



Have You Reviewed Your Institution's Cash Strategy Lately?

payments ATM

Summary: The rise in digital payments and decrease in cash usage, prompted by the pandemic, have left their marks. These trends are only continuing. Community financial institutions should take this time to review cash transactions, along with the cash in branch vaults, with these trends to ensure their cash strategy is up-to-date.

Did you know that a farm in DE actually processes old US bills as compost? Four tons of unusable bills are mulched every day. Talk about money disappearing!

As bills are disappearing on a farm, they also seem to be disappearing from the hands of consumers. Cash usage has certainly changed, especially with the rise of digital payments during the pandemic. A shift back doesn't seem to be in the cards. If you haven't lately, it is a good time to review your cash strategy to ensure that you not only have the appropriate amount of cash, but also the right bill denominations.

Cash usage trend. Consumers who said they use cash at least once a month dropped to 74.7% in 2020, down from 82.4% in 2019. This means that one-quarter of consumers are hardly using any cash at all these days. The number of small transactions using cash also dropped — by 40% YoY — according to the Federal Reserve Bank of San Francisco's annual payment study.

Excess cash in vaults. But while consumers are using less cash, many financial institutions, including CFIs, have been keeping their vaults stocked. Many of these institutions experienced a cash spike during the pandemic as even fewer people wanted to handle cash for sanitary reasons, leaving more money sitting idly in the vaults. Federal Reserve tracking statistics show that the US banking industry had been holding a total of about \$75B in cash up until 2020, when cash holdings jumped to more than \$100B during the pandemic summer of 2020. The total has since been drifting back down toward the \$75B average. Yet that total may be considerably higher than what CFIs need to meet customer demands in the near future.

Cost of cash. With more cash than needed, CFIs are also incurring more costs. McKinsey has reported that the cost of cash accounts for 5-10% of operational budgets for financial institutions.

Cash strategy review

How much? Smaller branches tend to carry perhaps up to \$50K in cash, but even \$20K may be a lot of cash in the near digital future. Start closely reviewing how many cash transactions occur within periods of time (monthly & quarterly), accounting for any business seasonality. Likewise, watch digital transactions to see if they are stabilizing, rising, or maybe even dipping, since this trend will likely affect cash usage.

Bill denominations. In addition to reviewing how much total cash to have on hand, the number of bills should be checked too. Small bills are not used as often and as prices go up, larger bills will need to be used. More than 80% of bills in circulation are now \$100.

The right mix of bills is especially important at ATMs. The ATM that typically dispenses \$20 bills may need to consider using higher denominations like \$50 bills. At some Chase and Bank of America branches, you can already get \$100 bills at the ATM. Bank of America ATMs offer a choice: let the machine decide the denominations or the customer chooses. The machine will tend to dispense a higher bill(s), if it works for the withdrawal amount.

Bankers know how much cash they have and how much cash is dispensed. But, it is important to review these numbers along with customer cash usage trends. Watch, review, and assess for the best cash strategy for your institution.

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ECONOMY & RATES

Rates As Of: 12/03/2021 07:40AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.05	0.00	-0.04
6M	0.09	-0.01	0.00
1Y	0.27	0.02	0.16
2Y	0.65	0.08	0.53
5Y	1.23	0.07	0.87
10Y	1.47	0.02	0.54
30Y	1.79	-0.01	0.14
FF Market		FF Disc	IORB
0.08		0.25	0.15
SOFR		Prime	QBFR
0.05		3.25	0.07

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