



*Cashless Payments Summit 2017*

# The stickiness of cash: A case for cash in the transition to digital

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# Digital is the future

... and its benefits are already apparent

The stage for cashless payments is set:

- Mobile money uptake and its use cases are growing worldwide.
- Bank account access has increased since 2000.
- Global draft standards on digital fiat currency (DFC) and distributed ledger technology (DLT) are underway at the ITU.
- DLT's financial application has already revolutionised banking and payments approaches in the East.

**The aim is to eventually reach a state of paperless cash.**

Yet, physical cash is still king in African economies

*Why?*



# Market realities

Disproportionate gravity towards the cash economy

## Spatial economics:

- Encashment drives digital uptake.
- Supply side: The current digital ecosystem is concentrated around economically active areas only – cash reticulation limited.
- Demand side: Cash is perceived to be free and universal – disproportionate gravity towards the cash economy.

**The gravity and depth of the cash economy are substantial.**

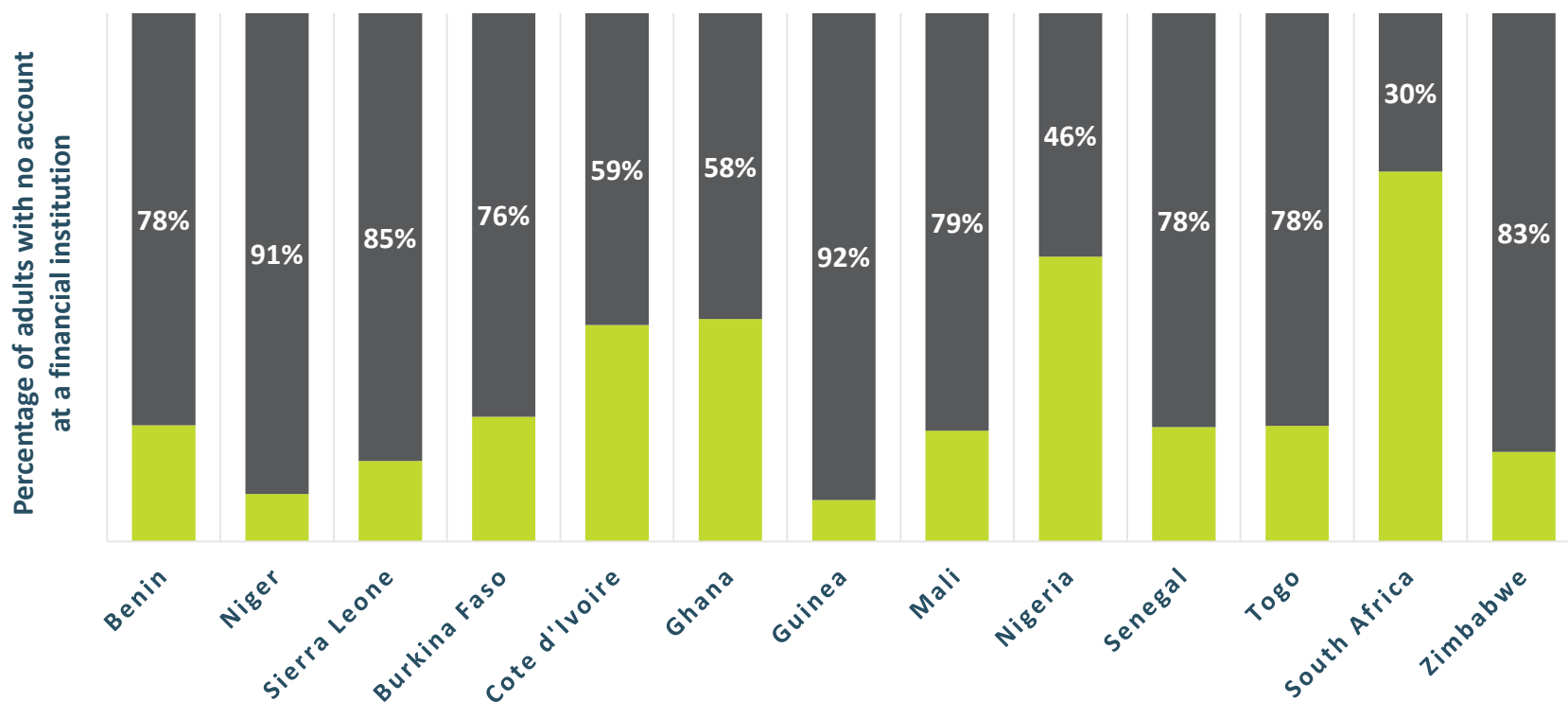
**It will take decades to reach a stage where digital is as accepted as cash.**

# Market realities

High levels of financial exclusion hinder digital uptake

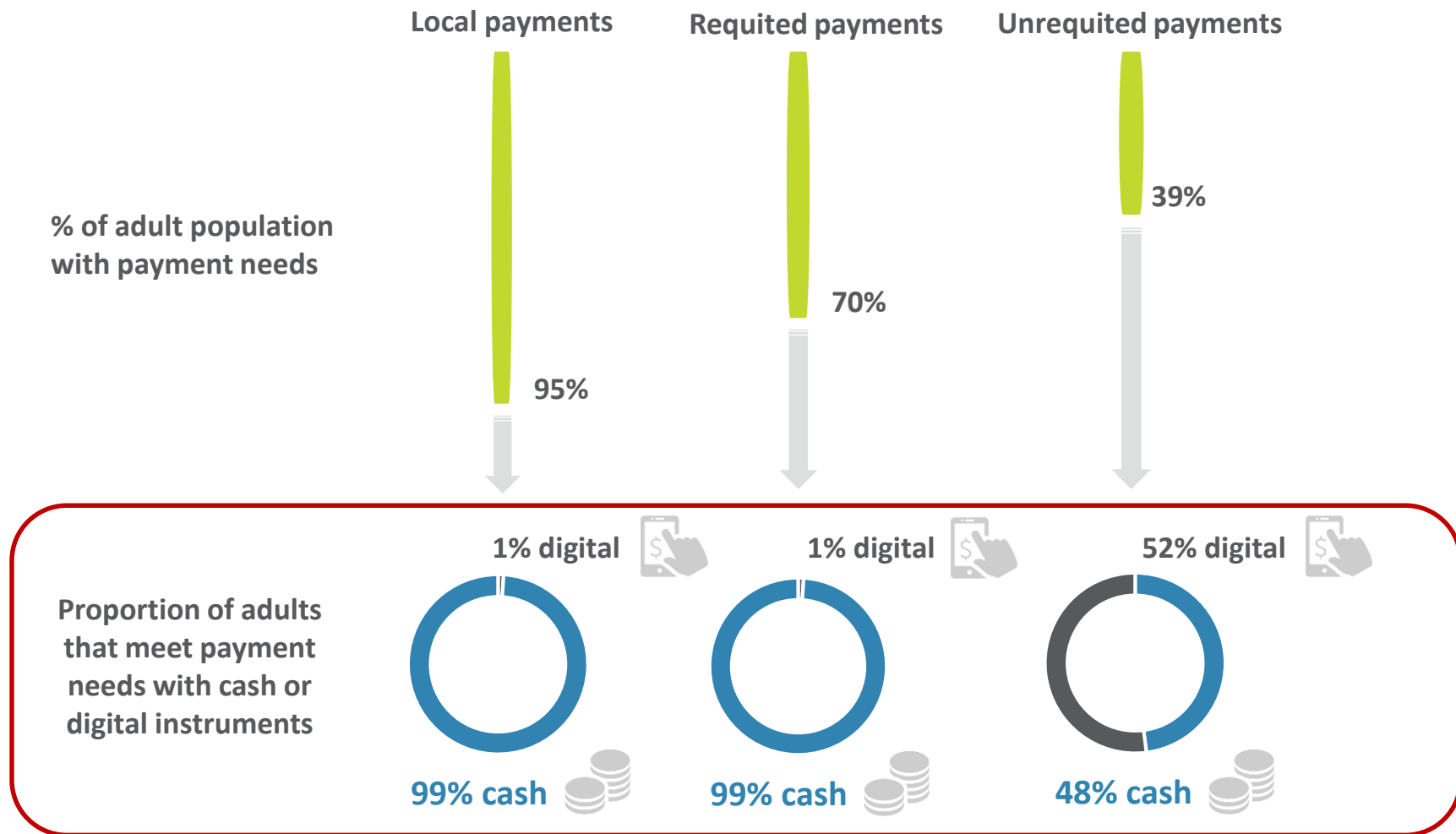
## Financial exclusion

■ Formally included ■ Formally excluded

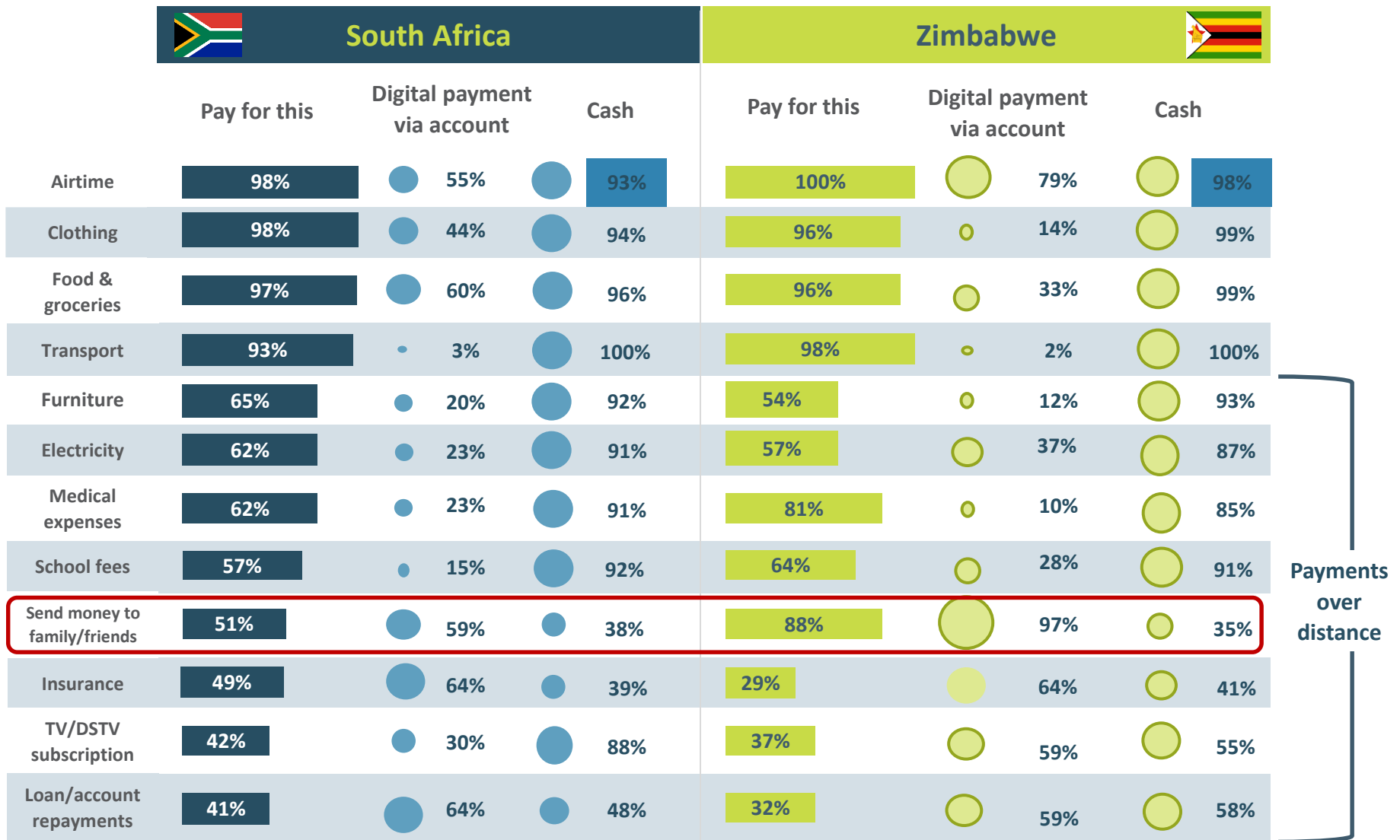


# Cenfri research: most payments are made in cash

Evidence from Thailand, Myanmar, Mozambique, Lesotho, Swaziland and Malawi



# Digital payments over distance show promise



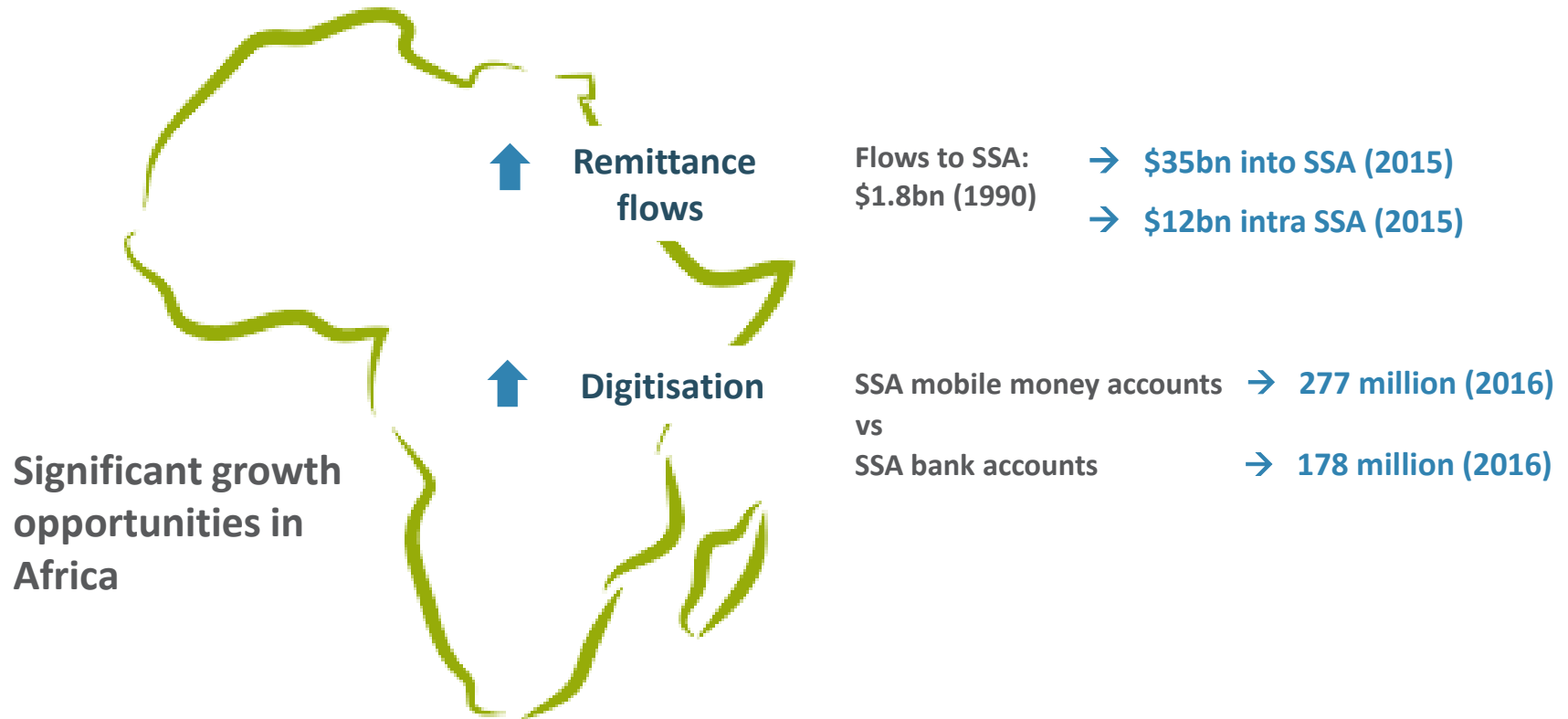
# The story of remittances as a use case for digital transition





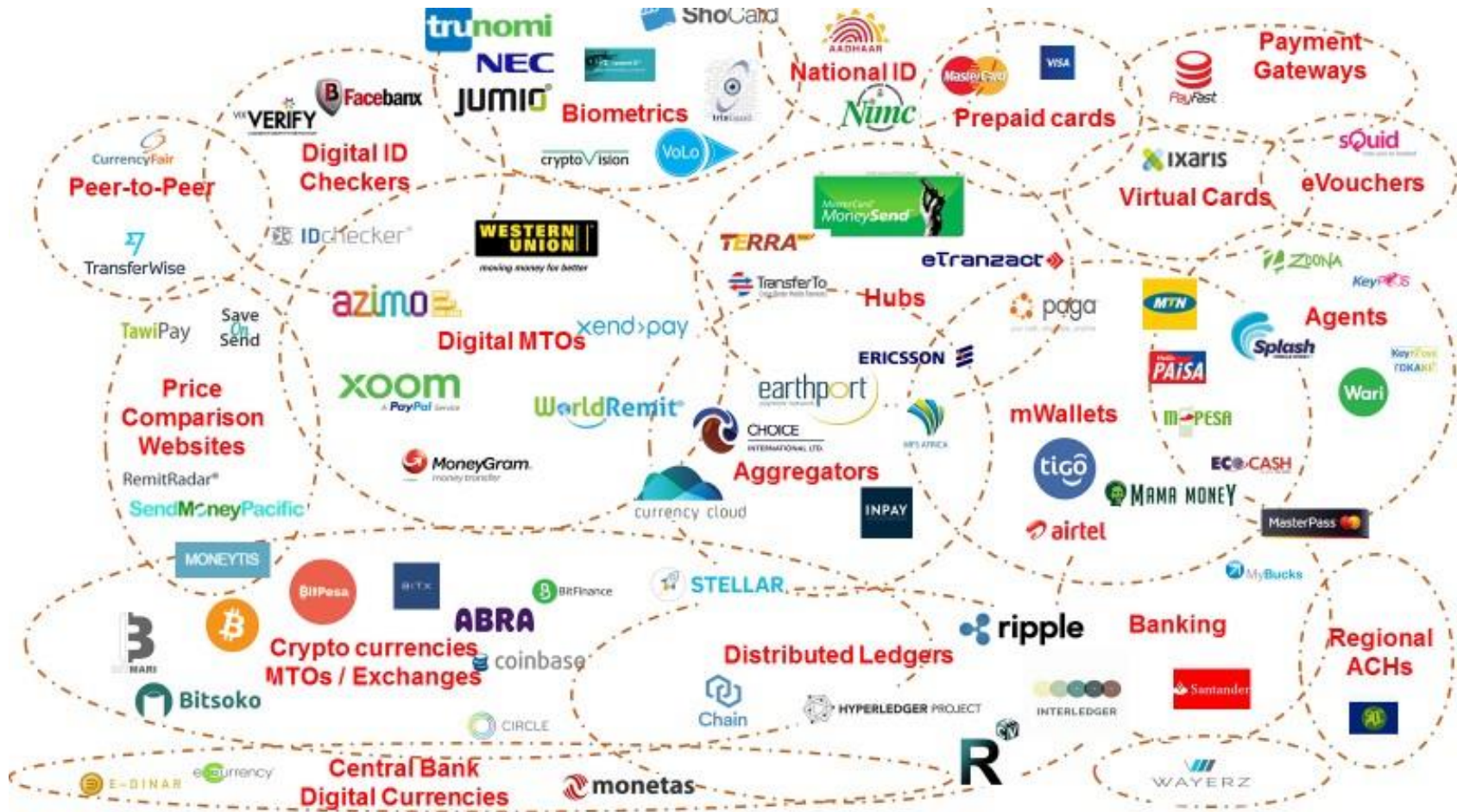
# Take the example of remittances

The first gateway for digital adoption by consumers



# Digital solutions are gaining ground

The ecosystem seems to be fairly well developed for the UK-SSA corridor.

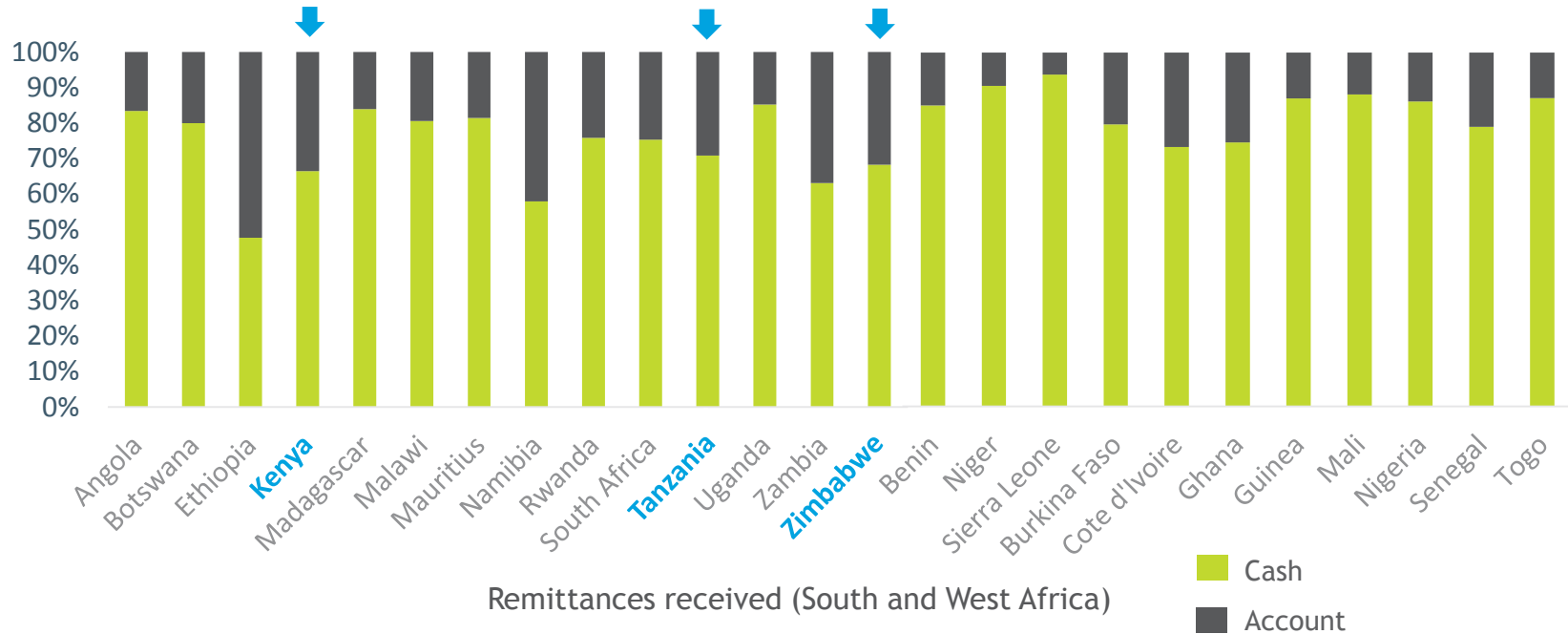


# Yet stickiness of informal, OTC and high-cost cash channels

Despite an array of digital solutions

- Even in the UK, cash still dominates according to new DMA research.
- African countries are largely cash-dominated when it comes to remittances.

Cash-based OTC transactions dominate...



So, what can we do  
to promote digital  
adoption?



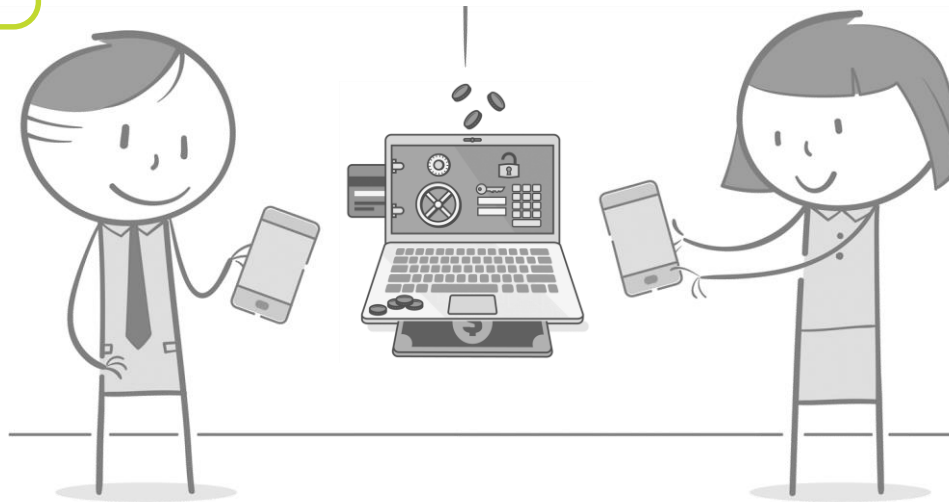
# Cenfri research shows what needs to change

... to get more people to transact digitally



**access**

**cost**



Create the right platforms *and* integrate digital into society



**convenience**

**trust**



# Increase trust in digital channels

Reliability is key.

**People trust cash more than digital.**

- Compared to digital, cash payments are immediate and reduce information asymmetry between parties.

“Well, sometimes the time you want money is the exact time their network is down or sometimes you go to an agent and they tell you there is no money.”  
(Malawi, male, aged 27, salaried employee)

**Clearing and settlement are direct.**

- There are no concerns about the reliability of the payer: the transaction is concluded.

“Why did you stop [using mobile money]? It once happened that I had sent K4,000 [US\$9,60] but the person did not receive it.”  
(Malawi, male, aged 29)

“Sometimes you don’t get the money on time because of the [mobile] network.”  
(Swaziland, female, aged 25–40)

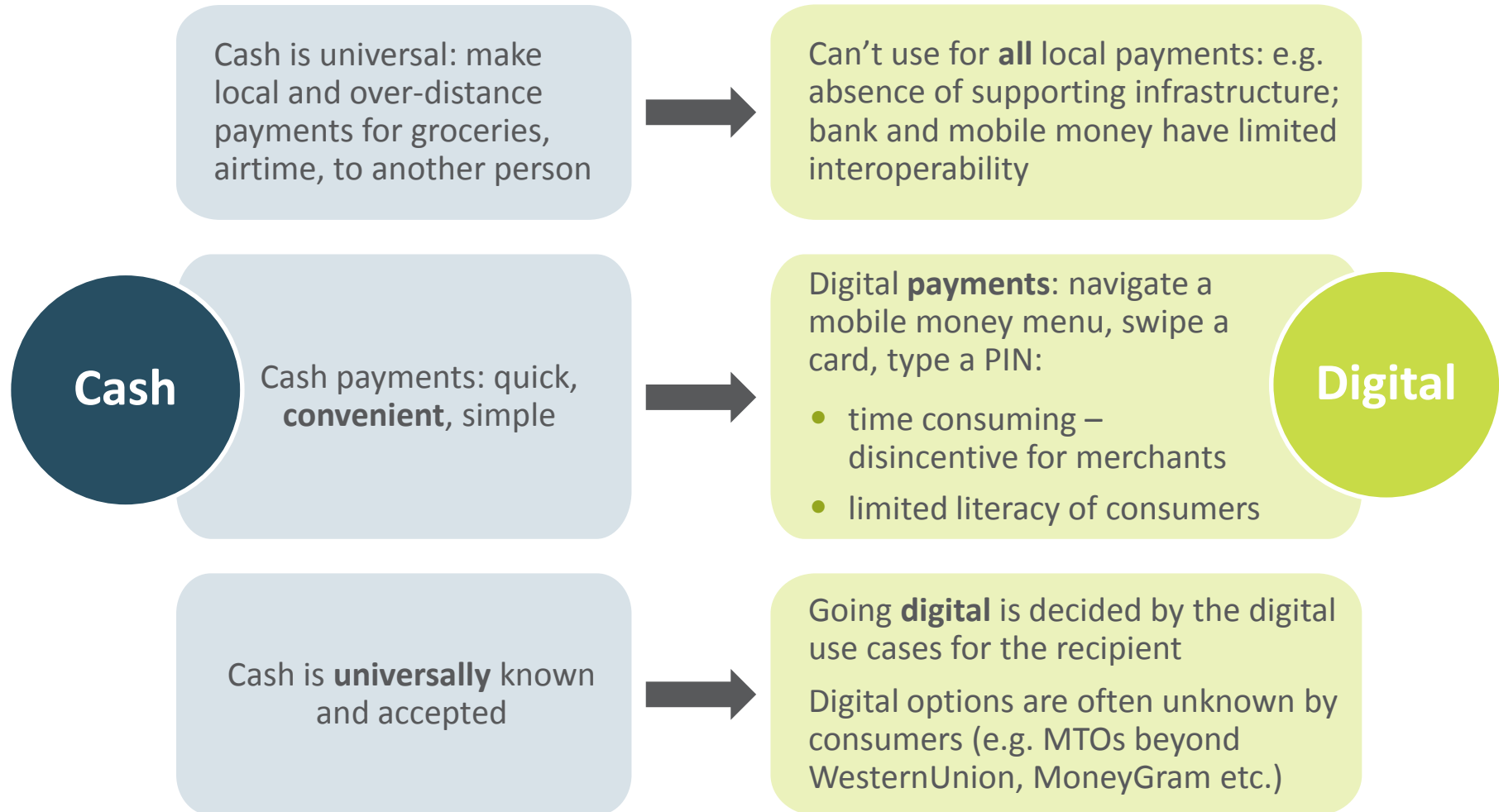


**Digital system must mimic cash to increase trust.**

- Clearing and settlement should be as quick as possible.
- Network needs to be stable.
- Digitise value chains.

# Convenience for ALL payments

Cash is more versatile than digital.



# Need improved access to accounts and rural channels

Onerous documentation requirements and limited access points are roadblocks.

## Malawi



- To open a payment account: need a **voter's registration card**, but presents a barrier for many Malawians
- Only **1.9 POS devices/100,000 people** (OECD average: 2,155 POS devices/100,000 adults)

## Mozambique



- The country's two MNOs report a total of 18,000 mobile money agents (or **1 agent/approx. 1,000 adults**)
- Majority of these agents are situated in or close to urban areas because they remain reliant on **access to encashment**

## Swaziland

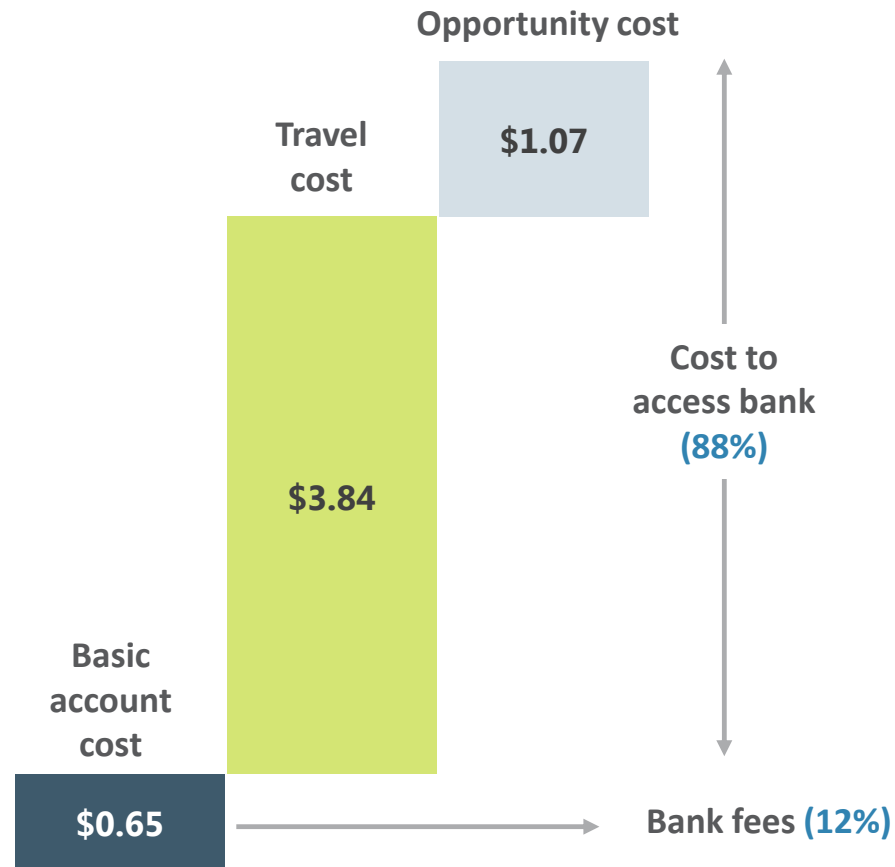


- Banks require **proof of employment and proof of address**
- 52 POS devices per 100,000 people
- MTN reports only 130 **active agents** out of 422 registered nationally (60% are situated in urban areas)



# Need to calculate the true transaction costs

... to drive financial inclusion and transformation to digital payments



**Full cost to consumer of bank account encashment (Malawi)**

# Overview

## Necessary actions

- Yes, digital payments are the future and show material benefits already
- However, cash still dominates because it serves people's needs better: there is no frictionless exchange between cash and digital payments – gravity favors cash
- To change this, the **whole** environment needs to be transformed above a focus on specific business cases:
  - Ensure efficient cash reticulation in the entire economy to increase universal interoperability between the cash economy and the digital network
  - Decrease cost friction of encashment
  - Digitise value chains
  - Create merchant incentives
  - Improve financial inclusion
  - Create trust in the digital ecosystem by running it as a parallel system to cash

# Thank you

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## About Cenfri

The Centre for Financial Regulation & Inclusion (Cenfri) is a global think tank and non-profit enterprise that bridges the gap between insights and impact in the financial sector. Cenfri's people are driven by a vision of a world where all people live their financial lives optimally to enhance welfare and grow the economy. Its core focus is on generating insights that can inform policymakers, market players and donors seeking to unlock development outcomes through inclusive financial services and the financial sector more broadly.

## About FSD Africa

FSD Africa is a non-profit company that aims to increase prosperity, create jobs and reduce poverty by bringing about a transformation in financial markets in Sub-Saharan Africa (SSA) and in the economies they serve. It provides know-how and capital to champions of change whose ideas, influence and actions will make finance more useful to African businesses and households. It is funded by the UK Aid from the UK Government. FSD Africa also provides technical and operational support to a family of 10 financial market development agencies or "FSDs" across SSA called the FSD Network.

