

TOWARDS A CASHLESS SOCIETY



THE POTENTIAL AND THE CHALLENGES

In the December 2017 Red Book statistic report by the Bank for International Settlements (BIS), it was noted that “the number of cashless transactions seems to have at least doubled over the last 10 years across all countries”. Countries like Singapore, Australia, and the Netherlands lead the way with over 400 cashless transactions a year per person – more than double from 10 years ago – while China has gone from single digits to nearly 30 in five years.

On the other end of the spectrum, cash usage (defined as “the ratio between currency and GDP”) remains high in some economies. Hong Kong, for example, went from 10% before the financial crisis in 2008 to 15%, while Japan leads all advanced economies at around 17%.

Viewed in this context, Ant Financial’s US\$184.5 million investment for a 45% stake in Telenor Microfinance Bank (TMB) to develop mobile payment and digital financial services in Pakistan makes one wonder: Are e-payments really the way of the future? Will “cashless” ever become a reality?

“When I think of ‘cashless’,” explains Robert Kauffman, Professor of Information Systems and Associate Dean (Faculty) at Singapore Management University, “I think of a centrally technology-assisted payment system where we don’t have to worry about the mechanisms of transacting because you could do it with a card, or plastic, or a mobile phone, and there are various mechanisms to support that. The fact that there are multiple providers of services like that complicates things because you aren’t quite sure which one to adopt. But if they adopt something, let me just reassure everyone that there will be a time when all of these come together. The weaker will get bought out or fail, the stronger starts dominating, and cashless will rule the economy.”

Kauffman made those remarks at a recent panel discussion on a cashless society for Singapore-based station Channel NewsAsia’s Perspectives programme. Pointing to the Red Book statistics, Barclays’ Chief Asia-Pacific Economist David Fernandez expects “an aggressive change towards e-payment systems but cash will have its place”, but he also expects difficulty in reaching “a very large number who are unbanked”.

Brad Jones, CEO of Wave Money, a mobile financial services provider operating in Myanmar, describes how the Myanmarese still prefer to convert digital currency into physical cash despite the proliferation of smartphones – about 80% of mobile devices are smartphones – and the associated ease of digital payment.

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“What we are doing in Myanmar is laying down the tracks and distribution network and giving customers the opportunity to have a bank account that allows them to do the things they need to do,” he says, referring to financial services made available through a mobile device. “One of the things about the Myanmar market is that it leapfrogged generations in terms of cellphone ownership. Once you have that infrastructure of smartphone usage and the ability to provide a compelling case to customers to use digitised cash, be it to pay taxes or receive payments, customers are less likely to take the cash in digital form and cash out.”

China is the poster child for a cashless society. Mobile payment platforms such as Alipay and WeChat Pay facilitate the Chinese trend of paying with smartphones, where “I can handle day-to-day living without using cash in China”, according to Zhang Dayong, General Manager, Glocal Business at Ant Financial, Alipay’s parent company.

“Even for tips in the restaurants, all the waiters have a bar code (on their name tags) that says, ‘Please tip me’. “What I’m trying to say is that a cashless society... is not a target. That is a result, the natural result because technology development is changing the lifestyle of the whole society,” says Zhang. “Mobile payment is the natural result. Even for offline payments, we use QR payment to facilitate the very small and microbusiness. They can get the money (with) a simple sticker there. They have a very low cost... and merchants accumulate data.

“So the cashless society... we have to think about: What is the value that we have created for the users? What is the value we have created for the merchants? I think I have to say that the technology development gives us a better life.”

SETTLEMENT AND BLOCKCHAIN

The proliferation of mobile payments in China is built on the ease of use, made possible by sorting out smaller, disparate payment networks that stop other advanced economies from emulating Chinese success. Would the end game be an international mobile payment platform or system that could replicate what VISA or MasterCard does?

“I think one of the challenges actually is really in clearing and settlement,” Jones explains. “When you look at a market like Myanmar, where clearing and settlement is actually quite an evolving area, how do you actually start to connect Wave Money internationally to other providers? How do I use my Wave Money account in Thailand, how do I use it in Cambodia?

“For many years, you’ve had... VISA and Mastercard. I think what we’re trying to see with the emergence of alternative payment systems that that’s being challenged. So I think what happens in the next five to 10 years, particularly in ASEAN, is going to be very interesting because the role of other companies and how that interoperability starts to occur, how that clearing and settlements starts to occur, I think certainly there is a big question mark on who will start to play that role.”

But as blockchain technology matures and cryptocurrency gains acceptance, could things such as Bitcoin and Ethereum represent the cashless future?

“The goal is not to have an endless set of tracking capabilities and auditing capabilities for many transactions,” Kauffman explains, “but instead to offer the immediacy of being able to make a cash-substituting payment in the context that traditionally has not permitted cashless interactions. What we’re more concerned about... is the issue of settlement.

“Blockchain doesn’t get you away from settlement. You may not have an intermediary but ultimately, when do funds become usable?”

Kauffman adds, “(It’s about making sure) the value in one person’s account can go to another person’s account. And it doesn’t have to be in cash but it has to be in some kind of a form that is

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recognisable by all of the other parties in an economy. And banks typically have been the ones that provide that service.” Jones agrees, adding that “the challenge really is in developing markets”.

“If you look at the Philippines, you look at Cambodia, Vietnam, Myanmar, how do you do the last mile? Even if you have a Bitcoin system sitting on blockchain, customers still need to put money into the system, there still needs to be a conversion from fiat currency into Bitcoin. And there has to be a way generally to take the money out because the acceptance of Bitcoin is still that low that the consumer is unable to use the cryptocurrency much.”

Robert Kauffman, David Fernandez, Brad Jones and Zhang Dayong were part of a discussion panel, “Building a More Inclusive Society”, for the SMU-Channel NewsAsia programme, Perspectives, which was recorded at the Singapore Management University School of Law. This article was first published in Perspectives@SMU. Reproduced with permission.