CAPTRUST

Cash is Still King

by Kim Painter

In Sweden these days, even the panhandlers take credit cards, and the churches accept donations from smartphone apps, according to a recent report in the French newspaper La Figaro.

In Kenya, a mobile money system that works on basic cell phones is used by nearly everyone to do nearly everything financial, from making purchases to sending money to distant relatives, says the technology news site CNET.

In India, the government jump-started a cashless future by instantly withdrawing much of the nation's paper currency back in 2016.

And in the United States?

While predictions that we are on the verge of a "cashless society" date from at least 1969—when the *New York Times* opined on the growing clout of credit cards—we are not there yet.

U.S. consumers still made 32 percent of purchases with cash in 2015, and those cash purchases amounted to 9 percent of the money we spent, according to the most recent report on payment trends from the Federal Reserve. True, that was down from 40 percent of purchases and 14 percent of value just three years earlier. And while cash remained the most popular payment method, credit and debit cards combined accounted for more transactions (48 percent) and more value (34 percent).

Electronic payments accounted for 11 percent of payments and 35 percent of value.

But as of early 2018, you still can walk into nearly any store or restaurant in the U.S. and use cash. Most of us still have some in our wallets, ($59, on average), according to the 2015 Fed survey.

The real question: are we on the verge of a bigger shift away from cash—one in which pulling out a greenback to buy a cup of coffee or a bag of chips marks you as a sort of consumer non grata? Are payments with cards, phones, fingerprints, facial scans—or whatever comes next—about to become the norm for transactions large and small, commercial and personal?

Some analysts and business interests, including the big credit card companies, are betting on and cheering for that nearly cashless future. A 2017 report from Visa said the tipping point is upon us in the "age of the digitally empowered consumer." Others say our love affair with cash is far from over and still has advantages.

"Most retailers are going to accept whatever form of payment their customers want to offer," says J. Craig Shearman, a spokesman for the National Retail Federation. "But at this time, cash remains king." If that's true, the king sits uneasy upon the throne—and is facing a possible insurrection that has been brewing since at least 1950.

The Birth of the Credit Card

The end of cash, if it is coming, started in a Manhattan restaurant nearly 70 years ago. A businessman named Frank McNamara had just been seated for lunch when he realized he had forgotten his wallet. His wife arrived and ended up paying the bill, but the incident got McNamara thinking.

He and an associate soon launched Diners Club, the first widely used charge card. They started small, giving the cards to a few select New Yorkers and signing up just 14 restaurants. But within a year, 42,000 cardholders were paying $18 annual fees for the privilege of charging meals and other amenities at 330 U.S. restaurants, hotels, and nightclubs, according to the book *Paying with Plastic*, written by economists David S. Evans and Richard Schmalensee.

Within a few years, the forerunners of Visa and MasterCard introduced another twist: cards that could be used to charge purchases and put off paying for them past each monthly statement. Such credit cards were eventually accepted at nearly all restaurants, hotels, and stores.

Debit cards, which take money straight from bank accounts, took longer to catch on, except as ATM cash-withdrawal cards. But a push by banks to get debit card PIN pads installed at checkout counters finally started paying off in the 1990s, Evans and Schmalensee write.

Slowly but surely, they say, Americans got used to paying with plastic. In 1970, just 16 percent of households had charge or credit cards and used them to spend an average of $47 a month. By 2001, 73 percent had the cards and used them to spend $1,280 a month. About 70 percent had debit cards by then.

A Whole New World?

Fast forward to 2018. We still have lots of credit and debit cards in our wallets, but a shift from tangible plastic to invisible digital payments is well underway.

Most of us learned to buy things from our home computers—by filling out forms, using PayPal, or using Amazon's patented single click—many years ago. But thanks largely to the smartphone, new forms of digital payment are on the rise.

There are mobile wallet apps, such as Apple Pay, Android Pay, and Samsung Pay, which store our debit or credit card information so we can pay online or by holding our phones up to devices at checkout counters. Companies such as Starbucks, Walmart, Uber, and Lyft have their own branded payment apps.

And the age-old headache of splitting a restaurant check or getting some quick rent money to your college kid? Person-to-person payment apps, such as Venmo and Square Cash, make the transfer from your bank or credit account to theirs as easy as tapping a contact's name and entering an amount. Banks have recently gotten into the act with the Zelle app. And Apple Pay added the person-to-person option in late 2017.

Meanwhile, some people have grown comfortable making purchases by voice, using smart speakers such as Amazon Echo and Google Home.

Even our cars have started making payments through electronic tags that pay tolls instantly as we breeze past payment booths. On some toll roads, cash is no longer accepted.

And those with a taste for financial adventure and risk have acquired bitcoins, the best known of the so-called *cryptocurrencies*, digital money systems with no backing by any government or institution. Bitcoin could still become what its creators envisioned: a "magnificent tool for nearly frictionless transactions." But it is too soon to tell, says David Wolman, author of the 2012 book *The End of Money*. Something else may yet arise to fill that role, he says.

In any case, Wolman, a contributing editor at*Wired* magazine, stands by what he wrote in his book: "A quiet uprising against cash is underway."

The Case for and Against Cash

It's fair to say that some Americans are resisting that uprising. A mid-2017 survey, conducted by PYMNTS.com and InfoScout, found that 24 percent of consumers with access to the most popular mobile wallet, Apple Pay, had used it, and just 5 percent had used it for their most recent eligible purchases. Numbers were similar for Walmart Pay and much smaller for Android Pay and Samsung Pay.

"Mobile wallets, as they currently stand, aren't knocking consumers' socks off," the report said. While consumers sometimes cited unfamiliarity or security concerns, they also said they were happy with their current payment methods, which often included cash.

That jibes with what merchants see every day, says Shearman of the retail association. “Cash is still very popular out there, particularly for small-ticket items,” he says.

It should be noted that retailers have a strong reason to keep cash in the mix: every time a customer pays with a credit or debit card account—whether she uses a plastic card or an app loaded with the card number—merchants must pay fees to banks and credit card companies. Those costs are passed on in higher prices, Shearman says.

“When the customer pays in cash, the merchant gets 100 percent of the sale,” he says. “It’s a win-win.”

Cash-using customers may win in additional ways, say experts in consumer behavior.

“There’s a fairly robust finding that basically says that if you use a credit card or any kind of money that is electronic, people tend to spend more and buy more impulsively,” says Utpal Dholakia, a professor of management and marketing at Rice University. “The more you use a credit card or Apple Pay or whatever, the further you are from the pain of paying.”

Newer payment forms may encourage even more impulsive spending, says Joydeep Srivastava, a marketing and management professor at Temple University: “It’s so easy to wave your phone and get something. With a credit card, at least you had to reach into your wallet. You feel like something is going out.”

But cash also has costs for individuals and society.

“Cash is used in probably most crimes, at least in the money category,” says David Warwick, a Santa Rosa, California, lawyer and real estate investor who wrote a 2015 book, *The Abolition of Cash*.

Cash-fueled crimes include robberies, money laundering, bribery, most drug dealing, and just about everything that happens in the underground, untaxed economy, Warwick and other critics say. Just think of all the lives lost in cash robberies and all the time and expense devoted to storing, protecting, counting, transporting, and otherwise dealing with cash, they say.

Cash is also, literally, dirty money. Well-publicized studies have found most paper bills are contaminated with disease-causing germs and traces of cocaine, although scientists have yet to show anyone actually gets sick or high from handling them. The manufacture and transport of bills and coins also exacts a now-unnecessary environ-mental cost, Wolman notes in his book.

But such concerns come up against centuries of tradition and lifetimes of habit. Cash is unlikely to disappear in the next decade, Warwick says: “People resist change.”

And yet, people do change.

Take Dholakia and Srivastava. Despite warning about the dangers of giving up cash, they both say they use it less and less in their own lives.

“I might have a $20 bill that sits in my wallet for a month or two,” Dholakia says. While that bill sits unused, he’s buying groceries and coffee with apps on his phone.

Srivastava says he has teen daughters who are growing up with mobile payments. “For them, it’s the norm,” he says. “And if it’s the norm, they might not behave like us at all.” They might be just as frugal, or not, with digital cash as with paper cash. “We are in the very early stages,” he says, of a very big change.

Have questions? Need help? Call the CAPTRUST Advice Desk at 800.967.9948, or schedule an appointment with a retirement counselor today.