

A note on changing payments behaviour in the South African economy

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Payments behaviour is of considerable importance in the analysis of economic developments and policies. The turnovers in various payments streams can be used to gauge the level of economic activity, while shifts between the different payments streams may signal structural changes in economic behaviour. Turnovers in selected payments streams have been monitored by the Reserve Bank over many years, and certain important series on this matter are published on page S-13 of the *Quarterly Bulletin*. This note aims to highlight a number of notable structural developments in selected payments streams.

As shown in the accompanying graph, technological and other developments have led to substantial changes in the South African public's payments behaviour during the past few years. The increased availability of automated teller machines and credit cards, security considerations and a relatively stagnant economy caused downward pressure on the real or inflation-adjusted¹ level of notes and coin demanded by the public (persons and institutions outside the monetary sector). Whereas data on the value of notes and coin in the hands of the public are readily available, little can unfortunately be said about the number of transactions in which notes and coin change hands. However, the mechanically calculated income velocity of circulation of notes and coin (defined as the nominal value of gross domestic product divided by the value of notes and coin in the hands of the public) has, on balance, risen somewhat since late 1990, indicating that notes and coin in circulation increased somewhat less than proportionally to the rise in the value of domestic production.

The bulk of cheques deposited with South African banks is processed by the Automated Clearing Bureau (Pty) Ltd (ACB) through its processing centres in Johannesburg, Cape Town, Durban and Port Elizabeth. ACB data indicate that the number of cheque transactions has remained virtually unchanged at a level of more or less 335 million per annum over the past six years. This is largely a reflection of the increased popularity of card-based and magnetic tape transactions and the disincentive effect of cheque fraud and related irregularities.

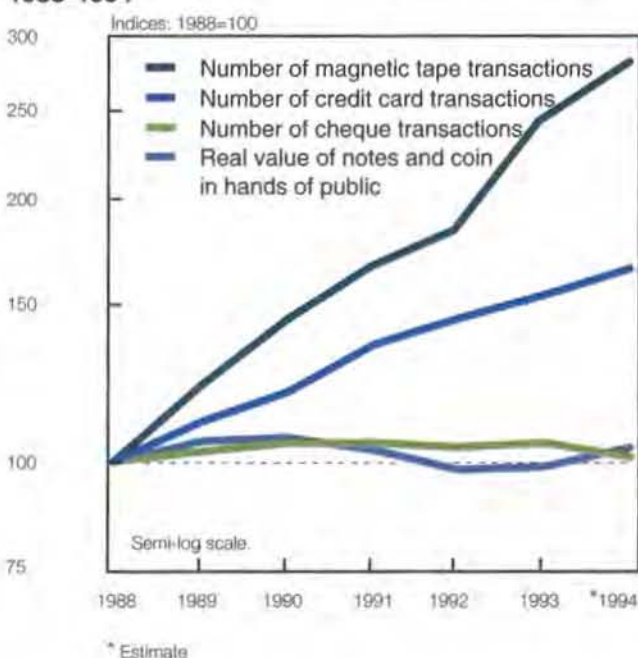
Credit cards have gained considerable ground as a means of payment over the past six years, with the number of credit card transactions processed rising by more than 60 per cent from 1988 to 1994². The convenience of not having to carry large amounts of

cash, the fact that no interest is charged on credit card debit balances arising from purchases provided that the balance on the card account is settled timeously, incentives such as automatic insurance linked to the use of such cards, a strong marketing drive by certain banks, and risk and status considerations, count among the factors which have contributed to this rapid growth.

The most remarkable growth has been recorded in magnetic tape transactions, the number of which has increased by 176 per cent from 1988 to 1994. Employers increasingly choose to pay their employees' salaries "directly" into their bank accounts rather than using cheques or cash. This "direct" payment consists of the simultaneous debiting of the employer's bank account and crediting of each employee's bank account, usually involving several banks. It is initiated by entries on a magnetic tape which is processed by the ACB. Similarly, the payment of insurance premiums, telephone, municipal and various other accounts are made increasingly through "direct" magnetic tape debits and credits rather than by cheques. The debits are initiated by the receiving party, whereas the credits are initiated by the paying party.

Although the number of cheque transactions is still considerably higher than the number of magnetic tape transactions, the latter form of payment is clearly gaining

Growth in the use of various payment methods, 1988-1994



¹ The consumer price index was used to adjust the nominal value of notes and coin in the hands of the public.

² Data for 1994 were estimated on the basis of information covering the first nine months of the year.

Transactions in selected payments streams, 1993

	Cheques	Credit cards	Magnetic tape	Total
Number of transactions (millions)	335,8	111,2	160,0	607,0
Percentage of total	55,3	18,3	26,4	100,0
Value of transactions (R billions).....	5 565,8	13,9	445,1	6 024,8
Percentage of total	92,4	0,2	7,4	100,0
Average value per transaction (R).....	16 575	125	2 782	9 926

ground very rapidly. Assuming a continuation of existing trends, the number of magnetic tape transactions is expected to surpass that of cheque transactions by 1998.

Whereas the graph focuses on the growth in the use of various payment methods, the absolute number and value of transactions in each stream recorded during 1993 provide valuable further information, as shown in the accompanying table.

Payment by cheque clearly overshadows the other payment methods. The high average value per cheque transaction is explained by a small number of very-high-value cheques (in the multi-million rand league) related to interbank, bond market and similar high-value transactions. These are processed in the same payments stream as the numerous small-value cheques, a practice which is currently under review in light of the considerable gross exposures and possible risks involved.

The average value per credit card transaction coincides with what may be expected to be the price of an average restaurant meal for two or three persons, or a small durable or semi-durable goods purchase. Underlying the average value of a magnetic tape transaction of R2 782, are averages of R933 in respect of debits, R16 993 in respect of credits, and R1 675 in respect of salary payments.