# RESEARCH INSIGHTS

Loke Hui Xian
*hxloke002@mymail.sim.edu.sg*

## Cashless Society
## *Is Cash Still King?*

As the pandemic continues to plague our society, we explore in more details about the rise of cashless payments and its tools, how they came about and how this is affecting our society.

### At a Glance

Money may have maintained its initial purpose, but the mediums by which it is utilized have drastically shifted today – from using credit cards to "tap-and-go" payments to gradually e-wallets and cryptocurrencies.

Financial technology, once a disruption to traditional banking, has now grown into a sophisticated tool with an ever-increasing global reach. The use of digital technologies by everyone – from banks and fintechs to individuals themselves – has resulted in fintech ecosystems that have transformed the way partnerships form in the past.

The pandemic has only intensified the need for cashless payment tools. A cashless society, inter alia, may be faster, more convenient and more hygienic, but this process could also be disadvantageous to the less privileged and the marginalized.

### Cashless payments

Contactless and cashless payments refer to the use of credit/debit cards, online transfers like NEFT and RTGS, mobile wallets such as Apple Pay and UPI apps like GooglePay, where users can 'tap-and-go' to make their payments instead of swiping their cards into a reader. It is a payment system that also records transaction details. These payment methods remove the need for hard cash.

The use of credit and debit cards has become widespread and the emergence of contactless technologies has enhanced the use of these payment instruments.

*Types of technologies that enable cashless payments*
While the classics are credit and debit cards, they are no longer the only cashless payment options available.

e-wallets are now gaining traction as a new way of making transactions.

Now, mobile banking applications are also widely used. Most banks have banking apps to make transactions between bank accounts instantly and allow users to view their account balance and transaction history within the app.

Unified Payments Interface (UPI) systems such as Googlepay allows for instant transfers of funds between bank accounts where users can send and receive funds easily.

Usage of third-party services and apps like PayPal and Venmo and virtual credit cards like Apple Pay for online purchases are now becoming more popular as younger tech-savvy generations begin to adapt to these payment mechanisms.

### Straying from hard cash

While the cashless movement was already growing, the advent of a worldwide pandemic only increased the demand for contactless and cashless transactions, spurred on by the fear that the virus could be further spread by handling cash, leading to a change in the way people make their transactions. Invisible payments have phased physical payment methods such as cash, debit and credit cards out of the equation, creating an experience that is wholly convenient and fuss-free.

One prime example would be the launch of innovative cash-free and cashier-free stores like Amazon Go that makes it seem like we are truly headed for a cashless environment.

*How cashless payments affected lending:*
Data collected from cashless transactions of borrowers provide lenders with verifiable information that allows for more efficient screening of loan applications.

This is also an alternative criteria that Fintechs use to help screen their borrowers besides the traditional use of credit scores.

For businesses, the use of digital wallets for transactions allow industries to collect consumer data that can be used to offer new services and provide more specialized unbundled offers. This helps to build cost-effective measures that allow firms to grow.

***"Fintechs rely on electronic platforms and big data, and especially alternative data beyond your credit score to help screen borrowers."***

- Yao Zeng, Wharton finance professor who co-authored the research paper, "Fintech Lending and Cashless Payments"

Analysis of the loan application data of a fintech lender in India, Indifi, shows that compared to a borrower who always uses cash, a borrower who uses cashless payments enjoys a 10.9% higher chance of getting a loan and a 1.72% lower interest rate, while the expected default rate is 5.7% lower.

Between September 2015 and September 2019, Indifi approved a quarter of all loan applications with an average offered interest rate of 24.8% and a 7.3% default rate.

Globally, the adoption of fintech by consumers has seen a dramatic increase, growing to 64% (based on 2019 EY study). As of 2021, India has the highest Fintech adoption rate of 87% while the global average adoption rate stands at 64%.

Amid all the hype, it is gradually being used as a common medium for making purchases through popular retail giants such as Starbucks and Walmart.

As more companies transition from cash to cashless and payments are gradually made through a variety of different digital applications, payment analytics software is used to assist with organization and is expected to be a high-investment market as fintech popularizes.

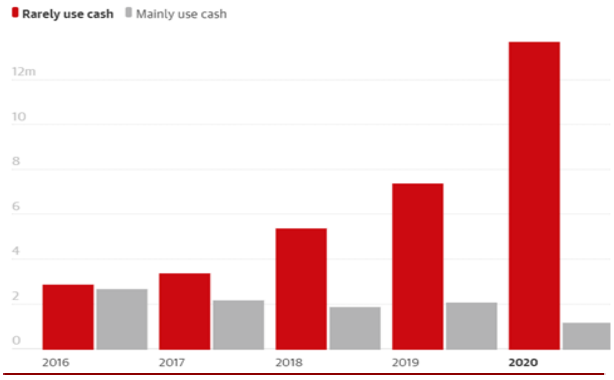
## Case Studies

On the podium of the most cashless-friendly societies are Sweden, China and the United Kingdom (UK).

Sweden heads the vanguard - it has the most aggressive policy to going cashless, where only 20% of all transactions are made using cash. The proportion of Swedes using cash has fallen from 39% to 9% from 2010 to 2020, according to the Riksbank. Cash is mostly used by the elderly and limited to small payments.

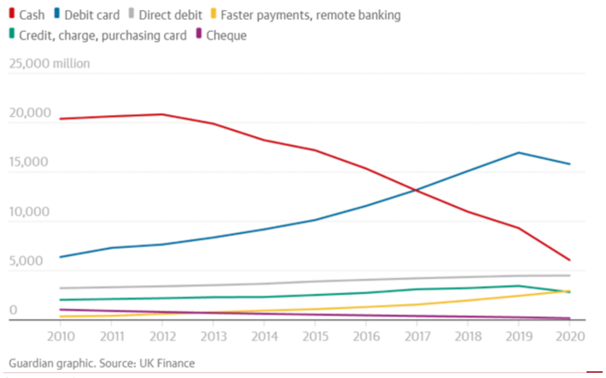
China is a world leader for e-commerce, with a perfect innovative environment for payment technology development. In China, smartphones now revolutionized payments due to the high smartphone penetration level across the country. As one of the leaders in the race to become cashless, it has created innovations such as the quick response (QR) code payment service where a buyer scans the code to make a payment.

The United Kingdom is also close to becoming a cashless society. Official data showed that the number of payments made using cash fell by 35% in 2020.



Source: UK Finance

There has been a drastic change in spending habits, with 13.7 million people going cashless in 2020, the figure almost double the 7.4 million in 2019. Five in six payments now involve no cash, compared with half of all transactions a decade ago.



Source: UK Finance

## Grab and the adoption of the Buy Now Pay Later service

Grab has an environment that breeds innovation and thrives on technological adoption.

GrabPay is popular due to its ease of use and the perk of receiving reward points. One can use GrabPay for booking Grab rides, ordering food deliveries and paying for items at participating stores.

The preference for e-payment solutions reflects a global trend towards digital wallets becoming the main payment method of choice. In Singapore, digital wallet payments accounted for 44.5% of e-commerce transactions last year (2021 Global Payments Reports by Worldpay). The report ranked digital wallets as the most popular payment method in the Asia-Pacific region last year, accounting for over 60% of e-commerce transactions, with credit cards in second place at just over 19 per cent.

GrabPay's inclusion in the Singapore Quick Response Code (SGQR), the world's first unified payment QR code launched by the Monetary Authority of Singapore (MAS) in 2018, has further simplified its payment process by allowing customers to scan the QR code to pay for goods and services from different merchants.

Grab also launched PayLater, a "buy now, pay later" service that allows consumers to pay for purchases in the next month, or over four monthly instalments with zero interest.

*Buy Now Pay Later (BNPL) loans*

BNPL is a new business model whereby customers can easily check out their items on credit i.e. pay later using interest-free instalments. Companies engage 3rd-party service providers like Afterpay, Mastercard etc to provide the BNPL payments. In Singapore, BNPL service providers include PayLater by Grab, Atome, Hoolah, Rely etc.

Its popularity is attributed to its seamless purchasing experience, characterized by convenience and flexibility, that also helps merchants boost online sales while lowering acquisition costs.

The global BNPL market has thus far generated $100b and is projected to reach 3.98 trillion by 2030, with a CAGR of 45.7% from 2021 to 2030.

## Advantages of cashless transactions to society

The huge convenience that cashless transactions bring about because of the feasibility of making and receiving payments is why many businesses now prioritize digital payments.

Today, plagued by the covid-19 and its family of variants, businesses seek to minimize contact with customers as much as possible and prefer to have payments done digitally or by credit cards.

Digital transactions have nearly no environmental impact compared to cash and coins that use natural resources, some of which are non-renewable and only recyclable to a certain degree.

Cashless transactions collect consumer data and transaction details, deterring money laundering and tax avoidance activities. The data received by governments can be used to increase revenues by reducing grey areas and enforcing taxes, tackle crime by tracking suspicious transactions and shut down black markets.

As we gradually move towards a cashless economy, there has been various moves by governments to offer incentives to take part in making online payments. Many governments provide waivers on cashless transactions utilized for service tax payments, insurance schemes etc.

Lower transaction costs increase efficiency. Elimination of cash will allow financial institutions to reduce staff and lower costs associated with handling money, allowing them to produce more wealth. Many banks now encourage e-banking, which has resulted in a reduced number of bank branches and employees. Case in point - DBS bank did a branch transformation that includes more personalized banking services and cater to changing customer needs in which 95% of banking transactions are done digitally. This transformation saw an increase in self-service options while still retaining some face-to-face assistance.

However, despite the advantages above, we should be conscious enough to not make the wrong conclusion that digital money does not incur any costs, since it also leads to security and privacy problems, settlement time, associated costs and fees.

## Cons of cashless transactions to society

What is an advantage for one group is a disadvantage for another. Going cashless may be viable only if one is financially secure. There are still many people who do not have a bank account, credit cards or a smartphone. Consequently, these people do not have access to affordable banking products and cannot make digital payments.

Going entirely into a cashless society will definitely result in greater social discrimination among the populations by essentially allowing retailers and restaurants to upcharge or deny service towards lower-income households, undocumented immigrants and even victims of financial abuse. This leads to societal issues and may result in a greater social divide as a result of the lack of consideration for one's milieu.

The convenience of making digital transactions comes at the expense of privacy. Constant tracking of transactions give institutions invasive powers with far-reaching consequences. In China, there is high potential for financial surveillance to be used as a censorship and restrict the freedom of the people.

There are also worries that fintech firms may become too big – Alipay and WeChat Pay in China has an estimated 1 billion users each, and the information collected from the huge pool of customers may lead to privacy concerns and the possible misuse of personal data, as well as concentrated market power. This is why there is a need for stringent and proper regulation for digitally-powered payment methods, and is the reason why we cannot completely rely on digital payments and technologies.

As digital transactions gain popularity, there is a spike in cybercrime activities and IT risk as a result of increasing reliance on digital technologies:

The number of data breaches in 2021 has already surpassed the total cases from 2020. Case in point – Nov 2021, Squid Game coin scam is a digital token inspired by the South Korean Netflix series Squid Game and was marketed as a "play to earn" cryptocurrency. Investors could not sell the coin, thus regardless of how much the token gained, the investors can only opt for a cash-out. In what was known as a "rug pull", the anonymous creators of the token sold all their holdings rapidly, bringing down the coin's value to 0. The developers swindled off an estimated $3.38m.

2 other cases close to home

The SingPost parcel redirection phishing scam in which victims receive a notification regarding an undelivered parcel as a result of unpaid delivery fees. The message also comes with a phishing link for recipients who are none the wiser and would provide their card details, effectively allowing scammers to siphon money from their accounts.

As of December 2021, OCBC bank has faced several scams targeting its customers. The scams impersonated OCBC and claimed that there were issues with the recipient's bank accounts or credit cards. As with phishing scams, the message comes with links that redirect users to a fraudulent website requesting for personal information. According to the Singapore Police Force, at least S$8.5 million have been lost in December to such scams involving OCBC.

## Writer's Opinions

### Cash in the bank, or cash out

With digital wallets, individuals can pay and receive cash instantly. For youths and business associates, this translates into a simplified bill-splitting after shared events when there may be a need to share expenses – meals, hotel stays, work events.

While society may not immediately shift to a cashless world, it is noted that there is an increase in digital currencies and fintech cryptocurrencies like Bitcoin making cash obsolete. The news that Tesla has once accepted bitcoin as a form of payment, and may resume accepting bitcoin again, is one such cog in the wheel. Meanwhile, there are also some places now that reject physical cash as payments and instead only accept e-payments or credit cards.

Yet, we must bear in mind that while the younger generations have grown accustomed to the process of digital payment, at the same time, it is a foreign concept to another group of consumers, and it is the financial incumbent's responsibility to uphold transparency, educate and acclimatize them of all its activities.

While it is unlikely that the notion of money will disappear in the near future, the forecast probability of the demise of cash appears to be high and may lead to a drastic shift in payment methods that businesses and consumers must be adequately prepared for.

With the burgeoning spread of digital technologies and higher ease of adoption and integration of such modes of payment, it is prudent to approach unproven payment technologies with a sensible dose of skepticism and not be blinded by excessive optimism because of the successes that the technologies have provided thus far. As digital payments gradually become an intrinsic part of our everyday lives, given the scope and scale of fintech proliferation, it is worth noting that large-scale security snafus do as well. We must not dismiss the many occurrences of hacks, phishing and identity thefts that are becoming a norm today.

In fact, the recent scams have brought these risks to public consciousness. The rise in scams and hacks shows a bleak insight into how the regulators (governments, financial incumbents alike) have been trying to tackle such issues.

In the event of an energy blackout, cash will be the only surviving mode of payment. While this is unlikely to occur, it is also worth noting that should such an event occur, the effects will be detrimental, given how dependent our society is on energy.

As of now, our society at large does not appear to be matured enough to transition to a fully cashless environment. While society is capable of doing so, it is the insufficient measures and regulations against scams and hackers, as well as the consideration of the social gap in our society that hinders such a transition in the short run.

Cashless payments serve to be a mode of convenience as of now and cash is still vital in supporting financial inclusion.

Yet, these bleak conclusions do not have to lead into a cul-de-sac. As with the pandemic, it will take time for a more effective resolution to such issues to come about.

It is worth acknowledging that there will be a varying rate of progress with regards to the adoption of digital technology in each country. This largely depends on the receptivity of the country towards the use of digital technology and how well-equipped they are against rising cybercrime attacks.

Perhaps, once practical regulations are set in place and sensible measures are used to help the lagging group of consumers, digital payments could well be poised to shape our society in ways hitherto unseen.