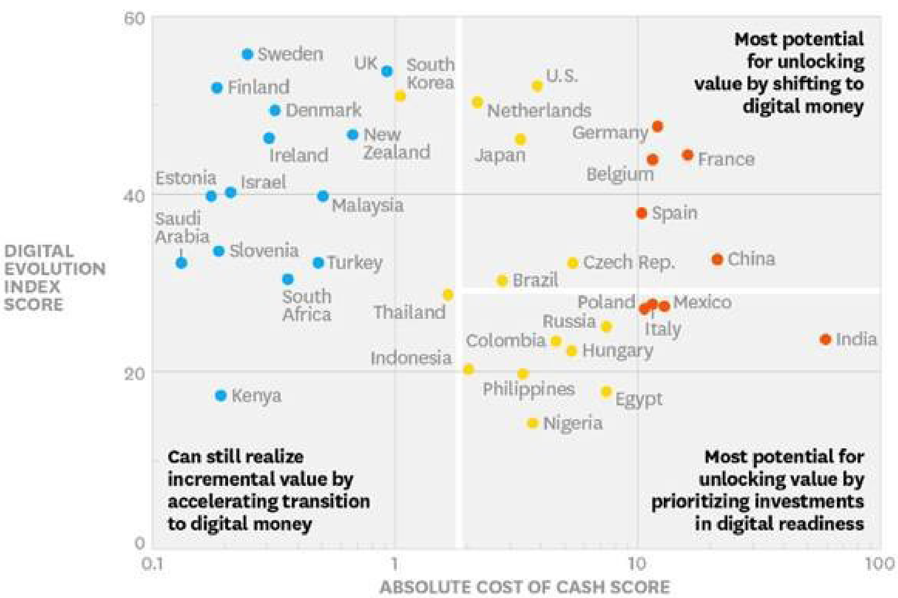
Which Countries Are Best Positioned to Go Cashless?

Looking at digital readiness paired with absolute costs of cash highlights potential cashless sweet spots.



SOURCE DIGITAL EVOLUTION INDEX, THE FLETCHER SCHOOL AT TUFTS UNIVERSITY © HBR.ORG

The move to a cashless society will create more consumer data than ever before for banks, presenting them with an opportunity to design and deliver enhanced customer propositions. It does however come with enhanced risks, cyber has been talked and written about with greater regularity, with increased levels of data and greater reliance on technology for everyday transactions, the risks of a cyber-attack will be heightened and increasingly damaging to a bank's already fragile reputation and shareholder value. A lack of cash could also create new risks by limiting the role banks can play in providing market liquidity. The development and maintenance of a bank's operational risk management framework will be critical to identification, management and mitigation of exposures to an evolving business model.

After 300 years of paper notes (legal tender) and cashiers in our banks I predict that we will be cashless and digital within the next 30 years.

For direct consultation on these implications, please contact *John Brosnan, Head of Financial Services Group at Aon Risk Solutions on +44 (0)20 7086 6160 or email john.brosnan1@aon.co.uk*