


paymentsnz

What Is *Really* Happening With Cash in New Zealand

June 2014



We've heard the hype, but what's really happening?



Digital cash replacement from Royal Canadian Mint in the works

The Royal Canadian Mint is pushing forward with its "MintChip" prototype, a digital cash replacement aimed at transactions under \$10.

New Zealand Fast Becoming a Cashless Society

Tuesday, 16 April 2013, 10:36 am
Press Release: [Mastercard](#)

The cashless society is closer than you think

May 7, 2013 - 06:20

A wealth of credit and debit cards and electronic payment systems is making

Most read a

Jul. 24 Apes

Kiwis moving closer to cashless society

4:00 AM Monday Jun 22, 2009

★ Save



Cash is no longer king in New Zealand, according to the Retirement Commission's report.



NZ fast becoming a cashless society - research

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Cash use in New Zealand

- Strong growth and penetration of cards payments over last 30 years.

New Zealand perceived as less reliant on cash than other countries.

- Assumed electronic transactions have displaced usage of cash.

Cash usage as payment instrument hard to measure.

- But NZ cash in circulation continues to grow strongly.

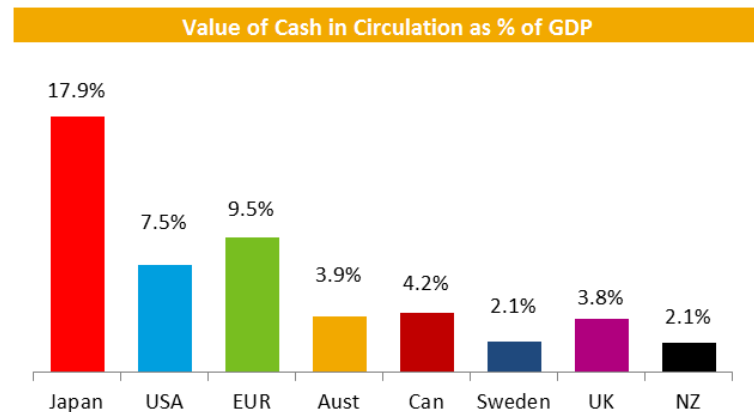
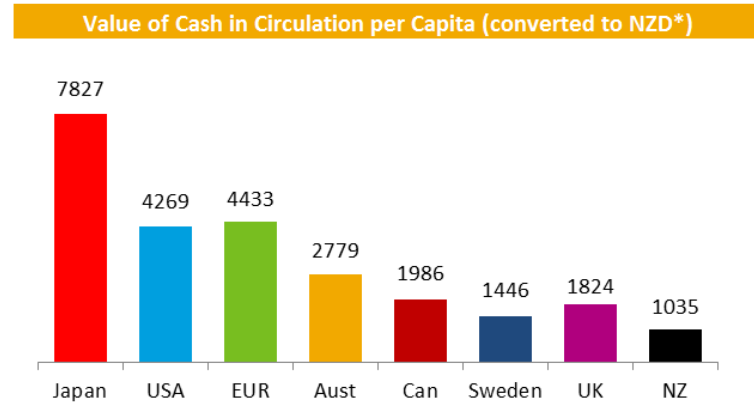
So what is really going on with cash in New Zealand? What are the facts?

Payments NZ has looked at data to answer these questions...

International comparison: cash in circulation

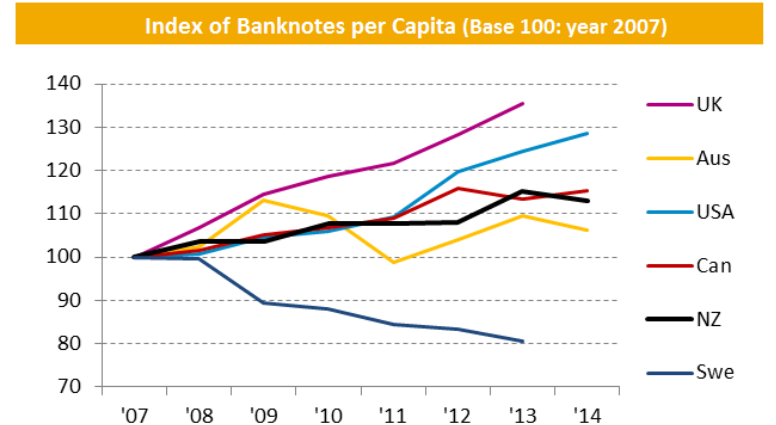
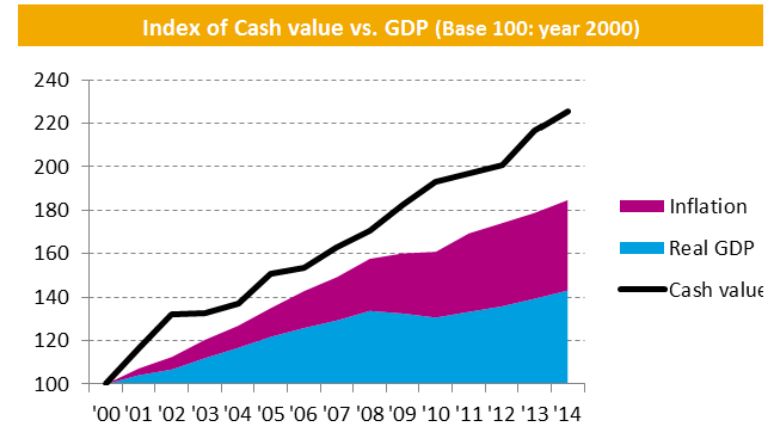
It is true: Per capita there is less cash circulating in New Zealand than in other OECD countries:

- New Zealand – **the lowest:** banknotes NZ\$ 1,035 per capita, or 2.1% of GDP
- Australia – **x3 NZ:** banknotes NZ\$ 2,779 per capita, or 3.9% of GDP
- USA – **x4 NZ:** banknotes NZ\$ 4,269 per capita, or 7.5% of GDP
- Japan – **x8 NZ:** banknotes NZ\$ 7,827 per capita, or 17.9% of GDP



Global trend - cash in circulation is increasing

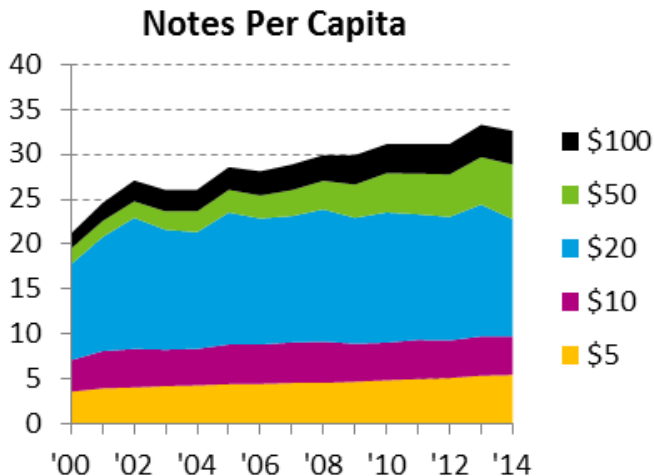
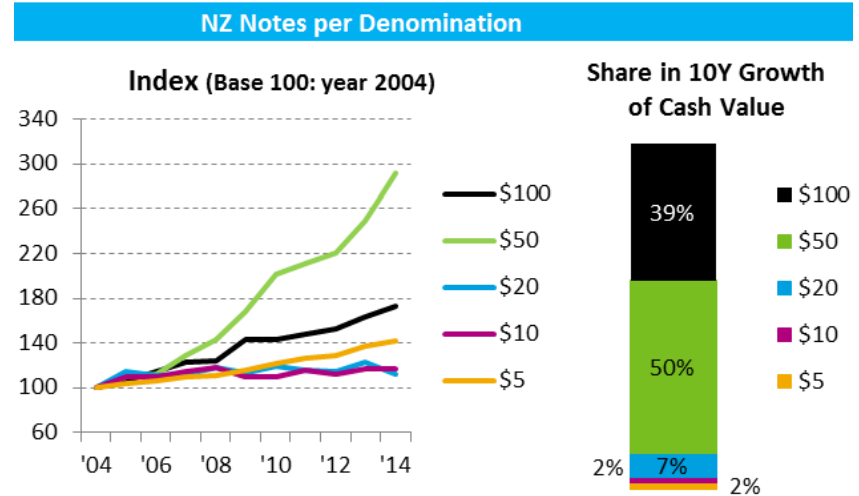
- Global trend of the value and number of notes in circulation growing steadily
- New Zealand no different. Avg cash value growth 5.1% p.a. over the last 10 years
- Faster than GDP and inflation



NZ has a low base, but our strong cash growth follows a global trend

Cash payments vs cash asset

- Cash in circulation is growing globally — and in New Zealand
- Increased cash in circulation does not necessarily mean cash is being used more as a payment instrument



- NZ's cash value growth driven by \$100s and \$50s
- NZ's cash volume per capita fell in 2013/14 due to replacement of \$20s by \$50s
- Higher value denominations indicates cash being used as a way to store value as an asset

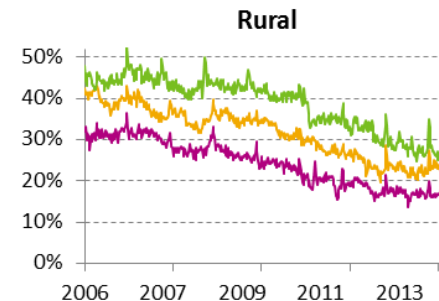
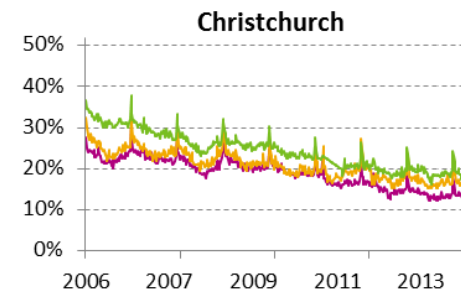
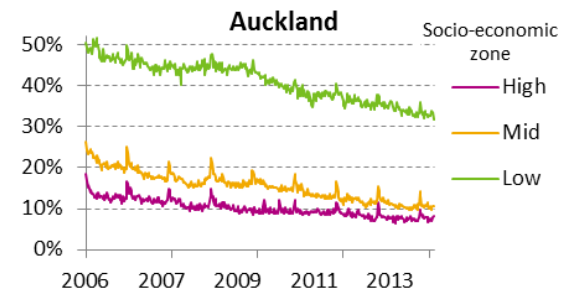
So what is happening in NZ for cash as a payment instrument?

The use of cash for payments is decreasing

- Payments NZ obtained data from retailers on cash as a % of their daily sales take
- Data from 2006 to 2014 shows cash payments as a % of total sales has decreased in all social-economic areas in New Zealand.
- 06-14 cash payments decrease between 31% to 49%, or an average of 4% p.a. in value
- Huge variance between high and low socio-economic locations

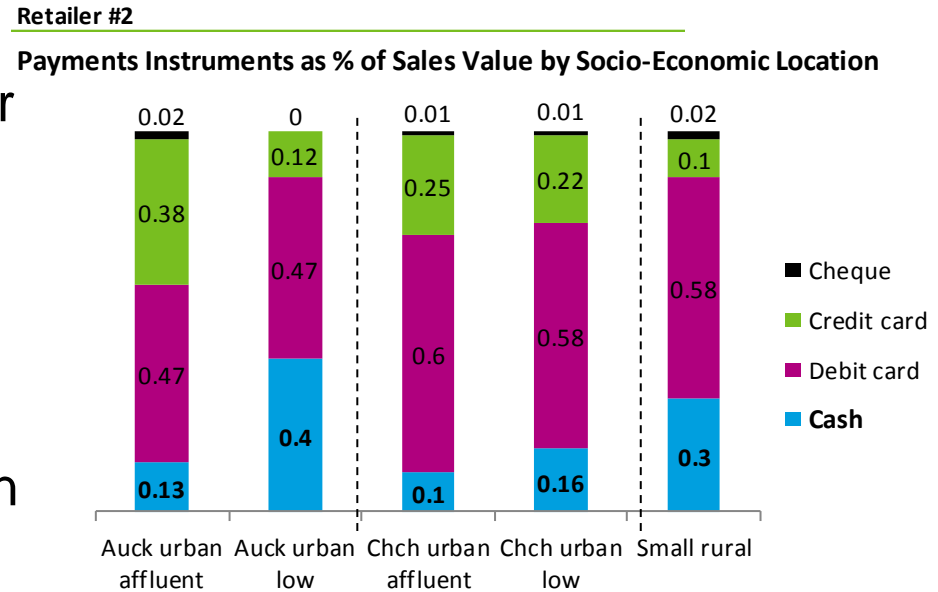
Cash payments as % of total retail purchases by socio-economic location

Retailer #1



Retail payments profile by socio economic

- The choice of payment instrument varies greatly per socio economic location
- Debit card is relatively neutral
- Cash vs Credit card – inverse relationship between credit card usage and cash usage



So what is really going on with cash in NZ?

- Cash is increasingly being used as an asset class. As a way to store value
- Cash is consistently being use less as a payment instrument

This is referred to as “The banknote paradox”

The “banknote paradox”

What is driving this ‘banknote paradox’? Its hard to quantify, but indicators include;

- The GFC: harmed confidence in the banks. Flight to low risk assets. Cash is the most liquid of all assets. Central bank money.
- Low interest rates have reduced the opportunity cost of holding cash
- The number of ATMs and cash handling equipment has recently increased. These machines need to store a certain volume of notes.
- The Christchurch earthquake: post earthquake RBNZ issued \$145 million cash (vs average for February of \$22 million).
- STDs: usage of cash in relation to Sex, Tax, Drugs
- The export of NZD cash as a hard currency to other countries such as Samoa, Niue etc.

FYI: RBNZ's 2015 note upgrade project

- RBNZ has initiated a project to upgrade New Zealand's bank notes and include better security features
- The first new note release is targeting 2015, but the details remain under development. The release schedule will determine how long the old and new notes will be in circulation at the same time
- This period of old/new note co-circulation is critical for cash handling businesses (retailers, banks, etc). Significant operational impact: customer confusion, increased fraud risk, cash handling machines, ATMs, etc
- RBNZ looking to have 3 year period co-circulation. Payments NZ working with banks/RBNZ to help ensure shorter period of co-circulation, e.g. 6 months