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Cancellation Of Cash In Russia: Benefit Or Provocation?

In October, at the Moscow Financial Forum Alexei Moiseyev, Deputy Head of the Ministry of Finance, advised citizens of the country to quit keeping their savings in cash, and not only in foreign currencies, but in roubles as well. A month before this, Georgy Kornilov, Deputy Director of Goznak (The National Mint), had said that a discussion on relevance of cash in hand in Russia might start by 2030. He mentioned this in his speech at the “Payment Business and Currency Circulation - 2024” forum.

Even today only a little over 10% of all payments are made in cash, which makes cash maintenance expenses very costly for the banking system. If the trend persists, the question of required cost optimization for printing, transporting and processing of coins and bills will arise in future. The BM Magazine asked the experts, what are the key risks of abandoning physical cash and whether we need to choose between convenience and security.

Away From Cash

In the first half of 2024 the volume of cash money in circulation in Russia decreased by ₽570,3 billion, which, according to the CBRF, is the record value since 2015. The reason for this were high deposit rates: people were more eager to bring their money to banks and deposit them at high interest rates than the year before.

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The trend of people abandoning cash money is demonstrated by independent research as well. According to a poll by Anderida Financial Group, almost 70% of Russians no longer carry physical money on them. And the share of Russians, preferring non-cash payments, has more than doubled since 2020. Authors of the poll believe that cash is used less not due to attractive savings offers by banks, but due to common use of easy and convenient payment technologies in Russia.

Just in 2020 alone the Central Bank spent ₽3,8 billion on minting 1,3 billion coins. It is no wonder that top Russian officials have started considering the future of cash money under these conditions.

“I think that in 2030, at least, a new discussion on the necessity of cash money circulation in principle will be brought into the public realm”, — emphasized Georgy Kornilov. According to the representative of Goznak, this does not mean that cash will be done away with in Russia over the next six years — the issue in question is a comprehensive discussion of how necessary is this form of monetary circulation.

At present non-cash payments make up about 90% of all payments. This makes bill and coin production more expensive for the financial system. Under these conditions, the issue of optimizing expenses for cash money circulation and supporting relevant infrastructure will arise in just a few years, underlined the representative of Goznak.

In the opinion of Anastasia Khrustaleva, IC Fontvielle Vice-President, the shrinking share of physical cash in payments is a natural process, determined by digitalization. It all happens naturally, this is why no regulatory measures whatsoever are required in this area. And the process is picking up speed. For example, in 2017 59% of Russians preferred cash in their payments for goods and services, in 2021 there were only 33% of those, and by results of 2023 there were just 24%.

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“Face Pay” And Tech Evolution

Declining demand for physical money is spurred by wide-scale availability of non-cash interaction formats. For instance, 75% of Russians use bank cards, 48% choose mobile operator transfers and online banking, and 28% prefer the Faster Payments System (FPS). And these numbers keep growing every year. For example, just in one year the volume of transactions and amounts, made through the FPS, had doubled, if we compare the results for Q2 2024 and 2023. Moreover, the Bank of Russia is testing the “third” form of money — the digital rouble. Its circulation will also reduce interest in cash money. Last year the regulator surveyed the attitude of Russians to various payment means, and it turned out that only 7% of Russians are staunch supporters of physical money circulation.

“Speaking of monetary evolution, we need to differentiate their development as a payment medium and improvement of

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payment technologies, — continues the discussion Alexander Razuvayev, member of the Supervisory Board, Guild of Financial Analysts and Risk Managers. — These are two different directions of the technology evolution: they will run in parallel, but at a different speed". So, for example, speaking of payment technologies, today many services, which back in early 2000s seemed something straight out of science fiction, are available to Russians. Our countrymen are freely using online banking, buying products on investment platforms in one click, purchasing real estate with just a personal photo and electronic signature, paying for goods at cash registers with their "smartphones". Time will come, when no physical carrier whatsoever will be required, since in terms of technology "payment by face", the so-called Face Pay, has already been implemented — it is a payment service, based on biometric data. The Moscow Metro started testing this technology back in the fall of 2019 at several stations, and in October 2021 it was launched at all metro stations in Moscow. In September 2022 this option became available at the Moscow Central Circle (MCC).

Truth be told, as shown by practice, it has its downsides too. Biometrics are personal data, and citizens understandably ask questions, where this data is stored and could it be stolen from relevant applications to be used with ulterior motives. Now modern technologies enable creation of a "digital copy" of a person, though today it is mostly done to celebrities, but it is obvious that very soon similar software, when it becomes cheaper, will be used by fraudsters. There are other risks too: we may recall a popular joke, when a woman, hung over after an office party, tries to make bank transactions via Face Pay in the morning, but no bank app would recognize her "crumpled" face. So, cards, online transfers and cash will remain in the future, existing along with biometrics, the analyst is sure.

High Interest Rates As Stimulus

The key trend of the latest three quarters in Russia has been marked by a spike in retail savings, caused by the rising key rate of the CBRF, only logically leading to a reduced volume of cash on hand with those Russians who prefer to make extra capital via higher interest rates, while the opportunity is available. The cash on hand portion of money supply has started flowing into banks. So, retail customer savings in banks in October went over ₽51,8 trillion, demonstrating record growth rates over the last 14 years. It turns out that the high key rate drew increasing atttention to the discussion of feasibility of cash.

"In principle, cash isn't a necessity: in our country everybody has been paying with cards or online for a long time, —Alexander Razuvayev continues the discussion. — It's a different matter that every Russian citizen should have a choice of a specific way

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of payment for a product or a service. This is the reason for which cash should not be canceled in 2024, or even by 2030. In future physical money will indeed become something exotic, but it should be available. Moreover, I believe that some cash settlements will still be present in the future, for example, in use with the shadow sector. Furthermore, I support denomination at the rate of 1 to 100, which will allow to bring kopecks into cash circulation and to raise the status of cash money in Russia".

However, it is obvious to everyone that card payments have naturally ousted cash payments over the latest years, added the analyst. When the digital rouble enters circulation, the trend for abandoning physical bills and coins will only grow stronger.

At the same time there is an opinion that complete cancellation of cash may lead to negative consequences, such as restriction of free choice and state control over financial transations of Russians.

"Possible cancellation of cash money is bad news for consumers, — says Dmitry Yanin, Chairman of the Board of the International Confederation of Consumer Societies (ICCS). — Unfortunately, the situation with personal data protection in Russia is far from perfect. Often there are data leakages from various entities, providing services to customers, and this is why as soon as we start talking about non-cash payments, we should keep in mind the probability of massive personal data leaks. Cash allows people to pay for services and goods without leaving a track of information, which could be used by fraudsters. I would be cautious about voicing the idea of cash cancellation, until all issues, related to harmonization of Russian laws with laws of other countries on personal data protection, are resolved, until major fines for data leakages are introduced and return of funds, stolen by fraudsters, is guaranteed to people in full. Currently the pivot to digital tools may involve not only loss of money, but also of all of your private life".

When we speak of cash circulation and parallel development of digital tools for payments, this is a normal combination. It enables people to make decisions based on what is more important to them: convenience, for example, when using cards, or the sanctity of private life, underlined the human rights advocate.

According to Andrei Loboda, economist, BitRiver communications director, the issue of whether cash will be abandoned in ten years or not is a malicious attack or a provocation to create panic. It is obvious that there will be no cancellation of cash money whatsoever in 20 or even more years. It's another matter that over the longer term there indeed may be a discussion of a further format of non-cash money, after the state digital rouble is launched into circulation.

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