

Cash remains king in Chile but its days could be numbered

March 26 2015, by Bernardo Batiz-Lazo And Juan Felipe Espinosa



In short supply. Credit: Sauce Babilonia, CC BY-NC

For more than a year now, Chileans have endured a crisis of cash access. Despite global moves toward new forms of payment such as contactless and mobile transfers, the crisis in Chile highlights the continuing importance of ATMs in today's payment ecosystem for many people worldwide – particularly those with lower incomes.

Cash is used by the majority of Chileans to pay for most things – from everyday necessities like food, drink and transport to monthly rent and the odd weekend treat for the family. So a lack of cash prevents Chileans at the base of the economic pyramid in particular to go on with

their daily lives. Borrowing money [through someone else's credit card](#) is also a common practice, where the money loaned on credit is repaid in cash.

Also, ATMs function as more than just a hole in the wall cash dispenser in Chile. According to a study by Bain & Company in 2013, 25% of all retail interactions with banks took place through an ATM (while 55% were through a computer or mobile phone, 12% in a bank branch and 8% through a land line or other means). This is why an 11% reduction in the number of ATMs, or a decrease of 1,100 machines since 2012 has [led to social unrest](#) – ATMs are crucial to the wider cashflow ecosystem.

Cashflow problems

The huge decrease in ATMs in the last couple of years is a result of many banks' unwillingness to assume the increasing [costs of tighter security](#) and [new guidelines](#) stipulating that they be in operation 95% of the time. The government has also put a freeze on the [interchange fee](#), which helps banks cover their costs.

Whatever the reason, Chileans are not happy about it. Complaints mounted across the country throughout 2014, particularly from low-income earners on the periphery of large cities such as Santiago, Valparaíso and Concepción. These are people that don't have access to a computer, tablet, smart phone and, in some cases, even the internet.



People on the periphery of cities like Valparaíso are worst affected. Credit: Mariano Mantel

Faced with increasingly large numbers of inoperative or empty machines as well as banks' unwillingness to replenish cashpoints in the evenings or at night due to a series of robberies, people were reduced to only being able to access cash and the other services provided by ATMs during banking hours – very inconvenient for people with day jobs.

Politicians jumped on the bandwagon – the topic was headline news almost every day by November and has remained at the top of the political agenda since then. Banks eventually responded to the public outcry by pointing to the rising cost of operating and replacing machines, due to repeated attacks by gangs of thieves that empty the machines and render them inoperative.

Increased access

Chile has done a great deal in recent years to improve access to financial services for its citizens. In 2007 the government made simple current accounts easily available to all the adult population, linked to a debit card and each person's tax reference number. [Recent estimates](#) show there are more than 4m of these accounts in active use in a country with 16m inhabitants.

Almost half of these account users are without access to any other banking product; these are typically low-income individuals, [73% of whom earn, on average, US\\$320 or less per month](#) and many of whom live in remote rural locations.

This scheme was largely made possible by Chile's proliferation of ATMs. The country was once a Latin American hotspot for the machines. In 1995, banks doubled the number of cashpoints to 1,032 units – and growth continued until reaching a peak of 9,238 devices in 2012.

A long-term trend?

According to London-based Retail Banking Research, other countries where the number of ATMs fell more than 10% between 2008 and 2013 included Denmark, Greece, Norway and Spain; while the Netherlands and Sweden lost between 5% and 10% of total units in the same period. It is not clear whether these losses are part of a long-term trend, but use of cash in Nordic countries is so low that they are being heralded as [cashless societies](#) while Spanish banks have suffered a steep [consolidation](#). All these countries have very different economies to Chile.

Other payments forms [are on the rise](#) in Chile. While cash transactions increased by 1% in 2014, card payments increased by 3% and electronic transactions increased by 14%. Nonetheless, cash remains vital for

57.2% of the population.

And, even if transaction volumes decrease from current levels, for the foreseeable future the ATM will remain a focal point for many commercial establishments in Chile as everyone takes cash. Not only does it constitute around 3.4% of Chile's GDP (as opposed to less than 2% of GDP for the European Union), but it is the payment method of choice for the country's poor. And there will be a need for a cashpoint as long as this is the case.

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