

Cash Remains King

In the not too distant past the South African consumer could have competed each week not only over their favourite sport results but also over the sheer number of pre-approved credit cards and cellular contracts that they were offered. During this credit festival many consumers were led astray and accepted unclear repayment terms, hidden costs and downright reckless credit extension. Those freewheeling offers sadly resulted in many consumers living a champagne lifestyle funded mostly on beer money, creating one of the most disastrous financial hangovers in recent history.

Enter two important events. Locally the National Credit Act, restricting reckless lending and placing the onus on the lender to avoid precarious consumer balance sheets in favor of those who may actually repay their loans. Internationally the credit crunch froze the money supply mechanism resulting in the collapse of stalwarts of corporate banking, all on the back of recalcitrant lending practices.

The credit crunch sent the world reeling and has brought with it new political phrases such as "austerity measures" that has forever changed the economic landscape of Europe and shook consumers into a credit avoidance mechanism resulting in a new found enthusiasm for the old adage that "Cash is King".

The hoarding of cash piles by corporate companies in the aftermath was echoed in the never advancing credit extension numbers of consumers, favouring a tightening of the belt as never seen before in our new economy, and a welcome return to the sober frugality of budgeting and cost cutting.

Locally, cash demand has been on the increase as statistics show average cash withdrawals have increased over previous years. The Spark Cash Index, arguably the best indicator of cash spending patterns in South Africa, clearly reflects the trend towards an increased demand for cash with historical data obtained from the trading records. The Spark Cash Index shows that over the past 2 years, the average cash withdrawal value has increased from R369 in Oct 2008 to R408 in October 2010. The index has also shown that consumers vary the amount of cash they withdraw based on prevailing economic conditions, particularly variations in the prime interest rate.

Marc Sternberg, MD of Spark ATM Systems, SA's leading independent ATM provider and publisher of the Spark Cash index commented: "The continued upward trend in cash withdrawal averages in South Africa, having peaked during the recent FIFA World Cup Soccer Tournament period, is testament to two main factors, namely continued relaxation of monetary policy by the SA Reserve Bank affording consumers more disposable income as well as the continued non-committal stance of the average consumer when it comes to credit."

Insightfully the fastest growing average cash withdrawal numbers are not coming from the developed world but from the developing world, with Africa and the

Middle East ruling the roost with an average of 3,914 transactions per ATM, more than double the average in North America. Adds Sternberg, "Judging by ATM transactional activity the developing world appears to be a much more cash inclined society; it's therefore no surprise that the biggest retailer on the planet, Wal-Mart, is moving to South Africa and the rest of the continent to get in on the action."

Some commentators have called the recent financial crisis a developed world crisis rather than a world crisis, and judging by the rate of recovery that the developing world has maintained one could agree.

With an interbank cash withdrawal system as evolved as South Africa's, increasing demand for cash and cash-related service and the fact that many millions of South Africans still unbanked the future bodes well for those operating in the domain of cash.

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