

Cash, Its Use is in Decline, but the Problems Remain

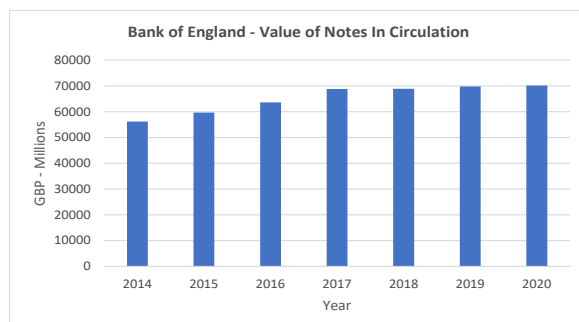
The drive towards technology and the benefits it produces will reduce the need for cash, but not everyone wants to use electronic payments and the threats that there are will persist.



Cash, it has been a feature of life for over 5000 years, but even with the growth of digital payments, contactless cards and the problems of Covid-19, it is a product that has a future for consumers and criminals.

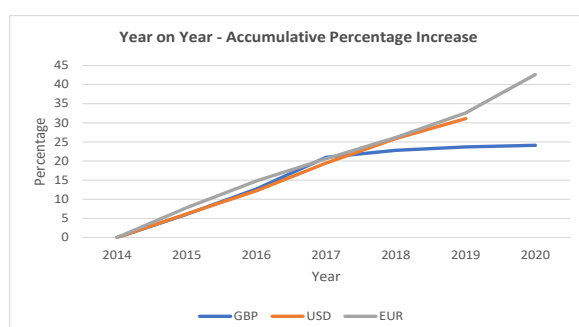
From its original inception as clay tablets in Mesopotamia until now with the production of modern polymer notes, cash has been a feature of daily life. It is a store of value, readily accessible and can easily be exchanged for goods and services. However, as with any product it has a lifecycle and with the advent of the digital age, exacerbated by Covid-19, uncertainty has been expressed on its longevity.

In 2017, the use of card payments overtook those of cash for the first time in the UK and since then has continued to grow. However, while the use of cash is declining, 9bn individual cash transactions were undertaken during 2019 in the UK. This is not an insignificant figure and nor is the value of cash in circulation, which as shown on the graph below, has continued to grow.



Source: Bank of England

Cash growth is not solely a UK phenomenon and as shown further on the second graph below, which illustrates year on year growth as a percentage of the previous year, a similar pattern is demonstrated within the US and Euro zone.



Source: Bank of England/US Federal Reserve/ECB

Paradoxically, even though the value of notes in circulation has increased, it was reported in December 2020 that the Bank of England cannot account for the whereabouts of GBP50bn of those notes. Nonetheless, notes are not just printed by Central Banks and put into circulation, they are there to meet a demand.

Within the UK, that demand is from the 2.3m people who use cash in their daily transactions, together with a range of consumers who see it as:

A store of value. In a world of low or negative interest rates, cash retains its value over a protracted period of time.

A method of payment. It is simple to use and from an end users point of view cannot be manipulated.

Ensuring privacy. As cash cannot be easily traced the reasons for it being used remain confidential. This is not necessarily for criminal activity, it is just that some people prefer others, including banks, not to know where they are spending their money.

Avoidance of bank charges. Small scale business owners, whether they are gardeners or window cleaners tend to operate with cash as it can be used for other payments without incurring bank charges.

Providing certainty. Technology does fail and it is not unusual for payments systems and ATMs to go offline. That together with uncertain economic, political or social circumstances, does drive people towards the certainty of cash.

Enabling Budgeting. If you don't have it you can't spend it, might be an old adage, but having physical cash enables budgets to be maintained.

The use of cash for daily transactions is likely to remain the choice of many people and for a range of legitimate reasons.

The Move Away from Cash

For a number of years there has been a downward pressure on the use of cash for daily transactions, which has been exacerbated by Covid and the restrictions that have been in place, but it is not the only reason. The move away from employees being paid in cash, together with the advent of electronic banking has seen in excess of 50% of retail bank branches being closed in the UK.

Cash, even though it remains an important service within the branch network, unlike previously is not dominant, with the objective of retail banks to fulfil a customer's total financial needs, rather than just their simple cash requirements. This has seen a transformation in branch design, with cashiers usually being placed at the back of the branch, rather than at the front, but cash and the security problems it presents are still there.

While there might be a reluctance to use cash borne out of the pandemic, it cannot be overlooked that a potential driving force is the cost associated with cash, estimated in the UK at



Payment by Contactless Technology

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GBP5bn per year. Costs that are not only made up of staff having to physically handle cash but through its wholesale storage and distribution.

Throughout the lockdown period retailers have been discouraging the use of cash, with a preference for contactless technology. Probably as a result of this, the value of individual

contactless card transactions has been raised, from the inception of lockdowns, where it stood at GBP30, to GBP45, with the regulator the Financial Conduct Authority seeking industry feedback on increasing that limit to GBP100. Although there is an obvious reluctance to physically touch cash and possibly transmit the virus, a report by the Bank of England did highlight that any transmission would be very unlikely.

The Criminal Threat

For all the reasons that cash is convenient for consumers are exactly the reasons why it is convenient for criminals. It is largely untraceable, instantly convertible and does not require a bank account to spend it. Although anyone can be robbed, it is mainly the cash industry, including Cash-in-Transit companies, banks and building societies, as well as ATM operators who bear the brunt of this form of crime.

Within the media, it is reported on a regular basis that robberies against bank branches have decreased significantly from an average of approximately sixteen per week in the early 1990's to a position now where there is less than one per week. However, it would be wrong to assume that just because bank robberies have reduced that cash itself is no longer under threat, branches were only ever one part of the cash cycle. In 2018, the combined figures for CIT robbery and ATM thefts in the UK stood at just over twenty incidents per week.

Combined with the frequency of these incidents are the proportionally high cash losses that occur and while individual ATM thefts are nothing new, in figures published by the European Association of Secure Transactions (EAST), this form of crime is increasing with the most current statistics, reflecting 2018, showing that thefts were occurring in Europe at a rate of twelve per day.

The individual cash losses were, in some cases only incidental to the damage caused to the ATMs themselves, as well as the building they

were housed. This was due to the explosives used to force open the ATM or the use of plant machinery employed to tear it out of the wall. Although individual cash loss figures are not widely available, it was reported within the media that in one incident in Wales, an ATM contained GBP88,000 when stolen.

The degree of sophistication and resources that criminals have when committing robberies across the cash industry varies widely. From the opportunist who walks into a bank to rob it, having carried out limited or no pre-planning through to highly professional criminals gangs, who will undertake considerable planning and employ the necessary resources to rob the entire cash reserve within a bank branch or kidnap a member of staff of a Cash-in-Transit company. Through general observation, it is believed that criminals work their way up the criminal ladder, starting off in petty crime, through to robbing



Ever present Threat – CIT Courier

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shops, then banks and from that into professional criminal gangs. Although correlating that with crime levels is difficult, in general terms, the UK saw a drop in the number of robberies from a high in 2002/03 by 55% to a low in 2014/15. That figure has subsequently been partially reversed in 2019/20 to stand at only 22% below the original figure for 2002/03. Although this should not be taken to mean, without considerable research, that cash robberies across all classes will increase, what it might mean is that the pool of robbers and by extension their expertise might be growing.

The threat to cash from robbery will probably not change for as long as it is in use, the seven types of robbery which might occur at a bank or building society branch are likely to continue and while they are infrequent, attacks against cash centres or Tiger Kidnappings will probably carry on, as opportunities arise. This will have an ongoing impact on the security planning necessary for bank and building society branches, as well as Cash-in-Transit services and ATMs, whether that is in future branch design, security surveys, training or the procedures employed.

The Future of Cash

The fall in number of cash transactions has been recognised and was the subject of an independent inquiry in the UK, “Access to Cash Review”, which reported in March 2019. The report did highlight key issues, including the need to retain cash as a payment option, as it was likely to remain a fundamental need for specific sections of the community. Together with this the Bank of England recognises that cash use is in decline and which through an industry working group, “The Wholesale Distribution Steering Group”, is looking at managing diminishing cash requirements in an economical way.

Covid-19 and the restrictions it has placed on normal life is a factor in the reduction in the use of cash, but it is not the only one. Whether, when high streets reopen and customers start using cafes, pubs and shops that contactless technology, either through habit or being forced by retailers, maintains pressure on cash is not known, but what is realistic to expect is that cash, while it may not be here for another 5000 years, is here for the medium term at least. From that perspective the threats that are being faced now are not going to disappear anytime soon and will still impact on both the wholesale cash business as it stores and distributes notes, as well as the banks who process lodgements and those who make them.



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