National University of Singapore

Source: *The Business Times,* p19
Date: 9 June 2021

The overwhelming majority of millennials in developed countries have a smartphone and are active on social media. They are driving digital trends and they prefer payments to be done via the phone.
IMAGE: PIXABAY

Contactless payments usurp cash to become new king

The Covid-19 pandemic, innovation and youth are the main drivers of the explosion of digital payments worldwide. BY GORDON CLARKE AND EMIR HRNJIC

DIGITAL payments have exploded during the Covid-19 pandemic. The recent Mastercard New Payments Index found that there were one billion more contactless transactions worldwide in the first quarter of 2021 compared to the same period one year before.

Almost two thirds of survey respondents claimed they have tried a new payment method they would not have under normal circumstances. Moreover, the report revealed that 93 per cent of respondents will consider using new types of payments such as cryptocurrency, biometrics, contactless or QR code in the next year. The common factor is that all the innovative methods are contactless. Finally, 71 per cent of people say they expect to use less cash, moving forward.

What is driving this rapid shift to contactless payments?

COVID-19 IS DRIVING MASS ADOPTION

The pandemic-induced worldwide lockdowns disrupted businesses and forced a shift to different modes of doing business including a rapid shift to digital payments.

Covering six large countries in South-east Asia, the *e-Conomy SEA 2020* report emphasised accelerated digital adoption during the pandemic and revealed that the total number of Internet users in the region grew by 40 million to a total of 400 million in 2020. Moreover, Internet sectors surpassed S$100 billion gross merchandise value (GMV) in 2020, and are estimated to surpass S$300 billion in GMV by 2025.

The average proportion of cash transactions in South-east Asia plummeted from 48 per cent before the pandemic to 37 per cent. As the increase in digital payments is likely to turn into a lasting payment habit, gross transactions were estimated to reach US$1.2 trillion by 2025.

The pandemic has also highlighted the importance of hygiene. While a recent research study found that cash may carry as much bacteria as a toilet seat, the World Health Organization encouraged the use of contactless payments instead of banknotes that may potentially carry the Covid-19 virus, as well as other dangerous viruses and bacteria.

INNOVATIVE TECH

The customer experience of digital cash – ease of payment, convenience, and low cost – has improved dramatically. For instance, many countries in Asia have safe and efficient digital payment at zero cost. Covid-period fee waivers by central banks in several countries have revealed the sensitivity of digital payments to pricing. Cash and cheques are still perceived as free, despite their security and hygiene risks and their very high processing costs. Harnessing new technologies, digital payments are much cheaper for users and providers.

Improving the convenience of digital payments means moving on from the current clunky smartphone technology. Screen and battery technology limitations burden users with a huge brick – almost back to the weight of the original mobile phones from 1980s.

Key factors in the adoption of digital payments are simplicity of function, reliability, and ease of use. In order to make the next big step, the "form factor" of mobile devices has to be revolutionised away from "bricks" to convenient wearables. Real benefit will come

> The moment is coming when paper money and value tokens will cease to be in general use. Paper currency as a medium of exchange will become as obsolete as bartering cows or playing vinyl, CDs or DVDs.

from vastly improved performance for simple transactions with innovative devices such as smart watches, rings, key-fobs, bracelets, and other wearables that we can unobtrusively carry all the time.

The technology for wearables has existed for a while and is widely used in the health and fitness tracking industry but not yet in payments. Payment applications need to be integrated with flexible technology and smaller power sources. Therein lies a huge opportunity for fintechs to innovate and exploit a market that is waiting for the breakthrough.

The innovations that have fuelled the digital revolution are going to continue. Dependence on cumbersome smartphones will end and voice operation of devices will become the norm. Reliability, inconsistency, and power problems will no longer be a limitation.

AI-driven personal assistants will become genuinely helpful and allow extremely flexible interaction with the support of a vast range of tacit knowledge. Poor customer support from "Big Tech" and the continuous confusing upgrades that disrupt the user experience will be a thing of the past.

While Google's initial attempts at wearable technologies such as glasses and watches left much to be desired in terms of useful functionality and ease of use, there is a renewed momentum in the business. But there needs to be a lot of technological and marketing experimentation to get to the massive adoption that smartphones enjoyed. Real change will follow real benefits.

MILLENIALS ARE DRIVING THE CHANGE

As digital cash is outstripping the use of paper, it has begun to generate resistance to restrictions on the use of paper currency. Reduction in cash usage and the availability of cash-accepting points of sale has caused pushback from consumer groups, especially in advanced "less-cash" countries like Sweden. This is not surprising as people typically resist change, and ease of use problems await the technology breakthroughs we have mentioned.

However, the overwhelming majority of millennials in developed countries have a smartphone and are active on social media. They are driving digital trends and they prefer payments to be done via the phone.

In our view, the moment is indeed coming when paper money and value tokens will cease to be in general use. Paper currency as a medium of exchange will become as obsolete as bartering cows or playing vinyl, CDs or DVDs. Yes, there will likely be residual cash, just like bartering cows still goes on and there is a small resurgence of vinyl, but the norm will be digital and contactless.

As the demise of cash is coming sooner than most people think, regulators, businesses and consumers need to consider how it will affect their lives.

The writer is managing director of Monetics, a Singapore-based payments consulting firm. Emir Hrnjic is head of fintech training at Asian Institute of Digital Finance (AIDF) at National University of Singapore (NUS). The opinions expressed are the writers' and do not represent the views and opinions of AIDF or NUS.