Cash versus cards

Suerf/Liberales Institut/University of Zürich conference

“Cash on Trial”, Zürich, 4 – 5 November 2015

Nicole Jonker, De Nederlandsche Bank
Cash usage in NL is still high

- Cash is the dominant payment instrument at the POS.

**NL: 2013 (volume)**

- Cash: 57%
- Debit card: 40%
- Other: 2%
Who pays cash?

- Young and Elderly
- Low educated
- Low income earners
And why? Top 3 reasons mentioned

2004

1. Fastest means of payment
2. Monitoring expenses
3. Only accepted means of payment

2014

1. Monitoring expenses
2. Habit
3. Cut expenses

Anonimity of cash mentioned by 35% of cash users (6th place)

Source: Jonker (2007), De Economist.

Source DNB/DPA (2015)
Cash still beats the debit card wrt speed

Median transaction time (in sec.)

- 2002: 19 (cash), 26 (debit card)
- 2007: 17 (cash), 20 (debit card)
- 2011: 15 (cash), 19 (debit card)
- 2015: 14 (cash), 18 (debit card)
Debit card acceptance not universal yet in ‘15

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>shops</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>cafes &amp; restaurants</td>
<td>93%</td>
<td>99%</td>
</tr>
<tr>
<td></td>
<td>50%</td>
<td>80%</td>
</tr>
</tbody>
</table>

- cash
- debit card
Overview of distinctive budgeting features of cash and debit card

<table>
<thead>
<tr>
<th>Self-control mechanism</th>
<th>Cash</th>
<th>Debit card</th>
</tr>
</thead>
<tbody>
<tr>
<td>Behaviour monitoring</td>
<td>Monitoring budget left to spend</td>
<td>Immediate (wallet)</td>
</tr>
<tr>
<td>Setting clear constraints</td>
<td>Setting pre-defined budgets</td>
<td>Physically set Low freedom to exceed</td>
</tr>
</tbody>
</table>
26% of consumers find cash more helpful than the debit card wrt monitoring budget left to spend

- Debit card more useful; 27%
- Cash more useful; 26%
- Cash and debit card equally useful; 47%
.... so consumers differ in preferences

<table>
<thead>
<tr>
<th>Age</th>
<th>Education</th>
<th>Getting by</th>
<th>Net monthly income</th>
</tr>
</thead>
<tbody>
<tr>
<td>25-34</td>
<td>51%</td>
<td>23%</td>
<td>38%</td>
</tr>
<tr>
<td>35-44</td>
<td>30%</td>
<td>36%</td>
<td>34%</td>
</tr>
<tr>
<td>45-54</td>
<td>27%</td>
<td>34%</td>
<td>26%</td>
</tr>
<tr>
<td>55-64</td>
<td>26%</td>
<td>21%</td>
<td>23%</td>
</tr>
<tr>
<td>65 and over</td>
<td>23%</td>
<td>14%</td>
<td>21%</td>
</tr>
<tr>
<td>Primary education</td>
<td>26%</td>
<td>23%</td>
<td>26%</td>
</tr>
<tr>
<td>Lower vocational level</td>
<td>29%</td>
<td>26%</td>
<td>29%</td>
</tr>
<tr>
<td>Interm. vocational level</td>
<td>30%</td>
<td>29%</td>
<td>30%</td>
</tr>
<tr>
<td>General sec. education</td>
<td>39%</td>
<td>30%</td>
<td>39%</td>
</tr>
<tr>
<td>Bachelor</td>
<td>42%</td>
<td>32%</td>
<td>42%</td>
</tr>
<tr>
<td>Master</td>
<td>44%</td>
<td>37%</td>
<td>44%</td>
</tr>
<tr>
<td>Easy to get by</td>
<td>49%</td>
<td>40%</td>
<td>49%</td>
</tr>
<tr>
<td>Neutral</td>
<td>44%</td>
<td>43%</td>
<td>44%</td>
</tr>
<tr>
<td>Difficult to get by</td>
<td>49%</td>
<td>43%</td>
<td>49%</td>
</tr>
<tr>
<td>Less than EUR 1.150</td>
<td>55%</td>
<td>55%</td>
<td>35%</td>
</tr>
<tr>
<td>EUR 1.151 - 1.800</td>
<td>44%</td>
<td>44%</td>
<td>44%</td>
</tr>
<tr>
<td>EUR 1.801 - 2.600</td>
<td>42%</td>
<td>42%</td>
<td>42%</td>
</tr>
<tr>
<td>More than EUR 2.601</td>
<td>35%</td>
<td>35%</td>
<td>35%</td>
</tr>
</tbody>
</table>

- Green: Cash more useful than debit card
- Yellow: Equally useful
- Red: Debit card more useful than cash
Impact of budget control on cash usage

Debit card more helpful
- very often: 5%
- often: 28%
- sometimes: 68%

Cash more helpful
- very often: 28%
- sometimes: 36%
- often: 36%
Importance of budget control on cash usage

- Cash is still the dominant means of payment.
- Cash usage is still high, because of consumers’ need for budgeting.
- There is an unmet “gap” in terms of payment innovations as cash still brings benefits wrt budget control to vulnerable groups which electronic alternatives have been unable to match.
- Conclusion: for the next decade(s), cash will still be needed!
Data

Survey: 1,700 people in DNB Household survey, aged 18+

- March 2012.
- Respondent: responsible for financial matters within the hh.
- General survey on financial behaviour households, incl. psychological traits.
- Online survey with questions on payment behaviour and budget control.
Data

Key explanatory variables:

1. Financial situation
   - Gross monthly hh income.
   - Getting by: extent to which monthly hh income is sufficient to cover expenses
     Scale: 1 (very difficult to get by) to 5 (very easy to get by).

2. Self-control in spending
   - Planning: consumer’s self-reported ability to plan/control expenses
     Scale: 1 (very easy to control) to 7 (very difficult to control).
   - Spending: what does the respondent usually do with remaining budget after paying for food, rent and other necessities
     Scale: 1 (spend it immediately) to 7 (save as much as possible).
On average, consumers perceive cash as less/equally helpful as the debit card wrt budget control....

DHS, 2012
Results: Helpfulness cash and debit card

Qb: Does the consumer’s financial situation influence the importance attached to having insight into each budgeting need?

Qc: Does the degree of consumer’s self-control influence the importance attached to having insight into his budgeting need?

Rel. helpfulness of cash: 1(cash<debit), 2(cash=debit), 3 (cash>debit)

Ordered probit regression results

**Financial situation:**
(very) easy to come by (-), (very) hard to come by (+), income (-) => Qb:yes

**Self-control:**
planning easy(+), planning difficult (0), spender(0), saver (0) => Qc:yes, but

Demographics: male (-), married (+), age (+), education (-)**
Results: Debit card usage

Qd: Do consumers’ views on the budgeting characteristics of cash and debit cards affect their debit card usage?

Results ordered probit analysis DEBITUSE
(1:not/sometimes to 3: very often)

Perception dummies Cash most useful (-)
Debit card most useful (+)

Other significant variables: Education (-), Income (-)

People who prefer cash are
- 9 pp more likely to never/sometimes use the debit card
- 15 pp less likely to be very frequent debit card users.

=> Qd: yes