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Attitudes of Polish households towards cash payments

Abstract. A growing number of countries are introducing far-reaching legal restrictions concerning the use of cash and are stimulating the development of cashless transactions. The tendency towards the gradual replacement of cash by electronic payments is observed all over the world, but in many countries, including Poland, cash is still most often used in retail payments.

The purpose of the paper is to identify the attitudes of Poles towards cash and their propensity to reduce cash usage in retail payments. Results of the research conducted so far among Polish households show that cash still remains the most frequently used form of payment in retail transactions, especially in low-value ones. In general, people living in villages, elderly people, less educated, with low incomes and non-working persons (unemployed, retired, students, etc.) pay in cash more frequently. Using cash in retail transactions is often just a custom which could hamper payment habits' change among Polish households.

Findings presented in the paper show that despite the relatively large openness of Poles to payment innovations, they are still not ready to resign from cash payments. High assessment of attributes of cash (which was recognized as the cheapest and the easiest to use form of payment) in comparison with instruments of non-cash payments, both traditional and innovative may be the reason for this.

Keywords: cash payments, payment innovations, payment habits, retail payments

Introduction

A growing number of countries are introducing far-reaching legal restrictions concerning the use of cash and are stimulating the development of cashless transactions. This trend is most apparent in Scandinavian countries. However, the tendency towards the gradual replacement of cash by electronic payments is observed all over the world. The era of cashless society seems to be closer and closer.

Poland is one of the countries in which people are strongly attached to cash, however, at the same time they are open to innovative forms of payments, such as contactless cards or mobile payments. Limiting the use of cash in such a country is a real challenge and requires answering many questions, including: What factors determine the choice of the payment instrument by Polish households? Where and what they pay for in cash? To what extent Polish households are ready to reduce the use of cash for the benefit of cashless payments, including the innovative ones?

The purpose of the paper is to try to answer these questions, which enables to identify the attitudes of Polish households towards cash and their propensity to reduce cash usage. The research held so far has not taken into account the innovative payment forms that may be cash substitutes in retail payments, so the existing gap is filled out in this paper. The first part of the paper includes the identification of cash payments' importance from the perspective of households. The second part includes the evaluation of Polish customers' attitudes to cash and non-cash payments. The third part is based on empirical research. The analysis of research data has enabled to find reasons for preferring cash payments in retail transactions and its role in such transactions in the nearest future.

Apart from findings of own examinations, results of other research concerning payment habits of Polish households and their attitudes to cashless payments conducted in Poland and abroad are used in the paper.

1. Role of cash in payments executed by households

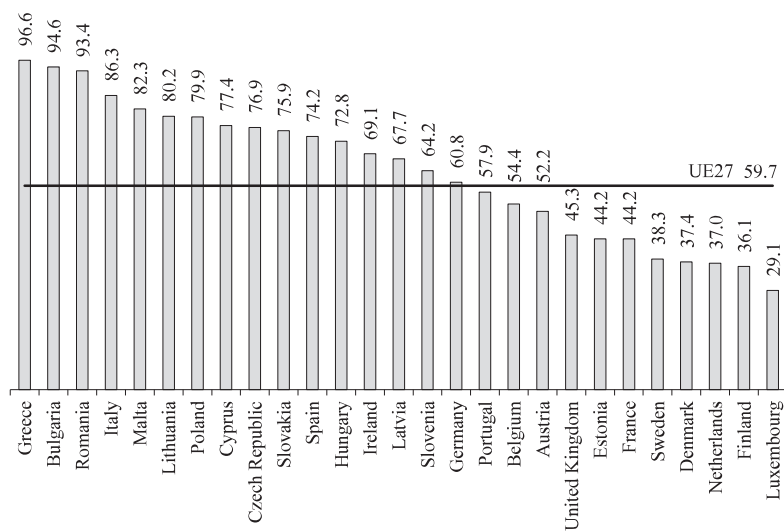
Households make many payments every day. Enterprises and natural persons are most often the parties to transactions conducted by them. Some of these payments, particularly for purchase of goods and services, i.e. C2B (Customer to Business) payments are executed in cashless form, however, most of P2P (Person to Person or Peer to Peer) transactions and a large number of payments for goods and services purchase, especially micropayments, are still the area of cash predominance.

Data collected by various institutions interested in cashless payments development in Europe prove that the role of cash in executed payments is increasingly smaller but still remarkable, and the situation in individual countries is really diversified. In 2004, according to the estimates of the European Payments Council, up to 85% of transactions executed in the area of the European Union were settled with the use of cash. Three years later according to EPC data, still as many as four out of five concluded transactions were settled in cash (*Improving Eurozone...*, 2007). According to Retail Banking Research, in 2008 the mean share of cash payments in the total number of retail payments for the countries of Western Europe was 70.5%, whereas for the countries of Central and Eastern Europe the rate reached 92.6%. The highest share of cash in retail payments was reported in Romania and Bulgaria, and Poland with the rate on the level of 90% was located right behind them (*Diagnoza...*, 2013, p. 35). Already at that time in some countries, particularly the Scandinavian ones, the process of fast reduction of banknotes and coins in circulation was observed. In 2008 in Norway, Finland and Sweden the share of cash payments in the volume of executed transaction fluctuated below 50% (Liikanen, 2008).

Four years later, in 2012, according to data from European Central Bank, the mean share of cash payments in the total number of retail payments for the countries of the European Union was 59.7% (Schmiedel et al., 2012, p. 22), which means that it dropped by over 25 percentage points in comparison with 2004, and by almost 11 percentage points in comparison with 2008. Poland was in the group of countries in which cash is still most important in payments, and its share in executed payments was close to or higher than 75%. Apart from Poland, this group included other countries of Central and Eastern Europe: Bulgaria, Romania, Lithuania, Czech Republic and Slovakia, and developed countries of

Southern Europe, such as Greece, Italy, Spain, Malta, and Cyprus.¹ The group of countries with a low share of cash in the volume of executed payments, fluctuating in the range between 30 and 40% was formed by relatively small, developed countries of Western Europe (Luxembourg, Denmark, and Holland) and Scandinavian countries (Finland and Sweden) – see Figure 1. It ought to be indicated that the distance between the country with the highest share of cash in the total number of executed transactions, i.e. Greece (96.6%) and Luxembourg, where this share was the lowest (29.1%), was huge and reached 67.5 percentage points. In Poland, belonging to the first of these groups, the share of cash in executed payments was almost 80%.

Figure 1. The share of cash in the volume of retail payments in 2011 (%)



Source: Schmiedel, Kostova, Ruttenberg (2012), p. 22.

These have been so far the most recent data showing the share of cash in retail payments (i.e. made with the participation of consumers) in European countries. Unfortunately, none of the institutions interested in the development of cashless payments and its promotion regularly publishes statistics presenting the

¹ In the case of the first mentioned group, apart from cultural determinants, this can result from a relatively short period of development of cashless payments, and in the second, from the fact that they are countries of developed tourism industry, among others.

role of cash in executed payments. This is quite surprising as the precise identification of the scale, distribution and trends of any phenomenon usually help in its management and limitation. In the near future, the importance of cash in retail payments should still be declining, however limiting its share in payments demands looking at the sources of inflow of cash to households, and the reasons why they prefer to pay in cash.

Sources of cash inflow to households may have primary or secondary nature. The former can comprise receiving salaries and/or social benefits in cash. The first situation is already rather rare and mainly concerns people employed in small companies, mostly private, and people working in the shadow economy. The second phenomenon is still quite common, and results from payment of retirement or disability pensions, benefits or financial aids that are still given to beneficiaries mostly in cash, not only because of their financial exclusion. Secondary sources of cash inflow are a result of customers' habits to use cash and are the consequence of the exchange of non-cash money into cash. They include for example withdrawal of money from ATMs, withdrawal of cash in the shop (the so-called cash back), giving pocket money, etc.

If so, then the following two types of actions are necessary to limit the use of cash:

- common payment of remuneration is conducted in a cashless way, stimulated, among others, by regulatory steps (for example administrative order of paying salaries and all social benefits in a cashless way) and the greater engagement of public administration in promoting cashless payments as well as reducing the shadow economy,
- changes in payment habits, which demands discouraging consumers from exchanging non-cash money into cash and encouraging them to make non-cash payments.

In order to make activities in the second sphere effective, it is necessary to have knowledge about consumers' attitudes towards cash and cashless payments, as well as determinants affecting their evolution.

2. Attitudes of Polish households towards cash and other payment instruments

It ought to be mentioned that the final decision concerning the choice of a payment instrument in a particular transaction is always made by the consumer. Its choice is affected by many determinants. The most important include simplicity of use, speed, cost and security associated with particular payment instrument,² although others factors, such as loyalty programs linked with selected payment instruments are also indicated.

Cash as well as various forms of cashless payments including traditional ones (credit transfer, direct debit, debit card) or innovative ones (online payments, mobile payments, virtual currency, etc.) can be applied to payments made by households. However, not every form of cashless payment is substitutional for cash, and the scope of their application is also different. It is difficult to find one instrument that would be as universal as cash and could be used to make payment almost everywhere, to everyone and for everything.

As it has been aforementioned P2P and C2B payments, especially micropayments are the sphere of the predominance of cash. C2B payments are the subject of further interest because they have a mass nature and determine payment habits to the largest degree. In these type of payments, debit and credit cards are the most common substitutes for cash. In face-to-face transactions, the main alternative to cash are contactless cards, and in remote transactions (particularly online purchases) – credit cards. However, in the case of remote transactions this competition is larger; apart from credit cards, payment can be made for example by credit transfer or debit card.

However, in recent years a lot of new payment forms have occurred. They constitute more and more important competition towards cash in both types of transactions. In face-to-face transactions, mobile proximity payments can be applied, and in remote transactions, mobile payments, online payments (that have already gained popularity) or virtual currency such as bitcoin can be used. However, it does not mean that each of these forms will become as popular as cards or cash. For now, they are only in the early stage of development, and

² These determinants are broadly described in Harasim (2013). See also, among others: Stavins (2001), pp. 21–31; Humphrey, Kim, Vale (2001), pp. 216–234; Humphrey, Willeson, Lindblom, Bergendahl (2003), pp. 159–174; Jonker (2007), pp. 271–303; Ching, Hayashi (2010), pp. 1773–1787; Simon, Smith, West (2010), pp. 1759–1772.

their dissemination is determined by a number of factors that result not only from a specific features of payment market, but also related to both providers of payment services (banks and other entities), and their users (consumers and merchants).³ A lot of payment innovations are not reached a critical mass, which caused the failure of many systems of electronic purses at the turn of the 20th and 21st centuries.

However, the expanding range of new payment instruments does mean automatically that consumers will be willing to use them in retail payments.

Studies, the subject of which are the attitudes of Polish households towards cash and cashless payments, have been rare until recently. However, for several recent years, a growing interest in this subject has been observed. Consequently, more and more complete knowledge about payment habits and preferences of households in Poland is available. One of the first studies, conducted by D. Maison at the request of NBP (National Bank of Poland) in 2010, showed that many Poles at that time were generally demonstrating a “worship of cash”. They were mostly not using cashless payments or using them only rarely. They indicated the lack of limitations in payments, possibility of real control of expenses, the pleasure of contact with cash, comfort and speed of payment as the greatest advantages of cash payments. Cash was the preferred payment form in C2B transactions – 64% of Poles used cash significantly more frequently than payment cards while making payments for goods and services. Willingness to pay in cash was growing together with the decrease of the amount of payment – cash payments were definitely predominant in transactions of the value lower than or equal to PLN 50. Cash payments were preferred mainly by the elderly⁴ or the youngest people (not working yet), with a low level of education and income, who often did not work (the unemployed, pensioners, students) and people living in villages or small towns (Maison, 2010, pp. 59, 82).

More detailed research about the importance of cash and other payment instruments in retail transactions (face-to-face and remote) and payments for bills was conducted by author team including M. Polasik, J. Marzec, P. Fiszeder and J. Górka in cooperation with TNS Pentor on the turn of 2010 and 2011. The study confirmed predominant role of cash in face-to-face transactions. At that time

³ Determinants of diffusion of payment innovations are broadly described in Harasim (2012), pp. 243–252.

⁴ Special inclination of elderly people to pay in cash was proved by the results of a next research conducted on Poland-wide sample of people aged over 60 – see Maison (2012).

89.1% of transactions were executed with its use, and in 10.5% cards were used (in other cases payment was made in installments, with the use of vouchers or credit transfer). Cash was mainly used in transactions made in small grocery stores, stands, urban transport and on marketplaces. Cash was also most often used in bill payments, but also, which is surprising, in online transactions. In general, people living in villages, elderly people, single people, less educated and those approaching new technologies with caution paid in cash more frequently. The will to keep the payment anonymous was an important reason why cash was preferred (Polasik et al., 2012). This and other studies conducted by M. Polasik together with the team prove that preferring cash is associated not only with financial exclusion (having no bank account) or insufficient level of financial education, but it may also be a consequence of informed choice.⁵

The research described above show consumers' declarations concerning preferred methods of making payments. However, declarations do not always correspond to consumers' real behavior. A complex research of payment habits in Poland conducted at the turn of 2011 and 2012 by T. Koźliński from NBP was the research which for the first time allowed for confronting the declarations with reality. The research applied the method of the computer-assisted personal interview (CAPI) and diary method.⁶ The study confirmed strong attachment of Polish households to cash and their high propensity to use it in retail payments; it turned out that 81.8% of this type of payments was made in cash, cards were used only in 16.5% transactions, and in 1.6% credit transfer was applied. As regards the value of payments, the share of cash was lower and reached 63.7%, the share of cards was 30.7%, and the share of credit transfer was 5.5%. Cash was mainly applied in micro-payments⁷ that constituted 42% of all retail payments in Poland and made 10% of their value. Similarly to previous research of attitudes of Polish households towards cash and cashless payments, it turned out that cash was preferred by people living in villages, but also in big cities (up to 100,000 of inhabitants). The largest number of people paying in cash was in 55–64 and

⁵ M. Polasik called this phenomenon a “financial self-exclusion” – see more in: Polasik, Piotrowska (2014), pp. 316–325.

⁶ It is considerably a more detailed and reliable method of collecting data than methods used before. It is based on the fact that the respondents taking part in the diary research write down precisely every expenditure while registering the amount of payment, method and place of payment. The applied method allows for registering all payments, also these for small amounts, repeated or non-standard ones, which the respondents did not remember in other surveys.

⁷ They were defined as transactions up to PLN 20.

over 60 age groups (regardless of the amount of payment). The tendency to pay in cash was inversely proportional to the level of education. Payment was made in cash mainly for shopping in small grocery stores, in stands, on marketplaces, in P2P payments and while paying for services. It was used the least frequently in online transactions and at petrol stations, which somehow contradicts the results of the studies conducted by M. Polasik, J. Marzec, P. Fiszeder and J. Górka. The research additionally shows that not only people who do not have cards pay in cash, but also cardholders, even in places accepting cards (26% of total payments). This confirms M. Polasik's thesis according to which using cash is not always forced by the lack of possibility to make payment in a cashless way. Cardholders who did not use cards in places accepting them, most often claimed that cash payment was more convenient (38%) and that cash allowed for better control and assessment of expenses (20%). On the other hand, the belief that making payment in cash is faster was the main argument of the people who did not have payment cards.

The results of research conducted among Polish households show that cash is still the most frequently used form of payment in retail payments. Thus the questions why this is happening and whether we can expect a rapid change of payment habits of Polish households ought to be answered.

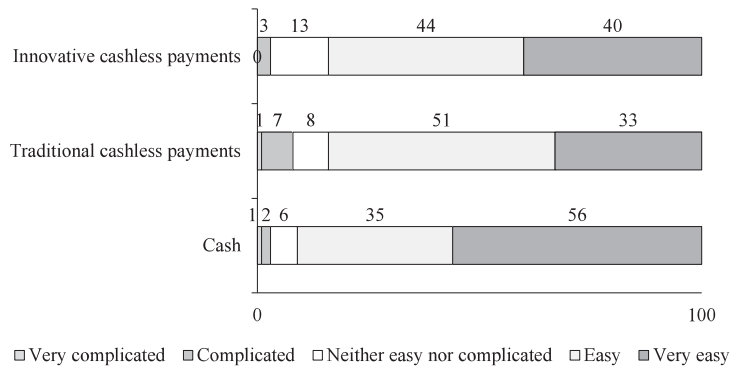
3. Reasons why cash is preferred and its future in retail payments

Few studies conducted so far explain the reasons why cash is preferred in B2C payments. M. Polasik, J. Marzec, P. Fiszeder and J. Górka compared cash with a debit card comfort, speed, cost and security, and it turned out that cash was assessed much better than a debit card. However, it should be mentioned that between 36 and 41% of the respondents could not compare a debit card with cash in terms of none of these features.

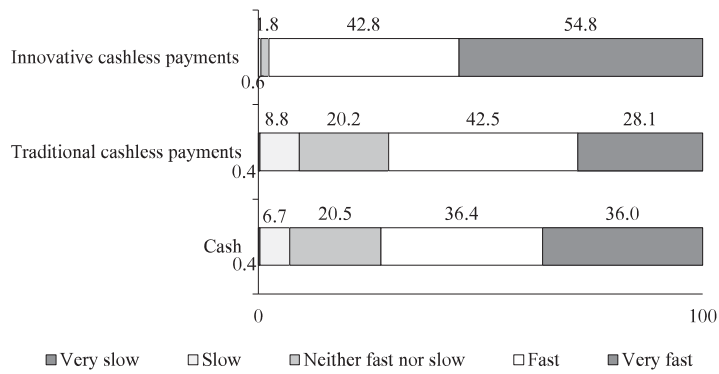
In 2013, during a research of attitudes towards saving in Poland, which has been conducted since 2008 by Kronenberg Foundation, the respondents were also asked why they chose payments in cash. It appeared that 41% of the respondents paying in cash were not able to give any specific reason for that. This proves that often paying in cash is just a habit. Others who were able to state why

Figure 2. Assessment of various forms of payment regarding ease of use, speed, security and cost (%)

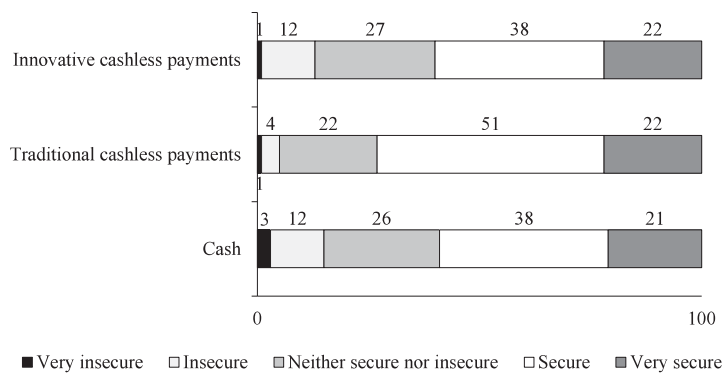
Simplicity



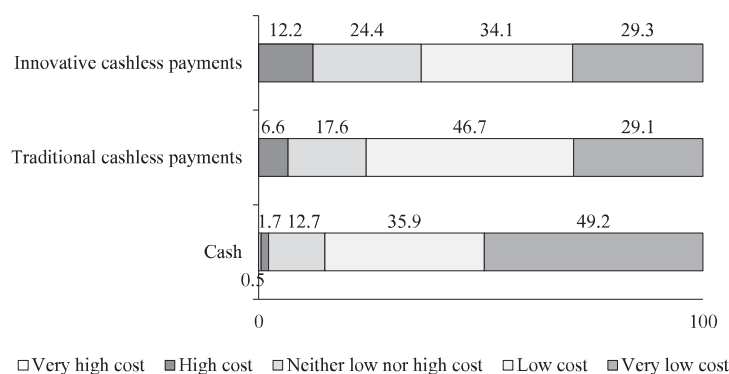
Speed



Security



Cost



Source: own work.

they paid in cash most frequently claimed that it is most convenient (29%) and the most secure (28%) form of payment. 18% of the respondents paid in cash because of the lack of the possibility to pay by card, and 17% claimed that it helped them control expenses better (*Postawy...*, 2013, p. 29).

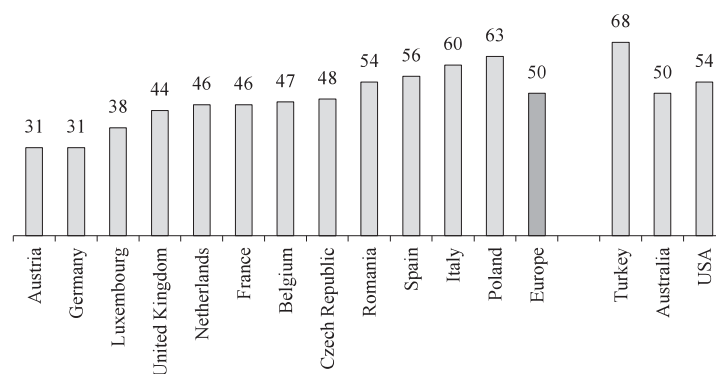
The research held so far has included only the comparison of cash and debit cards. It has not taken into account other payment instruments including innovative payments that may be the cash substitutes. Findings resulting from these examinations have not allowed assessing possibilities to reduce cash usage in retail payments in the nearest future. This gap is fulfilled by research held by J. Harasim and her team. During the research, the most complex comparison of cash with traditional and innovative payment instruments⁸ in terms of cost, security, speed and convenience (ease of use) has been done. The respondents considered cash to be the cheapest and the simplest in use form of payment. In terms of security cash was assessed worse than traditional cashless forms of payment, but similarly to innovative payment instruments which can be a substitute for it. Innovative payment instruments were assessed as the best regarding the speed of payment. However, this does not seem to be a sufficient reason to change existing payment habits – see Figure 2.

⁸ The group of traditional cashless payment instruments included transfer order, direct debit and payment card, whereas innovative payment instruments included e-transfer, payment card with proximity function, proximity payment by mobile phone, mobile payment and on-line payment.

The majority of the respondents thinks that innovative payment instruments can become the greatest competition for cash, not only in low-value transactions (30.1%), but in all types of payments (49.1%). Despite this, 43.6% of the respondents stated that it is impossible for cash to be replaced by them, and the majority of those who recognised such a possibility, stated that it might happen only in 10–20 years' time. However, when majority of the respondents were asked straightforwardly if they are ready to resign from cash payments, slightly more than a half stated that they could see no such possibility, or that it was not possible in the nearest future, 34% declared they could do this but under some conditions, and only 15% would be ready to do it immediately (Harasim, 2015, pp. 17–30).

Therefore, despite the relatively large openness of Poles to payment innovations, the propensity to resign from cash payments is low. Increasingly rapid development of e-commerce and remote payments could be the factor that may have a significant impact on limiting the share of cash in retail payments. This thesis seems to be confirmed by an international research conducted by ING and focussed on mobile payments. The respondents from 15 countries were asked how many of them agreed with the statement that they used cash less frequently than a year before. In 2014 such a statement was confirmed by the average of 49% of European consumers and 50% of Poles. The year after, less frequent use of cash than a year before was declared by a half of European consumers and 63% of Poles – see Figure 3.

Figure 3. Share of people declaring less frequent use of physical cash (%)



Source: *ING International...* (2015), p. 21.

Conclusion

The analysis conducted in the paper showed that reducing the use of cash in retail payments of households in Poland will not be easy. Although Polish households less often use cash, they are still not ready to resign from cash payments. Additionally, in comparison with other countries of the European Union, the share of cash in retail payments in Poland is relatively high and cashless payments are relatively less popular. High assessment of attributes of cash in comparison with instruments of cashless payments, both traditional and innovative may be the reason for this.

Studies aiming at searching for reasons for such frequent use of cash in retail payments by households in Poland are not very numerous. However, they show that paying in cash often happens to be mindless. In the case of such people, change in payment habits can be achieved through appropriate educational actions and promotion of cashless payments. However, it will be more difficult to discourage cash usage among people who choose it because, in their view, it is easy to use and cheap. Additionally, the difficulties are strengthened by a remarkable rate of people who appreciate the anonymity of making payments. All these factors lead to the conclusion that the payment habits in Poland will not change significantly in the nearest future. In further perspective, a change of this situation will be supported by the relatively large openness of Polish people to payment innovations, such as contactless cards, mobile payments or online payments, and the rapid pace of their dissemination.

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Postawy polskich gospodarstw domowych wobec płatności gotówką

Streszczenie. Coraz większa liczba krajów wprowadza daleko idące prawne ograniczenia w użyciu gotówki i stymulują rozwój obrotu bezgotówkowego. Tendencja do stopniowej eliminacji gotówki na rzecz płatności elektronicznych jest obserwowana na całym świecie, jednak ciągle istnieją kraje takie jak Polska, w których gotówka nadal jest najczęściej używaną formą płatności w transakcjach detalicznych.

Celem artykułu jest identyfikacja postaw polskich gospodarstw domowych wobec gotówki oraz ich skłonności do ograniczenia jej użycia w płatnościach detalicznych. Dotychczasowe badania przeprowadzone w Polsce pokazują, że gotówka jest wciąż najczęściej używaną formą zapłaty w płatnościach detalicznych, zwłaszcza w mikropłatnościach. Gotówką najczęściej płacą osoby starsze i najmłodsze (jeszcze niepracujące), o niskim poziomie wykształcenia i dochodach, często niepracujące (bezrobotni, emeryci, uczniowie), mieszkające na wsi lub w małych miejscowościach. Płacenie gotówką jest często bezrefleksyjne, co będzie utrudniać zmianę zwyczajów płatniczych gospodarstw domowych. Wyniki badań własnych dowiodły, że Polacy, mimo dużej otwartości na innowacyjne formy płatności, wciąż nie są gotowi zrezygnować z płacenia gotówką. Powodem tego może być wysoka ocena atrybutów gotówki (zwłaszcza prostoty jej użycia i kosztu) w porównaniu z instrumentami płatności bezgotówkowych – zarówno tradycyjnymi, jak i innowacyjnymi.

Słowa kluczowe: płatności gotówkowe, innowacje płatnicze, zwyczaje płatnicze, płatności detaliczne