

What are the social policy implications for a 'less-cash' society and how it might impact different population groups?



Bank of Canada Policy Lab



MAX BELL SCHOOL
of PUBLIC POLICY

Aftab Ahmed, Hayley Krieger,
Sokhema Sreang, and Megan
Warsame

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Executive Summary

As cash use, access, and acceptance declines in Canada, vulnerable demographics are at risk of being left behind. For many, cash is more than just a method of payment. The growing pattern of electronic payments means that cash could become more scarce, threatening those who rely on it. While a less-cash ecosystem is adversely impacting individuals today, it also presents concerns for the future. Without interventions targeted at supporting cash-dependent demographics, Canada will “sleepwalk” towards an inequitable payments landscape, resulting in further undesirable outcomes for vulnerable individuals.

This policy brief will answer the following question posed by the Bank of Canada (BoC): **What are the social policy implications for a less-cash society and how might it impact different population groups?**

Through extensive literature review and stakeholder consultations, it has become evident that higher levels of financial exclusion for vulnerable cash-dependent demographics is the primary social policy implication of a less-cash society.

Overview

This policy brief presents findings on cash usage, patterns of cash access, and the interactions of vulnerable groups with cash. Mainly, this policy brief highlights the experiences of four groups vulnerable to less-cash: Indigenous Peoples, unhoused individuals, older people, and survivors of domestic abuse. Each of these groups have distinctive relationships and heightened dependence on cash – suggesting that less-cash will impact them disproportionately.

The policy brief centers:

1. Examining how the four identified groups are impacted by less-cash and understanding the value of cash to these groups based on their identities, socio-economic statuses, and unique needs.
2. Exploring the connection between the movement toward less-cash and financial exclusion, given the aggravating factors in the financial system that generate additional negative consequences stemming from a less-cash landscape.
3. Formulating policy recommendations that can shape the organizational philosophy, culture, and focus areas of the BoC, the financial system committees BoC engages with, and other pertinent federal agencies. This will ensure that the needs of marginalised populations are duly addressed in the shift towards a less-cash society.

This capstone project utilises information from a wide breadth of literature, including BoC reports, peer-reviewed academic pieces, international case studies, government documents, and media publications. Beyond reviewing the existing literature, the project draws on qualitative data to understand the experiences of the identified population groups. Through interviews with 25 stakeholders, this policy brief reflects on an understanding of a less-cash society through the lenses of advocacy groups, researchers, and policymakers that possess knowledge on the financial habits of vulnerable populations.

Context

Less-cash in Canada

- The term "less-cash" describes the current trend of declining cash use, acceptance, and access, which is expected to continue in the future, although cash is likely to persist alongside digital payment tools.

- Cash-based transactions in Canada have drastically decreased, as payment preferences shift towards e-Transfers, credit cards, PayPal, and debit cards.¹
- Cash use for daily purchases has declined, from 54 percent in 2009 to 22 percent in 2021.²
- Despite the reduced use of cash, the total amount of cash in circulation has been increasing, indicating a higher demand for cash.³

Bank of Canada's mandate

- As Canada's central bank, the BoC's core functions include anchoring monetary policy, issuing currency, providing fund management services, and supervising retail payments.⁴ The BoC is responsible for ensuring the country's economic and financial welfare, as per the preamble of the *Bank of Canada Act*.⁵
- The BoC conducts research on cash and digital payments to better understand the payments landscape. Further, the BoC plays a fundamental role as the wholesaler of cash to financial institutions (FIs), overseeing the production and distribution of cash.

Key Findings

The value and use of cash for vulnerable groups

Cash continues to present unparalleled utility to many – as a means of payment, a tool for budgeting, a safeguard for times of crisis, and to alleviate challenges associated with marginalised identities.

- Low volume transactions are most likely to be paid in cash. In November of 2020, 40 percent of the total volume of transactions under \$15 were paid in cash.⁶
- Many individuals express a preference for keeping their savings or emergency funds in cash, citing reasons such as: security, universality, accessibility, anonymity, and the sense of control they derive from managing their finances in physical currency. These facets explain why cash is still prominent in the Canadian economy.
- Digital payment methods do not lend themselves to the same accessibility in budgeting as cash does. For vulnerable groups, cash-based budgeting is reliable, easy to monitor, and prevents individuals from going into debt from an over-reliance on credit.
- In times of emergency, like the pandemic or a major network outage, cash is a familiar tool that can provide a sense of security. Demand for cash tends to increase during times of uncertainty.
- In Indigenous communities, cash maintains utility as a method of payment for various social events and traditional occasions. Further, Indigenous monetary customs and cultural practices have not been integrated in digital payment systems.

¹ Stephen Yun and Ajoke Olorundare, "Rebound and Grow: Canadian Payment Methods and Trends Report 2022," Payments Report (Payments Canada, November 20, 2022), https://payments.ca/sites/default/files/PaymentsCanada_Canadian_Payment_Methods_and_Trends_Report_2022_En_0.pdf.

² Josh Nye, "Proof Point: Canadians Can't Kick Cash," RBC, May 9, 2022, <https://thoughtleadership.rbc.com/proof-point-canadians-cant-kick-cash/>.

³ Tim Shufelt, "Canadians Are Sitting on Record Amounts of Cash - but Nobody Is Sure What to Do with the Money," *The Globe and Mail*, April 22, 2022, <https://www.theglobeandmail.com/investing/markets/inside-the-market/article-canadian-cash-in-circulation-reach-60-year-high/>.

⁴ Bank of Canada, "Core Functions," Bank of Canada, accessed July 3, 2023, <https://www.bankofcanada.ca/core-functions/>.

⁵ "Bank of Canada Act, RSC 1985, c B-2" (CanLII), accessed July 1, 2023, <https://canlii.ca/t/548md>.

⁶ Heng Chen et al., "Cash and COVID-19: The Impact of the Second Wave in Canada," July 2021, <https://www.bankofcanada.ca/wp-content/uploads/2021/07/sdp2021-12.pdf>.

- Cash is vital for unhoused people, many of whom rely on panhandling to fund necessities. The pandemic impacted the unhoused community financially, as reduced cash usage meant that fewer people carried cash and thus panhandlers earned less.
- Those experiencing domestic abuse are advised to keep a “getaway fund”, as cash is untraceable to abusers. Given the high likelihood that domestic abuse victims also experience financial abuse and financial exploitation, this practice is highly salient for their eventual autonomy.
- Many older Canadians rely on cash as a secure and accessible tool for financial management and paying for goods and services. Digital payments may increase older people’s reliance on others, creating susceptibility to elder abuse.

The irreplaceable role of cash in the lives of vulnerable groups must be recognised to prevent further financial exclusion.

Lack of trust and reliance on financial institutions (FIs)

Within marginalised groups, there is a strong perception of bias in services offered by FIs. The lack of trust in frontline banking services is a contributor to underbanking – a phenomenon observed when individuals possessing bank accounts underutilise the services offered by FIs.

- In Canada, three percent of Canadians are unbanked (have no formal relationship with a mainstream financial service provider), while up to 15 percent are underbanked (have a bank account but limited engagement with FIs).⁷ This presents challenges, as less-cash indicates a need to transition to online financial tools for tracking, budgeting, and payments.
- Marginalised communities fear discrimination when interacting with frontline banking staff, which can be attributed to unconscious bias.
- The lack of trust between FIs and the identified groups, especially Indigenous and unhoused Canadians, was notably underscored by many of the consulted stakeholders.

These experiences and perceptions highlight the need to foster greater trust between marginalised populations and FIs.

Limited bank access for vulnerable communities

As the number of bank branches decline in Canada, vulnerable people are concerned about where they will access cash and in-person financial services. A growing dependence on exploitative “fringe” institutions for accessing financial services has led to elevated costs, primarily in the form of fees associated with the use of supposedly more “convenient” cash services.

- Geographic exclusion is a concern, as there is currently no policy indicating FIs’ obligations to continue operations in rural parts of Canada.
- Many who are unable to adequately access financial services through mainstream banks turn to “fringe banks”, which are operations like cheque-cashing outlets, payday lenders, or pawnshops. While these services do appear more convenient on the surface, they come with higher costs.
- There is a high proliferation of “white label” ATMs in Canada, which are privately owned ATMs. These ATMs tend to charge high fees for cash withdrawals.

Stakeholders expressed concern over these costs, which inexplicably burden cash-dependent marginalised groups. As Canada progresses towards a less-cash environment, the demand for convenient and affordable cash services remains substantial.

⁷ ACORN Canada, “Financial Inclusion Report,” Report to Department of Finance, 2017, <https://www.canada.ca/content/dam/fin/migration/consultresp/pdf-pssge-psefc/pssge-psefc-03.pdf>.

Financial exclusion, abuse, and exploitation

The shift towards less-cash is exacerbating financial exclusion among vulnerable populations.

- Financial exclusion refers to the inability to access and appropriately utilise a suite of banking services (example: low-cost bank accounts). This condition is problematic, as it can perpetuate poverty and create financial traps for the most vulnerable.
- The remedy to financial exclusion is financial inclusion. Financially included people are portrayed as those who have and utilise mainstream financial products and services. Access to and the utilisation of cash and bank accounts are especially relevant to this policy brief.
- Financial exploitation and financial abuse represent complex dimensions of financial exclusion, as they pose a risk for marginalised groups when leveraging non-cash payments and using digital banking tools. Financial exploitation refers to the illicit or unethical utilisation of another individual's financial resources for personal benefit.
- Financial abuse refers to the deliberate and inappropriate manipulation of an individual's financial assets by another person, often within a relationship characterised by power imbalances.

Less-cash trends indicate a sense of urgency to design policies which can address the various dimensions of financial exclusion, to guarantee equitable financial outcomes for vulnerable demographics.

Recommendations

Recommendation 0: Strategic Review to Define Economic and Financial Welfare

Recommendation 0 suggests that the BoC conduct an internal strategic review to embed financial inclusion within its understanding of economic and financial welfare (EFW). The recommendation entails defining EFW based on five interdependent parameters: financial stability, economic stability, monetary stability, sustainable economic growth, and financial inclusion.

- BoC will establish an institutional setup to design an EFW framework over a 20-month period, involving team allocation, parameter identification, tool evaluation, data analytics, advocacy, and interdepartmental collaboration – ensuring regular re-evaluation of the framework every five years.
- The BoC will foster collaboration between internal departments such as the Financial Stability Department, International Economic Analysis Department, Canadian Economic Analysis Department, and the Currency Department to ensure a comprehensive understanding of EFW.
- The BoC will conduct research and utilise existing data to identify and define EFW parameters, considering their relevance in the BoC's context, including Canada's economic, demographic, and geopolitical landscape, as well as the implications of upholding global human rights standards.

Recommendation 1: Community Cash Connect Program

To improve cash access for vulnerable communities, the BoC should implement the Community Cash Connect (CCC) program, a proposed private-public partnership to provide no-cost ATMs where needed. The BoC should develop a framework that enables community leadership to request feasibility assessments to the central bank for their cash access needs. This program aims to address the inequity caused by bank branch closures and ensures reasonable cash access for those in need.

- BoC will conduct a feasibility assessment of applicant communities to determine whether people have adequate access to cash, analyzing factors such as: distance to nearest no-cost ATM, whether there are geographic barriers to cash access, and if a community has experienced bank closures.
- Through an agreement with the Big Six banks, the cost of the installation and maintenance of ATMs will be split. The BoC will ensure that cash services are included at no cost.
- BoC will oversee the success of installation of no-cost ATMs and coordinate with FIs to ensure that any technical issues are sorted within a reasonable timeframe.

- The CCC program attempts to remedy the increasing costs of accessing cash, while also addressing the needs of specific communities. As a community driven model, the CCC allows localities to determine whether infrastructural interventions are needed to ensure no-cost cash access.

Recommendation 2: Voluntary Codes of Conduct for Vulnerable Groups

Recommendation 2 aims to enhance financial capability and access to financial services for marginalised individuals. FIs often lack understanding of the precise needs of vulnerable populations, exacerbating exclusion and eroding trust. To address this, additional Voluntary Commitments and Codes of Conduct (called “Codes”) can be established for the banking industry. These Codes would promote ethical practices, prioritise customer protection, and ensure fair and transparent access to basic financial tools and services, promoting the financial well-being of marginalised individuals.

- BoC should advocate to the Financial Consumer Agency of Canada (FCAC), the federal consumer regulator, to develop Codes specific to the needs of the identified groups.
- FCAC, in collaboration with the Canadian Bankers Association (CBA), an association representing more than 60 domestic and foreign banks, should lead on the development of the following Codes:
 - Code of Conduct for the Delivery of Banking Services to Indigenous Peoples
 - Code of Conduct for the Delivery of Banking Services to Unhoused People
 - Code of Conduct for the Mitigation of Financial Abuse
- FCAC and CBA's expertise in voluntary commitments enables the establishment of additional Codes. This recommendation draws from the *Code of Conduct for the Delivery of Banking Services to Seniors*, which guides banks in providing financial services to customers aged 60 and above.
- These proposed Codes can serve as conduits to promote awareness, encourage best practices in the banking industry, and foster a culture of financial inclusivity.

Recommendation 3: Cash Access Committee

To avoid “sleepwalking” towards a less-cash society, the BoC should appoint a Committee of experts to investigate the need for the legislative protection of cash in Canada. The Committee will study the impact of transitioning to a less-cash society, through people-centered and Equity, Diversity, and Inclusionary (EDI) lenses. The Committee will include experts from policy, economics, law, and academia to analyse existing frameworks and propose evidence-based policy recommendations pertaining to the future of cash in Canada. Additionally, advocacy groups will gather data from vulnerable groups to ensure the development of sustainable and inclusive recommendations. The proposed structure, design, and operating philosophy of the Committee emphasises leveraging traditional research methods while also collecting insights of vulnerable populations to gather reliable data throughout the process.

- The BoC will form a Committee, bringing onboard external experts in the fields of policy, law, economics, and the wider academic community. Furthermore, it will appoint representatives from advocacy groups that cater to the needs of vulnerable populations, along with including other external stakeholders, ensuring their input and involvement in the entire process.
- The Committee will be tasked to assess the necessity of statutory changes to protect cash and to outline measures for implementing safeguards.
- This recommendation draws on the independently researched 2019 Access to Cash Review in the UK, funded by LINK. This Review aimed to reference payment method trends, international developments in the payments landscape, consumer needs and behavior, and the financial and economic drivers of the cash economy.
- The establishment of an independent Cash Access Committee has been conceptualised to acknowledge the unequal nature of the transition to a less-cash society. By prioritising engagement with stakeholders representing vulnerable groups in research and data collection, Recommendation 3 ensures that any potential policy proposals regarding the cash ecosystem are grounded in evidence, with a focus on cash-dependent populations.