Australian Payments Clearing Association

Towards the digital economy:

Milestones report

SPECIAL EDITION: FOCUS ON CASH

THIRD REPORT
JULY 2014

This paper has been prepared by the Australian Payments Clearing Association (APCA) for the purpose of reporting on the decline of cheques and the transition of the payments system towards the digital economy.

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1.0 Introduction

This is the third Milestones Report published by the Australian Payments Clearing Association (APCA) and is a special edition concentrating on cash. It is published as a companion piece to a report commissioned by APCA from RFi Consulting entitled "The Evolution of Cash: An Investigative Study".

The Milestones Reports arose out of commitments made by APCA in its 2012 paper, *The Decline of Cheques: Building a Bridge to the Digital Economy* (the Bridge Report). This series of reports provide regular updates on the evolution of the digital economy along with data about the changing way we pay.

The Bridge Report recognised that Australia is moving towards a "digital economy" and payments have been, and must continue to be, a part of that process. Promoting greater use of electronic payments is therefore a necessary bridge to the digital economy, particularly for those who still rely on cash and cheques.

One of APCA's commitments from the Bridge Report was to undertake preliminary research on the use of cash in Australia to obtain a more holistic understanding of payments use in Australia and explore possible policy responses for industry and government.

As part of meeting this commitment on cash use, this edition explores this issue in-depth. Future Milestones Reports will continue to highlight issues of particular interest in respect to payments and the digital economy.

2.0 Key Points

The key points of this Milestones Report include:

- The decline in the use of cheques in Australia continues with the year on year decline of 13.3 per cent from December 2012 to 2013 (compared to 12.5 per cent in the twelve months to December 2012).
- Cheque values remain resilient, suggesting that higher value business cheques are more persistent than lower value personal cheques.
- Industry initiatives such as the New Payments Platform continue to progress as do other initiatives that will displace cheque use, such as SuperStream and E-Conveyancing.
- Consumer use of cash in Australia, in line with international trends, is declining but cash is unlikely to disappear as a payment instrument.
- However, cash use is in the beginning of an accelerated decline which will result in it remaining at much lower levels in the future, which will require management by the Government, regulators and the payments industry.
- While acknowledging that cash will remain a "default" payment instrument (if all else fails) for the foreseeable future, APCA believes it should not be the first or only choice in any payment context, and as the industry works on payments system enhancement, it should aim to ensure that safe, convenient and cost-effective alternatives are available.
- Cash holdings and cash-in-circulation remain high.
- The social cost of cash appears high, though more research will assist in exploring this issue further.

3.0

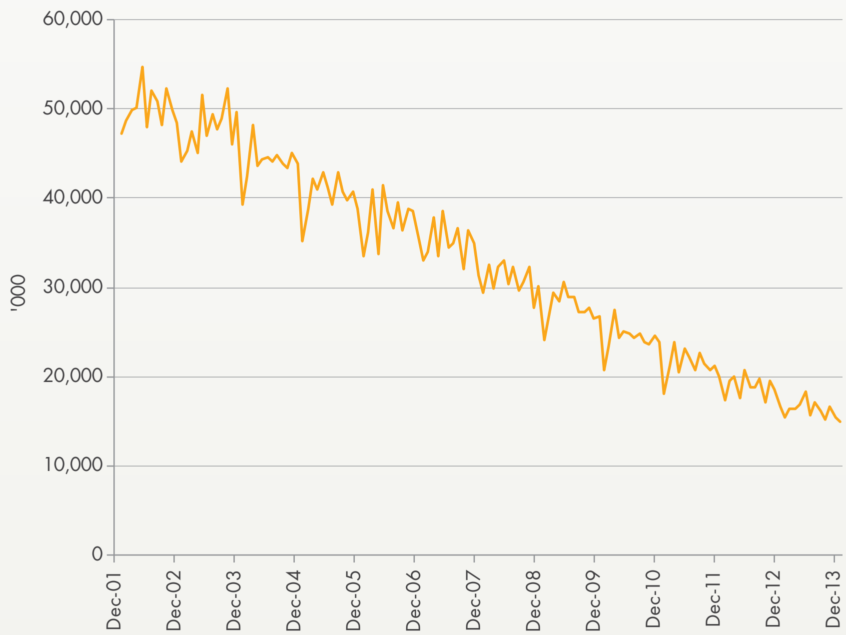
Cheque Usage

3.1 Cheque Volumes in Australia

Between December 2012 and December 2013, the number of cheques written in Australia dropped by over 13.3 per cent from 224 million to 194 million per year. This is comparable to the drop reported in the previous Milestones Report and a continuation of longer-term trends.

The decline of monthly cheque volumes since 2002 can be seen in the following chart.

Figure 1: Monthly Cheque Volumes in Australia, 2002–2013



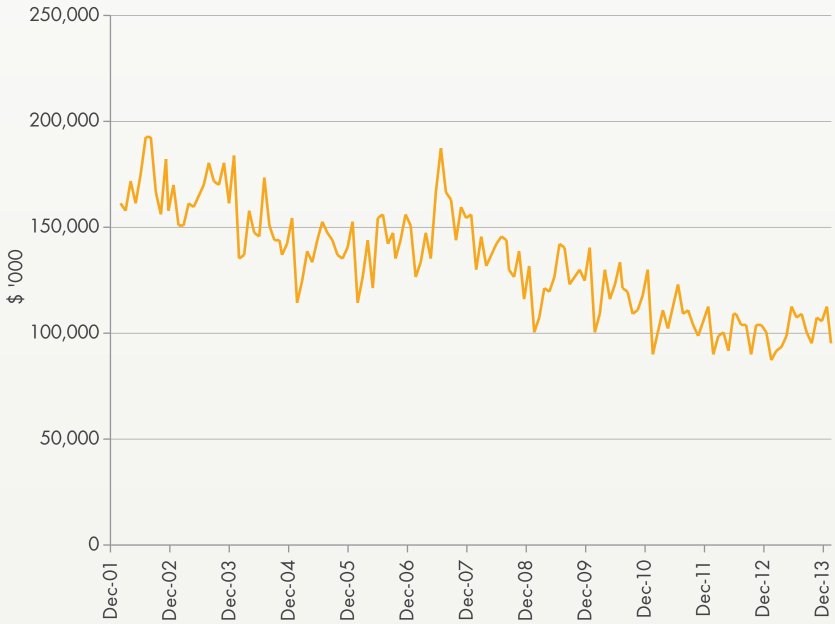
Source: Reserve Bank of Australia

The decline over ten years to December 2013 represents nearly a 70 per cent drop. The trend line suggests that based on the current rate of decline, and assuming there is no levelling out before it reaches zero, there will be no cheques used in Australia by the end of 2017.

3.2 Cheque Values in Australia

As identified in previous Milestones reports, cheque values have remained resilient even as volumes have declined. Nominal cheque values for the year to December 2013 actually increased slightly by 1 per cent over the previous year.[1] This reflects the fact that cheques continue to be used in high value transactions such as property settlement and other business transactions, rather than for lower value personal transactions.

Figure 2: Monthly Cheque Values in Australia, 2002–2013



Source: Reserve Bank of Australia

The Reserve Bank of Australia (RBA) has collected these value statistics since 2002 and highlighted a peak in monthly cheque values of $187 billion in June 2007. This has declined significantly to current monthly figures of between $90 billion and $110 billion being observed since the middle of 2011. These indicate a 38 per cent drop in cheque values over ten years to December 2013.

In its submission to the Financial System Inquiry, the RBA has released historic data to 1997, noting that the value of cheques has declined by a rate of 8.8 per cent per year between 1997 and 2013.

1. Cheque values, however, did decline on a real basis as ABS statistics note that CPI (all groups) was 2.7 per cent for the 12 months to December 2013.

3.3. International Cheque Use Trends

The most recent statistics from the "Red Book" published by the Committee on Payments and Settlement Systems (CPSS) identified that cheque volumes from 2011 to 2012 were declining across all reporting countries.[2] This trend in cheque decline has now extended to rapidly-developing markets, countries such as China and India, which saw their own cheque volumes peak in 2010.

In the 19 countries surveyed, the CPSS reported a decline in cheque volumes from 30.8 billion in 2011 to 27.8 billion in 2012, a 9.5 per cent decline.

In Australia, cheques are recorded at 3.1 per cent of non-cash payment transactions, well below the 9.7 per cent recorded across the reporting countries. In countries such as France, India, Mexico and the United States of America, cheques still comprise more than 10 per cent of non-cash payment volumes.

As noted previously, cheque values remain more resilient than cheque volumes and according to the CPSS, 8 per cent of non-cash payment values in Australia are by cheques. While higher than the proportion found in countries such as the UK (1.1 per cent of non-cash value) and South Africa (4.3 per cent of non-cash value), cheques as a proportion of non-cash value payments in Australia is well below countries such as Canada and the United States, where respectively 49 and 33 per cent of non-cash value goes through their cheque systems.

2. http://www.bis.org/publ/cpss116.htm

3.4 Financial System Inquiry

The Australian Government's recent Financial System Inquiry (FSI) was set up to report on the consequences of developments in the Australian financial system since the 1997 Financial System Inquiry and the global financial crisis, including implications for the current cost, quality, safety and availability of financial services, products and capital for users.

Submissions

Several first round submissions to the FSI have made mention of the decline in cheque use and the need to promote digital on-line alternatives.[3] The RBA observed:

> *Further decline in the importance of cheques is expected given use among younger Australians is very low. In addition, innovative alternatives to cheques are likely to continue to emerge.*[4]

APCA's submission[5] made the following recommendations:

- **Recommendation 6:** That governments articulate a clear position on reducing the use of cheques and cash and on promoting electronic payments.
- **Recommendation 7:** That the Attorney-General's Department prepare an omnibus bill to remove specific references to cheques. This issue should also be addressed at the Council of Australian Governments (COAG) to ensure parallel take up by state governments.
- **Recommendation 8:** That the RBA work with industry to achieve a clear position on charging for cheques and other payment instruments.
- **Recommendation 9:** That Government policy on coinage should recognise and encourage reduced use of coins, and in particular the Royal Australian Mint should accept the return of coins from financial institutions.
- **Recommendation 10:** That governments support bridging strategies and education campaigns on the benefits of existing telephone, electronic and online payments aimed at those (typically older Australians, rural and regional communities, and small business) who, today, remain reliant on cheques.

3. http://fsi.gov.au/consultation/
4. http://fsi.gov.au/files/2014/04/Reserve_Bank_of_Australia.pdf at page 196
5. http://fsi.gov.au/files/2014/04/Australian_Payments_Clearing_Association.pdf at page 3

The Commonwealth Bank of Australia[6] proposed major action in relation to hastening the end of cheques:

- The Payments System Board (PSB) to set a multilateral interchange fee on cheque payments. This should be complemented by an education campaign to inform organisations that they are allowed to charge a pre-disclosed cost-based fee to recover their cost of accepting a cheque payment.
- All Australian Federal, State and Local Governments to phase out making payments by cheque and either phase out acceptance of or impose a surcharge for receiving cheque payments. All governments to promote transition to electronic payments.
- The Federal Government to help educate Australian businesses about the efficiencies of electronic payments over paper-based payments.
- The PSB to consider and report on the future of cheques in Australia.

The Australian Settlements Limited called for engagement with consumer groups to discuss the end of cheques as well as education on the benefit of electronic payments.[7]

FSI Interim Report

The FSI released its Interim Report (the FSI Interim Report) on 15 July 2014.[8] The FSI Interim Report observed that to:

> *…facilitate innovation, Government and regulators should seek to be flexible in regulatory approach and technology neutral in regulation. This is not always the case currently; for example, some Federal and state-based legislation and regulations require (implicitly or explicitly) the use of certain forms of technology.*[9]

The FSI Interim Report also recommended that regulatory settings should enable electronic service delivery to become the default for Government (allowing for the continued provision of facilities for those unable to take advantage of this). The FSI Interim Report also suggests the establishment of a central mechanism or body for monitoring and advising Government on technology and innovation, possibly with the private sector or a whole-of-Government technology strategy to enable innovation.

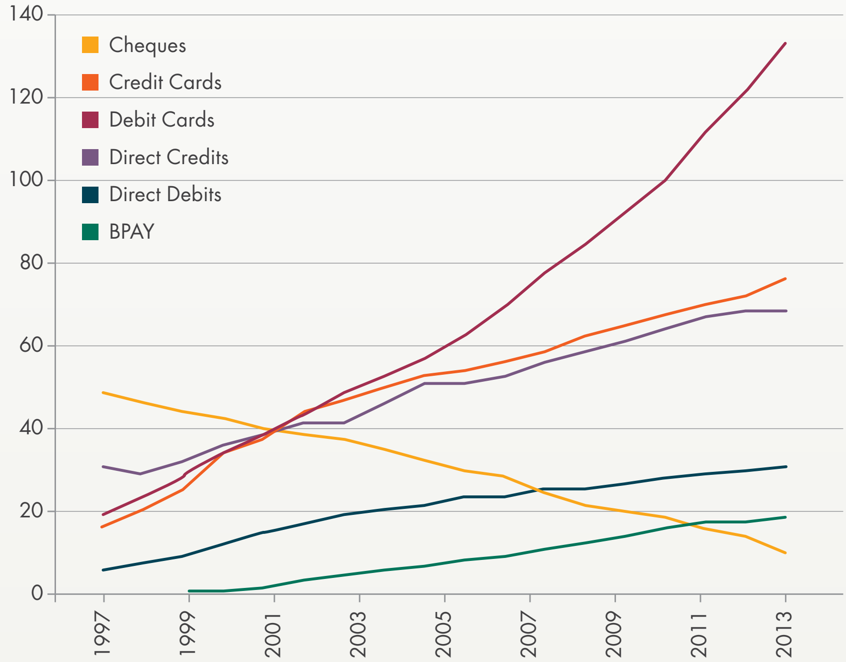
These observations within the FSI Interim Report broadly align with APCA's policy to ensure that the payments system supports a move to the digital economy by promoting electronic payments (see discussion at 5.4).

6. http://fsi.gov.au/files/2014/04/Common_Bank_reduced.pdf at page 64
7. http://fsi.gov.au/files/2014/04/Australian_Settlements_Limited.pdf at page 3
8. http://fsi.gov.au/publications/interim-report/
9. Ibid., at (1-26)

4.0 Digital Economy Metrics

Since 2012, cheques have become the least used form of non-cash payments, as BPAY transactions exceeded the number of cheques written. Debit cards (including Visa, MasterCard and eftpos) remain the most heavily used form of non-cash payment in Australia.

Figure 3: Volume of Australian Non-Cash Payments per Head of Population, 1997–2013



Source: Reserve Bank of Australia and APCA

In June 2014, the RBA released "The Changing Way We Pay: Trends in Consumer Payments" by Crystal Ossolinski, Tai Lam and David Emery. This reports on data obtained from consumer payments use surveys and diaries that track the changes to the way Australians pay for goods.[10]

10. http://www.rba.gov.au/publications/rdp/2014/pdf/rdp2014-05.pdf

Table 1: Use of Payment Methods over Time
Per cent of number of payments

	2007	2010	**2013**
Cash	69	62	**47**
Debits, credit and charge Cards	26	31	**43**
BPAY	2	3	**3**
Internet or Phone Banking	n/a	2	**2**
PayPal	n/a	1	**3**
Cheque	1	1	**0 (a)**
Other	1	1	**2**

(a) Rounds to zero
Sources: RBA, Colmar Brunton, Roy Morgan

In summary, the RBA report identified an increasing take up of alternative, less traditional methods of payments and the associated decline in the use of cheques.

The report also notes the strong growth in internet, including smartphone, payments:

> *Internet payments (which include smartphone payments) grew as a share of all remote payments made in the survey from just over half in 2007 to around 90 per cent in 2013, with a corresponding fall in postal and telephone payments.*[11]

4.1 Updates on Industry and Stakeholder Initiatives

New Payments Platform

The New Payments Platform (NPP) is new infrastructure for Australia's low-value payments. It will provide Australian businesses and consumers with a fast, versatile, data-rich payments system for making their everyday payments.

During the first few months of 2014, the NPP Program ended the requirements definition phase and moved into a process for sourcing the providers of the Basic Infrastructure and Initial Convenience Service. The Program remains on track to be completed by 2016-17.

The FSI Interim Report recognised the NPP as an industry project which will potentially reduce barriers to entry and promote competition. The NPP is also identified as a model for industry collaboration to achieve systemic innovation.[12]

11. Ibid., at page 8
12. FSI Interim Report, op cit., at 4-45

Digital Cheque Imaging

As noted in the previous Milestones Report, members of the Australian Paper Clearing System (Australia's cheques system) agreed to progress an industry project to improve the efficiency of cheque processing, now called "digital cheque clearing" with completion anticipated in 2015. This will enable images of cheques to be captured at branches or centralised hubs and processed electronically, removing the need to physically transport cheques as part of processing.

Work is progressing on this project and more details will be provided in future Milestones Reports.

SuperStream

The SuperStream reforms promote the use of electronic payments and standardised data for superannuation rollovers and contributions continue. As of 1 July 2013, Australian Prudential Regulation Authority (APRA) -regulated funds were no longer able to use cheques when rolling over to another APRA fund. Similarly, employers with 20 or more employees will be expected to begin implementing their own SuperStream obligations (including not making payments by cheque) from 1 July 2014, with the 12 month transitional period ending 30 June 2015. The SuperStream requirements for contributions, which prohibit payment by cheque, will be further extended to all employers from 1 July 2015, with the transitional period ending on 30 June 2016.[13]

E-Conveyancing

APCA's Bridge Report identified the property and real estate sector as a business sector using a higher than average number of cheques. This is mostly a result of property settlement where many cheques may be used to disburse proceeds from a single sale.

Property Exchange Australia (PEXA) previously known as the National E-Conveyancing Development Limited (NECDL), is driving electronic property exchange. Phase 1 of the e-conveyancing implementation (the settlement of transactions within financial institutions) was successfully launched in June 2013 and is being rolled out across all states.

The next phase will see electronic settlement occur between conveyancers and financial institutions and will commence in NSW from September 2014.

Government Policies

APCA has strongly encouraged the development of a whole-of-government approach to promote electronic payments and the removal of legislative barriers that prevent payments by more efficient electronic alternatives. To this end we further welcome the statements in the FSI Interim Report that encourage electronic service delivery and use of electronic payments by Government (see discussion at 3.4).

13. https://www.ato.gov.au/Super/APRA-regulated-funds/In-detail/Super-reform---a-guide-for-funds/Super-reform---a-guide-for-APRA-funds/

5.0 Cash Research

APCA will undertake preliminary research on the use of cash in Australia to obtain a more holistic understanding of payments use in Australia and explore possible policy responses for industry and government.

5.1 Introduction

Cash has been an integral part of payments for centuries. It has historically formed the very heart of the way we transfer value. As the primary physical means of exchange within a nation, coins and banknotes have provided a means of celebrating important national identities and a way of representing an indelible image of that country. And yet this symbolic representation of a nation and its inherent promise of value also represent an increasingly dated world of paper payments reliant on processes that are becoming to some extent, in the world of commerce, superseded.

In this context, there has been much speculation about the shift to a "cashless society". One of the most significant changes in the Australian payments system over the last few years has been the growth of contactless payments for low value payments. Historically, lower value payments had almost exclusively been made by cash, with many retailers setting minimum levels for payment by cards. The shift to contactless has meant that the traditional role of cash to pay for smaller amounts is under pressure. Ultimately, APCA believes that less cash will be used in Australia, particularly for consumer payments, but that does not mean Australia will become a cashless society.

Recent ATM data indicates that less cash is also being taken out from ATMs (see section 5.4.1 below). Mobile banking is becoming more popular, purchases on the internet by consumers are increasing and developments such as the New Payments Platform by the payments industry suggest that on-line and electronic payments will become even more efficient and easier to use.

Despite these developments, and in stark contrast to cheques, there are no indications that cash will ever disappear. It represents an essential non-electronic fall-back method of payment for emergency situations. It also represents for many a way to store value as a safeguard for future events. Cash in general circulation remains high.

One of the greatest challenges regarding cash is the difficulty in obtaining data on its use: money constantly circulates – recycles – and is hard to trace since it is not stored electronically. Through a new member survey, APCA has been able to measure what happens to cash from its production to its sale to financial institutions, and data indicates less cash is being withdrawn from ATMs (see section 5.4.1). There is a lot more to be done to try and identify what happens to cash beyond this point.

This report does not look at the issue of cyber currencies. A recent study by the Bank of Canada did find that virtual money – or e-currency – was unlikely to pose any systemic risk to the financial system but this is an issue that APCA will monitor.[14]

5.2 Research

Following a commitment in the Bridge Report to undertake research on cash, in late 2013, APCA commissioned a report from RFi Consulting (RFi). The RFi Report, entitled *The Evolution of Cash: An Investigative Study*, tracked consumer payment preferences and speculated on cash in circulation and the future of cash as a payment preference. This Report is published separately (available at www.apca.com.au) but is intended to be a companion piece to this special cash edition of the Milestones Report. A full copy of the report is available on the APCA website.[15]

APCA also undertook an internal survey of members' cash purchases, holdings and issuance from the past three years – the first time this data has ever been collected. This provided further input to RFI's study.

The RFi Report found that the amount of cash held by financial institutions, as a percentage of issued cash, is lower than cash in general circulation but remains relatively high despite the lower use by consumers. Levels of notes and coins purchased directly from the RBA and RAM by the four major banks have remained steady. However, amounts held in branches and ATMs have risen slightly, suggesting less turnover of cash at branch level. The report also predicted that cash for consumer payments use will continue to decrease into the future, and observed that coins in circulation cannot be bought back by the Royal Australian Mint (RAM), leading to the potential for a glut in uncirculating coinage (trapping value).

14. "Electronic Money and Payments: Recent Developments and Issues", (2014), Bank of Canada, www.bank-banque-canada.ca
15. See www.apca.com.au

5.3 Observation and Trends

5.3.1 Cash Use For Payments in Decline

The RFi Report supports the view that current cash use in payments by consumers is declining and predicts that this decline will continue into the future as cash continues to be displaced by electronic payment alternatives, such as contactless payments. The Report does note, however, that, for the foreseeable future, cash will never disappear completely.

The decline in the use of cash by consumers is supported by figures released by the RBA on 14 April 2014, which indicated that there were 57.3 million cash withdrawals from ATMs in February 2014 – down from 60.0 million in February 2013.[16] The value of ATM cash withdrawals in February 2014 was A$10.8 billion – down nine per cent from $11.7 billion in February 2013.

The RBA released its payment use study in June 2014 and in a speech the RBA Head of Payments Policy Department, Dr Tony Richards, noted:

> *Looking at the share of the number of all transactions, there has been a continuing decline in the use of what we have traditionally called the 'paper-based' methods. While cash remained the most frequently used payment instrument, being used in 47 per cent of all transactions, its relative importance has fallen significantly since 2010.*[17]

The RBA confirmed that cash remains the most important payment method for low-value transactions (making up 70 per cent of payments under $20) and is still widely used for payments around $50. However, the RBA found that the use of cash had declined relative to other means of payments, with cash accounting for 47 per cent of the number and 17 per cent of the value of all payments recorded by individuals in the 2013 Study, down from 70 per cent and 38 per cent, respectively, in 2007.

16. http://www.rba.gov.au/payments-system/resources/statistics/index.html
17. http://www.rba.gov.au/speeches/2014/sp-so-040614.html

5.3.2 Cash Holding Remaining High

The overall picture obtained from the APCA member survey is that overall cash purchases from the RBA and from other sources have marginally declined while cash and ATM holdings appeared to have slightly increased. This information corresponds with other data that shows more Australians are paying for goods electronically and that the use of contactless payments for smaller amounts is increasing (see APCA's second Milestones Report).[18]

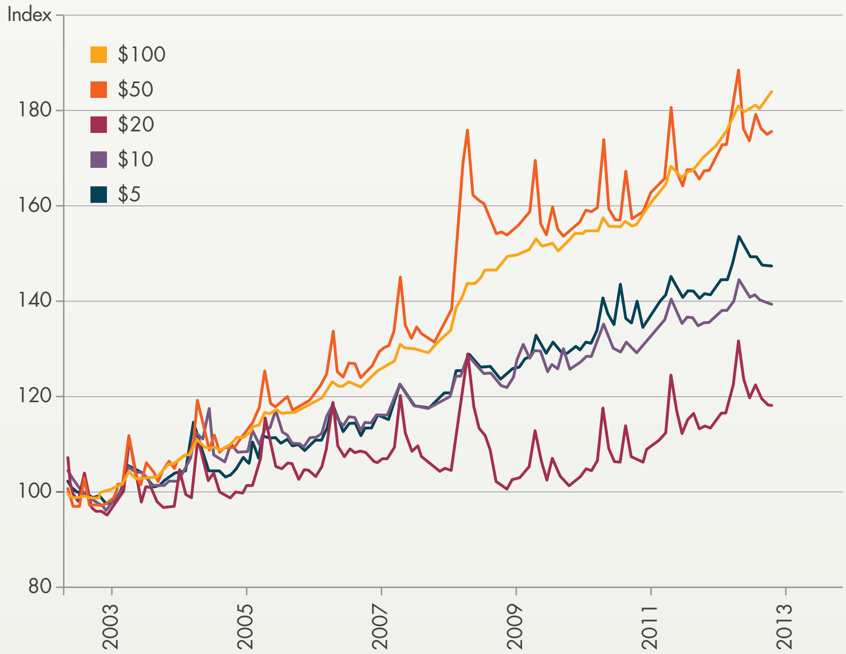
APCA will continue to collect this information on a regular basis to monitor trends.

In its submission to the FSI, the RBA notes:

> *While the use of cash in transactions may be declining, there are no signs that holdings of cash are doing so.*[19]

The following graph indicates the levels of cash estimated by the RBA to be in circulation, by denomination:

Figure 4: Value of Banknotes in Circulation



Source: Reserve Bank of Australia

18. http://www.apca.com.au/policy-and-debate/public-consultations/decline-of-cheques
19. http://fsi.gov.au/files/2014/04/Reserve_Bank_of_Australia.pdf at page 197

A large spike in cash in circulation occurred at the time of the Global Financial Crisis, indicating the security cash offers during times of instability. The fact that the number of $100 bills in circulation represents the highest denomination also supports the possibility that much of the cash in circulation is being hoarded and not used for consumer payments.

5.3.3 Social Cost of Cash Is High

In its 2007 study into the costs of payments, the RBA found:

> *The annual costs incurred by financial institutions and merchants for payments made by individuals amount to at least $8½ billion, or around 0.8 per cent of GDP. The costs associated with cash payments account for almost half of this total, with cash being used for nearly three quarters of all payments by individuals.*[20]

However, it was also found that:

> *Cash appears to be the lowest cost payment method for the small transaction sizes for which it is commonly used. An important cost advantage is that cash payments are quicker to process than other payment methods. The cost of a cash payment rises with the value of the transaction so that cash becomes more costly than EFTPOS for payments of moderate value.*[21]

At the time this study was done in 2007, contactless payments were not commonly available and cash transactions represented 70 per cent of total payments transactions. However, as noted, both the RFi Report and the RBA's payments use research has found rapid and significant changes in how people pay.

The RBA has indicated that it will be undertaking a new cost of payments study to be completed by late 2014. APCA welcomes this research on the basis it will provide a clear indication as to how payments costs have changed and what impact new technology has had on the cost of using cash both in absolute terms and relative to alternatives. APCA also believes that costs of payments studies could be undertaken on a regular cycle to enable the industry and government to be kept informed of this data for planning purposes. APCA recognises there is a cost associated with collecting such data and would recommend an efficient means of collection be discussed by regulators and industry.

20. http://www.rba.gov.au/payments-system/resources/publications/payments-au/paymts-sys-rev-conf/2007/7-payment-costs.pdf at page 88
21. Ibid., at page 89

Overseas, the European Central Bank made very similar findings in its 2012 study into the costs of payments.[22] Differentiating between social costs (the costs to society in general) and private costs (the costs to individuals and corporations), the study found that the social costs of retail payment instruments overall amounted to 1 per cent of GDP in Europe, over half of which was related to cash (generally due to high usage). While cash in general had low unit costs, the study found that:

> *…in more than one-third of the sample countries, debit card transactions have lower unit costs than do cash transactions.*[23]

Further it would appear that the costs of cash may be disproportionately borne by lower income people. A recent 2013 Tufts University study from the US on the cost of cash,[24] found that the cost of cash is higher for poor and unbanked Americans than for other groups. The research also found that the costs of cash are not transparent to consumers.

The Tufts study identified four main costs for consumers using cash:

1. Fees (such as ATM charges);
2. Time costs (including transport and information-gathering costs associated with finding places to deposit and withdraw cash);
3. Costs of managing theft risk; and
4. Cost of theft risk mitigation (including depositing cash in banks).

5.4 Implications

The above studies yield the following conclusions:

- Consumer use of cash is declining;
- Cash holdings and in circulation remains high;
- The social cost of cash is high; and
- Cash is unlikely to disappear as a payments instrument.

The RFi Report predicts that cash usage will undergo an "S-bend", with a decline in both value and volume of transactions over the next five years. The RFi Report notes:

> *The acceleration in the displacement of cash is faster (from 2013 to 2018) when looked at in actual transaction numbers, which previously held relatively constant between 2005 and 2013.*[25]

22. http://www.ecb.europa.eu/pub/pdf/scpops/ecbocp137.pdf??d317ce9d32d829600145bc15f9451813
23. European Central Bank, Op. Cit. at page 43.
24. Cost of Cash Study, Bhaskar Chakravorti & Benjamin D. Mazzotta, http://fletcher.tufts.edu/CostofCash/~/media/Fletcher/Microsites/Cost%20of%20Cash/CostofCashStudyFinal.pdf at page 11.
25. RFi Report 'The Evolution of Cash", www.apca.com.au, at page 6

Thus cash use is at the start of a significant decline and it is important for the community to prepare for this. However there is a strong likelihood this decline will slow and cash use will plateau after this rapid decline. Cash will therefore remain a reserve or default method of payment well into the foreseeable future.

The following is our analysis of issues that need to be considered into the future as this "S-bend" occurs.

5.4.1 Cost and Efficiency of Cash as a Payment Choice

Costs associated with cash are related to its physical nature and the time required dealing with it: the need to transport cash and coins in a secure manner, to store it safely and the need to find a place to withdraw or deposit it.

As found with cheques, there appears to be a hidden cost to cash that is not immediately transparent to users. Also, if the US Tufts study can be applied to Australia, it is the vulnerable sectors of society who pay the greater costs in being reliant on this type of payment.

APCA has supported the move to electronic and on-line payments through its work on promoting the digital economy. These forms of payments provide lower costs and greater efficiencies for consumers, businesses and government alike. This work is supported by data indicating a decline in the use of so-called 'legacy' or paper based-payments, and the need to ensure adequate replacements for these payment alternatives are available as they become harder to use (cheques in particular). The FSI Interim Report supports the link between technology and efficiency noting that "technological innovation is a major driver of efficiency in the financial system and can benefit consumers".[26]

APCA's study on cheques found that at the time there were instances where adequate replacements for cheques were still absent (an example being the situation at auctions where the winning bidder needed to make a deposit that bound them to the sale). These provided a serious policy challenge based on the fact that cheque use was in terminal decline and was an impediment to any move to remove cheques as a payment choice.

26. FSI Interim Report, op cit., at 4-41

The situation with cash is slightly different. Whereas there is a reasonable indication that cheques might disappear altogether, it is a common view that cash will always be required: there will just be less of it used for consumer transactions. APCA predicts a less cash, but not cashless society. The decline in the use of cash is due to the proliferation of more efficient alternatives: for example, the growing availability of contactless cards and terminals, making payments for smaller amounts easier. APCA believes that encouraging alternatives to cash should be undertaken by the industry as part of its policy to promote the digital economy and that seeking efficiencies in current cash management practices would provide cost benefits for the industry and for consumers and government. Similarly, actions that discourage the use of cash should be considered.

"APCA predicts a less cash, but not cashless society."

"While acknowledging that cash will remain a "default" payment instrument (if all else fails) for the foreseeable future, APCA believes it should not be the first or only choice in any payment context, and as the industry works on payments system enhancement, it should aim to ensure that safe, convenient and cost-effective alternatives are available."

5.4.2 Future Consumer Use

With indications that consumers will continue to use less cash into the future (see RFi Report), the RBA, RAM and financial institutions, ATM deployers and cash centre operators will need to manage their businesses to adjust to the decline in the use of cash for payment transactions.

By providing data on cash management within the industry, APCA and the RBA will be able to assist members with monitoring developing trends and plan accordingly.

5.4.3 Public Policy

The hidden costs associated with cash need to be made more transparent to enable costs to be recouped and efficiencies to be gained. Clarity from the RBA in respect to this would be welcomed by the industry.

There are clearly public policy issues concerning the substantial amount of 'hidden' cash in the system, including forgone interest, funding of other economic activities through deposits and tax avoidance. In addition, the use of cash for money laundering, black market and other nefarious activities has clear implications for taxation and law enforcement authorities.

5.4.4 Issues for Consideration

The above discussion suggests that, unlike with cheques, there are no immediate issues to be resolved in the short term in order to avoid systemic dysfunctions in the payments system. It does however suggest that there may be merit in further dialogue about the long term implications of and future for cash in the payments system and the on-going need to promote efficiency and innovation – especially as cash becomes the fall-back method of payment. APCA will assist this debate via future Milestones Reports and other publications.

Some areas worth further exploration include:

- Understanding of the costs of cash for consumers and businesses and recouping these costs (e.g. by way of surcharging);
- Understanding the social cost of cash;
- Low value payments and the preferred medium of exchange;
- Emerging competitors to cash; and
- The growth in circulation of cash and the issue of hidden cash and the black economy.

Further analysis of the RBA payments use survey and the forthcoming release of the payments cost research later in 2014, will advance understanding of these issues.

6.0 Conclusion

Reliance on legacy payments will continue to present a problem for those without viable alternatives. APCA will ensure that promotion of the digital economy remains a major focus in APCA's work, and to help ensure that alternative payment methods are available to those who feel reliant on legacy payment choices. There continues to be value in education by industry stakeholders for merchants and consumers on:

- The real cost of cheques and cash; and
- The benefits of electronic and on-line payments.

In order to ensure that the industry maximises efficiencies and lowers costs in the production, distribution and storage of cash, APCA believes that continued work to promote efficiency within the industry in relation to cheque and cash management is essential, and understanding the trends in cash use is vital for planning for future developments – particularly as cash continues its decline in use. APCA will continue to collect data on cash management by its members on an annual basis and to report high level trends to members for their own management purposes and to the public through APCA's Milestones Reports. APCA also endorses the work being undertaken by the RBA to measure consumer use of cash and to undertake research on the cost of payments, and recommends that both activities take place on a regular basis.

Finally, APCA notes some observations in the FSI Interim Report that are highly relevant to the future evolution of the payments system in the emerging digital economy:

- The desirability of technological neutrality in regulation of financial services;
- The importance of electronic service delivery to promoting efficiency in Government services; and
- The proposal of a whole-of-Government approach to technology and innovation.

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