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ABSTRACT

The general objective of this research was to identify the effects of cash payments to the Kenyan economy and how to best address it. It closely examined the existing state of cash payments and its upshots not only to the merchant/recipient but also the payer and the banks, with an aim of determining how instant bank payments could plug in to save the situation. Cash is widely used not only in Kenya but also other economies both regionally and globally. Any of its negative effects such as costliness and inefficiency, among others discussed herein, can be considered widespread and in dire need of mitigations for the sake of developing stronger economies. The specific objectives of the study were to: Investigate the cost of cash payments to the consumer, establish how cash payments affect merchants, investigate the impacts of cash payments to the banking industry and to establish the role of instant bank transfers in a cash-intensive economy. The study employed desktop study method to collect and analyze data on the effect of cash payments on the Kenyan economy. Finally, conclusion was made and recommendations proposed to address the gap identified in the study.

Key Words: *Cash Payments, Banking Industry, Merchants, Bank Transfers*

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INTRODUCTION

The statement 'cash is king' is still vastly tenable in 2020, as most payers recourse to it as the easier and more convenient payment option. Nonetheless, until the factors surrounding cash payments are highlighted and spelt out to all users, one may not see its heightened accompanying costs. These costs are not only fiscal but also related to manpower, time, attrition, preclusion of potential business, safety, health, security and peace of mind. Zollmann & Cojocaru (2015), in their publication under FSD (Financial Sector Deepening) Kenya, affirm that cash is indeed expensive, presenting evidence that several studies in the developed countries estimate that a shift from cash to electronic payments can save a country 1-2% of GDP.

It also goes without saying that cash can beget tremendous economic and public health implications. This is in view of the ongoing COVID-19 pandemic that has seen financial institutions, regulators and public health institutions advising citizens to immediately espouse alternate payment methods. Given that cash is intensively physically exchanged, it sets forth a hotbed for spread of the virus, which in turn increases infection rates; consequently impacting economies through lockdowns, deaths, loss of sustenance and deterioration of living standards.

According to a recent report-2019 FinAccess household report by FSD Kenya, CBK & KNBS (2019), the most used device for undertaking transactions is cash, as opposed to digital options. It is widely used for payments made by individuals, businesses and various industries such as agriculture. To put into perspective the cash-intensiveness of the Kenyan economy, is the glaring fact that of the total amount of money that moved within the entire economy in 2019, only 20% was moved digitally, while the remaining 80% was in cash. Additionally, the business and agricultural segments' payment modes was 94% and 92% cash respectively, as reported by FSD Kenya, CBK & KNBS (2019). This fact confirms that unlike a general perception that mobile money is the most widely used; cash is incongruously the most popular.

The statistic submits glaring evidence that the industry is in dire need of a solution to cater for the huge amount of cash payments that exist within the economy. Interbank transfers can best address this, if considered as functionality to attack cash payments and not a competitor for the other money transfer methods. The solution is not only necessary for Kenya but also other African countries, for economic strength. According to Nyoni & Bonga (2017), the economy can be financially advanced and business transactions smoothened through increased usage of electronic payment systems. Electronic payments encompass all the digital payment methods available from the financial services providers within the industry. This includes: mobile money transfers; bank transfers such as RTGS (real time gross settlement), EFT (electronic funds transfer), Pesalink and SWIFT (used for cross-border payments); and other non-bank transfers such as PayPal and Western Union, among others.

Cash payments tender a magnitude of headaches for the client paying, but also the merchant, the banks and the entire economy. The headache is presented in terms of costs, convenience, safety and security. Being part of the minority 20% occupied by digital payments, instant interbank transfers can shift focus to taking up the 80% colonized by cash payments. Through this, it will yield more value, as compared to when playing in the space of the other existing digital payment methods.

Over time, the Kenyan economy will be impelled to adopt a cashless economy, albeit it moving at a slow pace yet it is a much-needed solution. Owino (2019) reports that Philip Nyamwaya-MD of iPay reckons that the country will finally be forced to do this, going by global trends in more developed economies such as China, which incidentally happens to be one of Kenya's top 'influencers' in such developments. The below figure from FinAccess 2019 report by FSD Kenya, CBK & KNBS

(2019) illustrates how "cash is king" is a true and weighty statement in Kenya's economy, emphasizing the need to put in place measures to mitigate the risks that are brought by this payment mode.

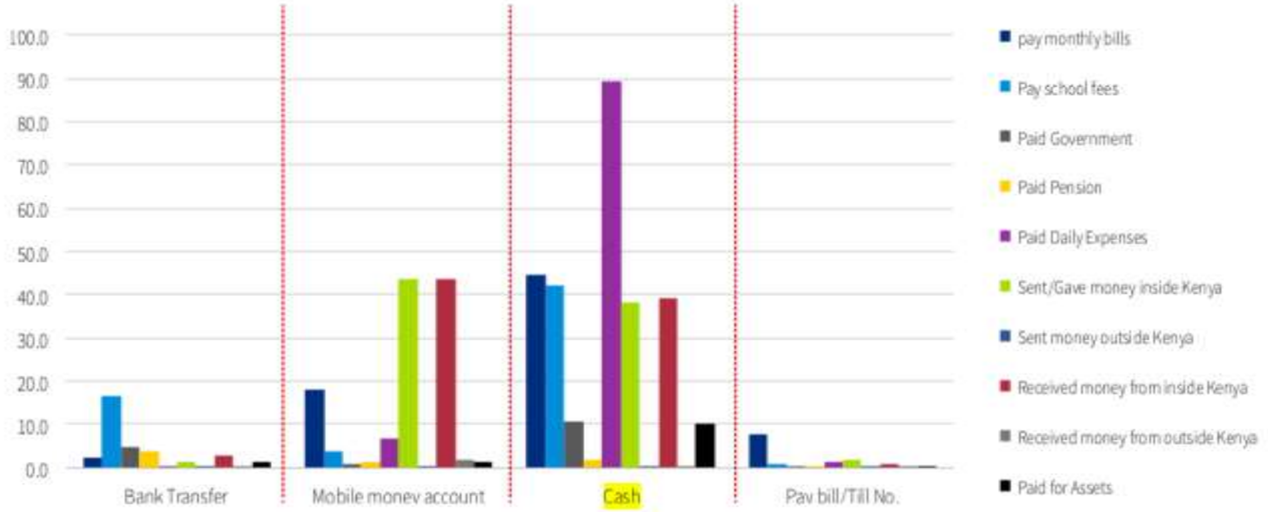

Figure 1: Chart of Types of frequent payment modes in Kenya in 2019 (FSD Kenya, CBK & KNBS, 2019)

Study Objective

The general objective of the research was to investigate the effect of cash payments to the Kenyan economy, with a proposition of mitigation by using cashless payment-specifically instant bank transfers.

The specific objectives of the research were:

- To investigate the cost of cash payments to the consumers
- To establish how cash payments affect the merchants
- To investigate how cash payments impact the banking industry
- To establish the place of instant bank transfers in a cash-intensive economy

LITERATURE REVIEW

Various scholars reiterate the influence of cash payments to an economy and that it is as costly as it is widely used. Sablik (2018) points out that over the last decade, dollars in circulation in the US as a share of GDP have nearly doubled from 5 percent to 9 percent, with $1.6 trillion in cash in circulation, or roughly $4,800 for every person in the United States. Sablik (2018) shares further data that cash in circulation has surged in recent years in much of the world despite the spread of new ways to pay. Most consumers use cash with the reason that it is easy and less costly, in addition to the fact that it provides protection from increased fraud on electronic payment modes such as cards. Contrary to their beliefs, there is more risk in cash payments starting with the inability to keep records when using cash payments. According to Sablik (2018), while consumers are protected from fraudulent charges to their debit or credit cards, cash comes with no such protection; once it is lost or stolen, it is gone. This reconfirms the question around security.

Further research reveals that cash payment brings with it absence of accountability-a very important aspect when it comes to expenditure and accounting. Baylouny et al (2018) state that the role of resources in war has been much debate, with a pertinent worry about what happens when foreign patrons provide lavish amounts of cash to rebels, without mechanisms of accountability. Such or other related incidences might lead to more adverse occurrences like fraudulent transactions, money laundering and terrorist financing, as there is no mechanism of tracing the money when spent in cash. In a bid to answer why consumers still prefer cash, Sablik (2018) reports that one contributing factor is income levels; low-income households are less likely to have access to some payment methods such as credit cards, making cash an attractive option hence they use cash for 43% of their payments.

To the overall economy, cash poses a potential problem for maintaining negative interest rates, because households and businesses can choose to hold cash instead of assets that bear a negative rate of interest (Sablik, 2018). From this, regulators may find it difficult to regulate interest rates, given that the intended assets that should apply will not be used, as people will largely make payments in cash.

In the Kenyan context, Jumba & Wepukhulu (2019) aver that consumers may hesitate to use online payment systems because of privacy concerns, hence less trustworthiness perceived by users in using the cashless payments and the less their intention to adopt the system. Jumba & Wepukhulu (2019) further add that first time investments in cashless payment systems take a huge portion of a company's capital, and that users like supermarkets do not have recurrent expenditure to maintain the same. This brings into question the merit of cashless payments as a less costly option. The systems may cost the company money to install, but how about the costs that comes with cash payments? -For example, the need to hire security when headed to the bank at every end of day, outsourcing cash handling services, the ripple effect that ends up taking up the bank tellers' time and reconciliation. The costliness of cash payments further shows through the research by Jumba & Wepukhulu (2019), when they confirm that supermarkets that prefer cash payments have hired staff to carry out daily cash reconciliations to ensure proper accounting for that all cash sales.

Alternatives to cash payments cannot only help with enhancement of security and easier reconciliation, but also an additional array of benefits. Lubanga et al (2017) share data collected from their research that over 45% of their respondents agreed that e-payment shall impact positively the industry as compared to cash payments. This is with reference to the 'matatu' industry- Kenya's public transport industry-which is among the most cash-intensive sectors of the economy. In addition, there was a near consensus among the respondents that e-payment system in the matatu industry would increase efficiency (Lubanga et al, 2017). This affirms that albeit the low rate of adoption of alternative payment methods, individual users within the economy acknowledge that these methods offer better opportunities for financial management in addition to other benefits. There is therefore need for efforts to educate the masses more for increased uptake.

Cost and Inconvenience of Cash Payments to tThe Payer

To the customer-One may consider cash payments as having nil costs, this is however contrary to the reality of the matter. For one to pay using cash, they have to extract it from somewhere; either their bank account, mobile wallet or PayPal account. From the bank account, one will incur ATM (automated teller machine) costs, same will apply for mobile money wallets or PayPal. Needless to say, the money held by an individual in the mobile wallet either came from their bank account or another person's wallet. Therefore, withdrawing the money comes with a second cost in addition to the initial sending fees. We take an example illustrated below of a client who pays kes.1,500.00 using cash withdrawn from their wallet, after transferring from their bank account to the wallet. The figures are based on current account to mobile wallet charges of one Kenyan bank-NCBA Loop.

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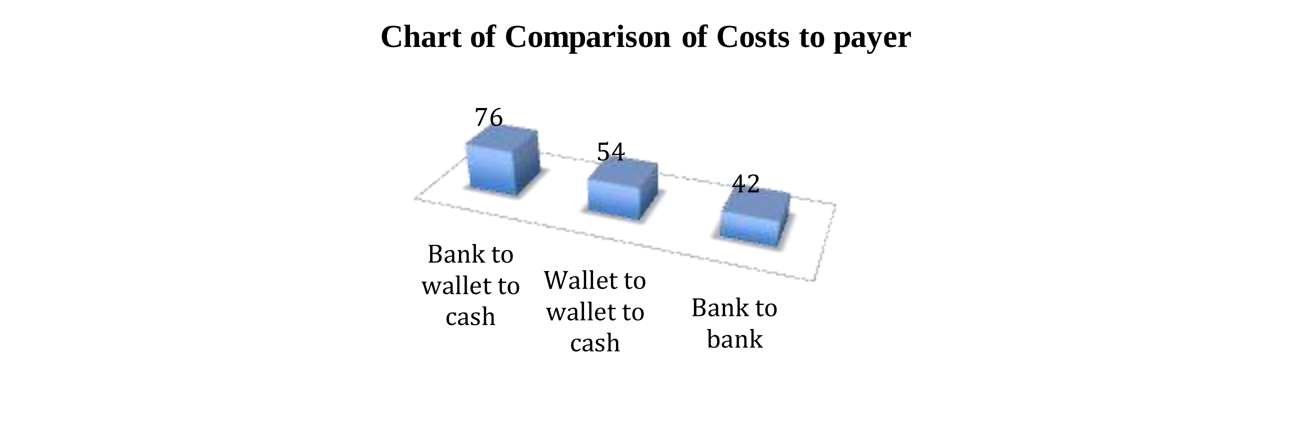

Figure 2: Chart of Comparison of costs (Kes) that precede cash payment

Payment by account to account is cheaper than the common avenues for cash payments-bank to wallet to cash and wallet to wallet to cash by 44.73% and 22.22% respectively. Despite looking like a minimal amount, these values are extremely high considering the number of payments one makes within a month, as everyday an one pays for at least one item or more. Withdrawal from ATM may seem cheaper, but the payer will face a headache in terms of risk of loss.

An example with regards to convenience can be drawn from government/tax payments. Currently, one is able to make payments either via Mpesa (mobile money payment) or through the bank. When making payment through the bank, the tax payer has to make their way to the nominated partner banks, where they will either give instructions for a bank transfer or pay in cash depending on whether they bank at the nominated bank or not respectively. This not only yields inconvenience for the customer in terms of time-expenditure, but also possibility of loss of money. Cashless payment would make it easier for the customer, for example by providing a checkout option within the government portal, for payment straight from the bank. This would especially come in handy for clients who happen not to have money on Mpesa, and corporate clients-who form the biggest chunk of tax returns payers and also don't own mobile phones and mobile money wallets unlike individuals.

Personal financial management can be partly tied to cash payments too. One tends to spend more money especially on impulse buying, when they have physical money at hand that when it is held in the bank. In view of this, cash payments may be part of the contributors to increased poverty in parts of the population, as such people may end up spending the little money they had on un-important items rather than save it for urgent needs such as school fees and medication. According to FSD (financial sector deepening) Kenya (2015), making money electronic rather than cash-particularly for inbound payments to consumers-could yield a decrease in the 'hot stimulus' created by cash, which leads to unplanned spending.

It is therefore prudent to state that interbank payments are the perfect solution for the individual user in terms of costliness. This is backed by a report published by FSD Kenya by Gwer et al (2019) that digital channels offer significant savings to customers where a digital banking customer saves an average of kes.9,350.00 annually on transaction costs. Additionally, it is more convenient for them as there is no need to either make a trip to the ATM or the mobile money agent.

Cost of Cash Payments to the Merchant

After making payment, the recipient; in this case the merchant, is faced with the task of keeping the money safely and taking it to the bank for deposit at the end of the day. All these come at both monetary and non-monetary costs. In monetary terms, the merchant will require to invest in security personnel and solutions such as safes and CCTV cameras in addition to escort to the bank as they make their way to deposit their collections. Their non-monetary needs are the need for investment of time to make it to the bank, not to mention worry of loss or burglary. All these take a toll on the merchant, both financially and mentally, when they would have used the time to build their business more, and the extra money to invest further in the business.

In view of this, it is compelling to state that interbank payments will cure the headache faced by merchants whenever they receive payments in cash. The solution will offer them peace of mind, cost cutting and convenience-valuable factors that contribute to a business' success. Adu (2016) reckons that cashless payments will reduce theft-since robbers are attracted by volume of cash movement through bullion vans, the use of alternative electronic payment system will no doubt reduce incidence of robbery in the society.

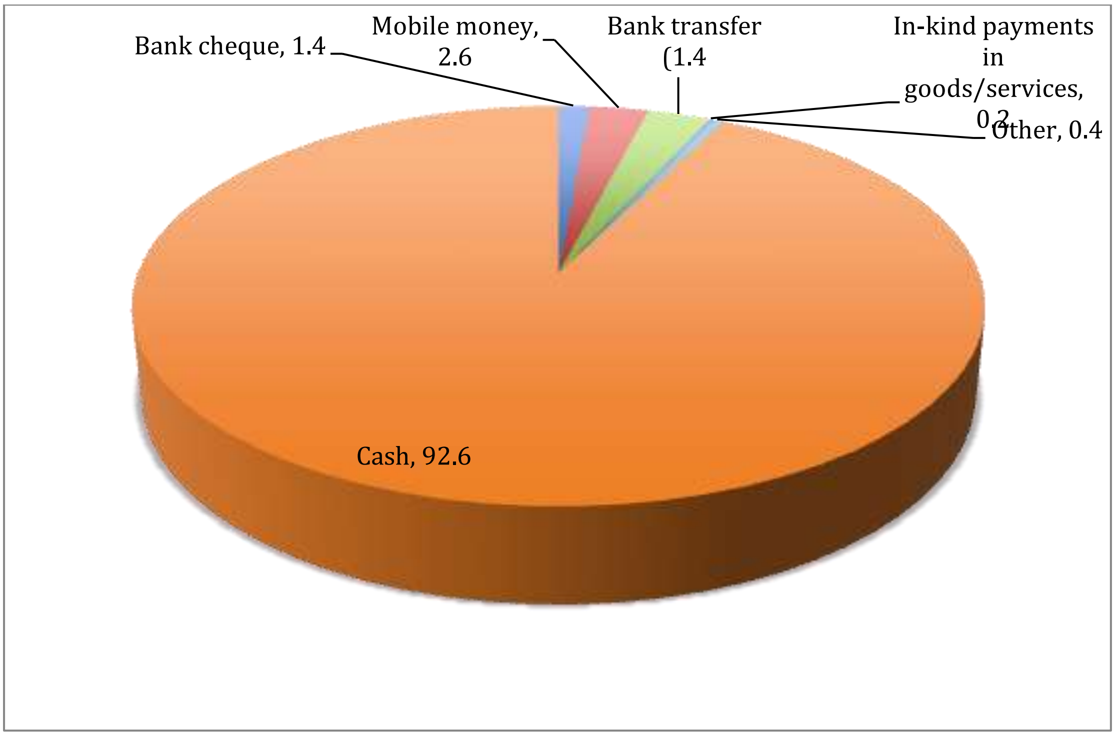

Figure 3: Chart of Payment Methods Used by Businesses (%) (FSD Kenya, CBK & KNBS, 2019)

Cost of Cash Payments to the Banks

The financial industry also forms part of the players in the cash payment chain. This is because all the money finds its way into the banking industry at the end of the day. In view of this, one may wonder; "isn't there an easier way to route this money to the bank account?" Banks are in need of liquidity and revenue that results from transactions, they however need to carry out their functions effectively and at minimal costs in order to achieve efficiency and maximum returns; and finding ways of routing the moneys to the banks is one of the best ways to realize this.

The country is made of some cash-intensive business communities such as Eastleigh in Nairobi. In this business area, sellers highly depend on cash payments, which is then taken to the bank at the end of each day. From a survey within the area, once at the bank, the customer will hold the teller for almost an hour to bank their millions of Kenya shillings collected on that day, this is followed by an immediate transfer of the money to another bank account via RTGS either for additional supplies or

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other business needs. Transacting this way bring up a challenge to the bank in terms of putting strain on its resources, where staff are obliged to spend extra time with one client instead of delivering fast service and moving to the next customer. Consequently, the bank is not only compelled to invest in more staff to meet the increased demands, but also bear impact on their level of service as other clients are forced to wait longer in queues, complain, leave or give detractive reviews.

The earlier example of the taxpayer also affects the banks. For those who present themselves to the bank to make either cash or electronic transfer payments for their taxes, there arises increased customer traffic within the bank. This explains part of the reasons why most banks within the country are busiest towards the end of the month or at the start of the next month. The increased traffic causes strain on the available bank resources, thus impacting productivity and efficiency. Use of a cashless payments would drive customers away from the banking halls, to transact at the convenience of their offices or homes, hence less administrative and resource strain on the bank, as well as improved experience and convenience for clients. An FSD publication by Zollmann & Cojocaru (2015) confirms costliness to banks by stating that cash is expensive because it is physical-requiring printing, security and transportation, hence financial and time costs exceeding those of electronic methods.

The Place of Instant Bank Transfers in A Cash-Intensive Economy

From the above scenarios, what if the business owner in Eastleigh was paid straight into their bank account? First, they will not have to invest in security at the shop and during transit to the bank. Secondly, they will save on time used to go to the bank to deposit their collections. This saves the merchant a great deal of time and money that they can invest in their business. A recent survey of the Nigerian market by Adu (2016) reveals that cashless policy would reduce cash management costs by as much as N192 billion annually. Duplication of this can do the same, if not more, for the Kenyan economy. The same applies for the individual customer.

On the other hand, the bank will be able to have its staff focus on other value-add tasks that generate revenue. Rather than spend time serving a customer just to deposit cash collections, the staff can focus on souring for more customers or advising the existing customers on valuable investment ideas go grow their wealth further. This solution is easy for banks given that a large part of the population already has access to digital banking platforms. What needs to be worked on is usage, which can only be achieved by providing a functional solution that makes sense to the customer. Gwer et al (2019) report that overall, there has been a significant growth in digital account ownership, uptake and usage over the last three years, with a the FinAccess 2019 report showing that 87% of households in Kenya have access to a digital accounts and 78% are active account owners.

The 80% occupied by cash payments in all the payments within the industry proffers a huge opportunity for interbank transfers to leverage on. If taken up by interbank payments, citizens can invest their time in their business and other tasks, hence more revenue generation and a stronger economy. It is therefore advisable that interbank payments focuses on solutions to stamp out cash, and not on competing with the other digital payments methods. To achieve a successful solution, players need to put in place methods of payments from bank account to bank account, in addition to creating awareness through customer education. Eventually, both buyers and sellers will insist on paying or receiving payments via bank transfers, as they will know the underlying value. Adu (2016) supports this solution by stating that it is no doubt that information technology can help to reduce transaction costs for banks, which will translate to lower prices for services to customers.

Adoption of electronic payments is not only the consumer's burden, but also the financial institutions' and governments. Consumers are faced with the need to properly manage their finances, hence a cogent reason for adoption of digital payments, as hard cash comes with an increased urge for impulse expenditure. It is however up to the banks to provide appropriate solutions, given that products and services that don't speak to daily-life functionalities do not make sense to the customer. This explains why real time interbank payments is important-it holds the key to the solutions highly sought by consumers-and the banks need to create heightened awareness for adoption. As compared to moving money from bank to wallet to make a payment, instant interbank transfers help with making just one payment, which reduces cost, offers improved experience and efficiency and reduces the need to withdraw money from the account. Zollmann & Cojocaru (2015), through their publication with FSD support this by stating that a shift towards electronic payments-with the right kind of features-could potentially help the poor improve their budgeting hence more money discipline for the consumer. This can only be achieved with the input, support and directives from regulators and government.

Some of the country's leading production industries are also characterized by cash-intensiveness-for example Agriculture, which is among the country's top income generators. Intrinsically, there is dire need to educate users in addition to providing industry-relevant and friendly payment methods to replace cash. Such measures can make it easier for farmers to sell or purchase goods more conveniently and affordably, hence improving income, livelihoods and food production. FSD Kenya, CBK & KNBS (2019) reckon that financial inclusion is important for agriculture in assisting farmers purchase farm inputs, assets, mitigate risks and manage day-to-day cash flow.

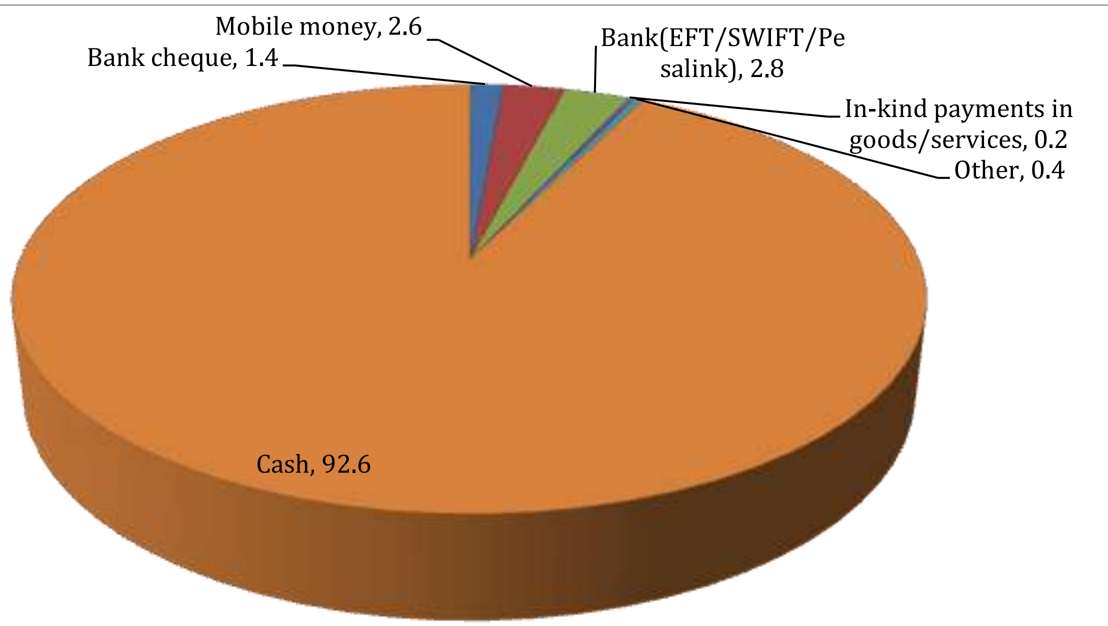

Figure 4: Chart of methods of payments used in the Agricultural sector (FSD, CBK & KNBS, 2019)

Cash Payments in Relation to Management of Coronavirus Disease (Covid-19)

The ongoing COVID-19 pandemic is another perfect example of what cash payments can do to an economy. Currently, Kenya has advised consumers to adopt electronic payment methods. This is in the urgent need to prevent further spread of the virus, given that physical money is extremely high risk as it is handled by many and ends up collecting germs in the long run. Potential spread of the virus through physical money has seen drastic measures such as waiver of fees applicable on bank account to wallet transfers, real time interbank transfers (Pesalink) and adjustment of limits. An example is Mpesa (Kenya's leading mobile money transfer network) waiving charges on transfers of amounts up to kes.1,000.00 and also raising per transaction limits from kes.70,000.00 to kes.150,000.00.

The above measures go a long way in safeguarding public health by preventing further spread of the virus. They however introduce financial risks to several players-banks will lose out on the NFI (non-funded income) that was expected from transactions. Mobile money operators on the other hand will lose revenue amounting to billions, owing to the foregone transactional fees. All these are consequences would have been avoided, should there have been proactivity by influencing the population to adopt cashless payment methods much earlier.

Use of physical money increases the spread of the virus, which in turn yields the need for drastic steps such as cancellation of flights, working from home, closure of several businesses such as taxis, and layoffs. Already evident is Kenya's leading airline (Kenya Airways), implementing pay cuts and unpaid leaves due to losses both suffered and anticipated, as a result of cancellation of flights to and from Guangzhou among other destinations. The flower industry is also hit hard as all exports to Europe-Kenya's leading customer-have been cancelled. This is as a result of not only the flight cancellations but also the worldwide lockdowns hence absence of street buyers. Internationally, companies are also seen to be under coercion to take dire unpleasant action points, such as Virgin Atlantic implementing compulsory unpaid leave. As the pandemic continues, the world will see more unprecedented measures implemented across different industries and businesses.

Evidently, there are significant losses as most businesses will miss out on income; banks will have increased unpaid loans, hence the need to dip into their provisions; importation and exportation will be interfered with, hence inadequate supply of goods and there could be death of citizens. Additional effects would be a strain on living standards owed to insufficient money or total lack of income; for those who live hand to mouth and employees on unpaid leave. Stock markets alike have experienced a plunge in returns, with most investors recording losses amounting to millions in just two months; a trend that is bound to escalate with time. All these staggeringly impact both the economy and the public negatively-outcomes that could be lessened if there was less use of cash, to supplement the other advisable public health safety measures.

METHODOLODY

The research methodology used in this paper was desktop study. It refers to presenting research findings on a topic using presently available facts from industry research reports, data, general information, analysis of historical literature, and other credible sources that provide information on the topic.

CONCLUSION

Use of cash as a payment method may seem very easy and convenient. Nonetheless, a lot is at stake for all users. In addition to indirect players who are equally affected such as the banks and the overall economy. Cash is very costly as it needs to be obtained either from the bank, mobile wallet, overseas account remittances or other virtual wallets. Other than this cost, there is need for security when moving with large amounts. Time-wasting also comes into play as the time taken to either make it to the ATM, bank, mobile money agent or the merchant to make physical payment, could be invested in a meaningful value-add activity. It goes without saying that banks are also affected in terms of needs for resources (human and technology) for cash handling, which amounts to financial implications and misplaced resources that would have been used for more business development.

All the above can be helped by simply moving one's money from their bank account to the bank account of the intended recipient. As a result, a lot of time, money and resources will be saved. The economy will also have less movement of money in cash, hence more financial inclusion and ease of payments, which in turn leads to economic development.

RECCOMMENDATION

From the above conclusion that cash payment is an enemy to economic development, the researcher recommended that there is need to adopt alternate methods of payments, and that mass awareness to the general public should be conducted if the Kenyan economy is to realize the objective and benefits of fully adopting a cashless economy.

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