GLORY

Cards Will Disappear Before Cash

CARDS WILL DISAPPEAR
BEFORE CASH

Over the last few decades we have been relentlessly messaged by the card companies about a battle for transaction dominance between cards and cash. The idea that "cash will disappear" has become a meme, its inevitability seemingly assured in our new, high technology society.

New data shows the reality to be quite different:

Today, there is more cash in the global payments system than ever before.

- Physical euros and dollars in circulation have grown every year during the last 15 years, the volume of dollars is growing at a CAGR of almost 5%, while the volume of euros has doubled since 2002 with a CAGR of more than 6%.
- The European Central Bank (ECB) forecasts the volume of notes in circulation will grow by 40% over the next 7 years.
- The Bank of England projects 20% growth in GBP notes over the next 7 years.

Cash is still the most popular face-to-face payment transaction method on the planet – despite numerous articles claiming a cashless society is imminent.

- The latest figures published in December 2017 by the ECB shows that in Europe 79% of all transactions at the point-of-sale were conducted with cash.
- According to the USA Federal Reserve, cash is still used for 32% of all transactions, regardless of who is paid (this includes mail and internet transactions which are rather difficult for physical cash).

This is hardly a comprehensive list, but is perhaps enough reason to revisit and challenge the meme. **Today, instead, we will introduce a new meme.**

HOW DO
EUROPEANS PAY?

“eWALLETS WILL ELIMINATE CARDS AND THE TRADITIONAL CARTEL-LIKE CARD PAYMENT SYSTEMS BEFORE CASH DISAPPEARS.”

Average amount of cash in wallet

€65

Millennials

€40-€50
cash carried in their wallets

80%
of transactions are CASH

Use of payment methods* (by number of transactions)

*At the point of sale, eg. in shops, restaurants, etc.

Average value of a payment

€12 Cash

€37 Card

Source ECB study on the use of cash in the euro area, 2017

THE IMPACT OF eWALLETS

eWallets will have an impact on use of cheques (already in decline), use of cards (happening now), and, yes, use of cash as well. Most important, however, is that eWallets have the potential for radical disintermediation of the traditional card payment system.

Contrast the debunked cash v card myth with the card v eWallet reality. In the last 5 years, eWallets have demonstrated phenomenal growth – and attention – at the expense of card use.

Many, and perhaps most, North American and European users of both cards and eWallets do not really understand the differences between the two, except that they use their phone instead of a card to make a digital payment. Their payment for both is still withdrawn from their bank account or paid by their credit card company.

In China and Africa the case is quite different – a separate account is maintained with your mobile phone company or in your Alipay (non-bank) account, and you first place money in that account before you make payments. This is the demonstrated potential for disintermediation. More on this in a moment.

"FORECASTS PREDICT BY 2021, 40% OF THE WORLD WILL OWN A SMARTPHONE AND WILL ALWAYS BE CONNECTED."

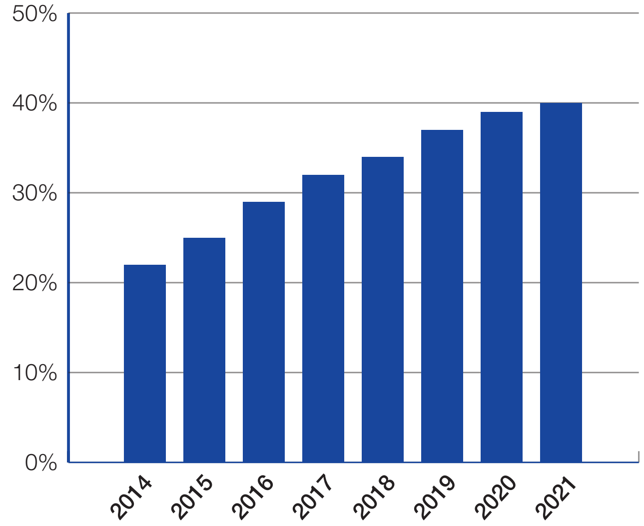
CONTINUED GROWTH OF SMARTPHONES

Until now, eWallet and mobile wallet success has been driven by consumers' desire for efficient and convenient checkout experiences. The global adoption of smartphones, the device "always in our hand", is naturally a solution for new alternative payment methods.

Most forecasts suggest that three years from now, at least 40% of the world's population, or put another way, more than 3 billion people will own a smartphone and will always be connected. This number will continue to grow rapidly, as smartphones become a basic requirement for interacting in society. This can be directly compared with distribution of debit and credit cards. Most Americans and Europeans already have a smartphone, as well as a credit or debit card (or many of these); 56% of Chinese have a smartphone, but less than 40% have a debit or credit card; in India, 28.5% have smartphones, less than 25% of the population have credit or debit cards. Smartphone possession outpaces card ownership in most of Latin America. In Africa, a unique case exists (in many countries), where advanced digital phones (not full smartphones) capable of local digital transactions have far outpaced distribution of cards.

Still, smartphone use alone does not explain the phenomenon. Two other market changes are required.

SMARTPHONE USER PENETRATION AS % OF TOTAL GLOBAL POPULATION



Source Statista

FACTORS AFFECTING eWALLET ADOPTION

First, **consumer attitudes to making mobile payments need to change** and data indicates this is happening, slowly.

In China, mobile payments have become core to life in tier 1 cities and forecasts shows that 79.3% of smartphone users will be happily tapping, scanning and swiping at the checkout by 2021. In comparison, the US will still have only 23% of smartphone users doing so, and in Germany it will be only 15% – despite higher smartphone penetration.

Second, **merchants must accept payments**. Since transactions require two parties, you also must gain acceptance of a payments system by merchants. **Merchant acceptance depends on two things: cost and consumer demand.**

Success in the payments world relies on acceptance scale. To achieve the required scale, you need not only users seeking to pay with your system, it must bring value to merchants, as well. eWallets are so similar in convenience to cards, or cash, that there must be a strong incentive to the merchant to add another payment method.

The rapid expansion of mobile payments in China, truly a phenomenon of the last 4 years, was driven by Alipay and WeChat Pay who led the market. The key is that both companies are able to provide payments on the cheap, partly by allowing smaller vendors to make use of a simple printout of a QR code or their phone, instead of an expensive card reader. A back-end system that stores a record of user accounts, instead of having to communicate with a bank, also keeps costs down, **radically reducing costs of participation by merchants**.

79.3%

of Chinese smartphone users forecast to use mobile payments by 2021

Source eMarketer

APPLE PAY, GOOGLE PAY, ALIPAY

Apple Pay and Google Pay, until now, have been the main drivers of the shift to mobile wallets in North America and Europe (although other notable companies such as PayPal and Stripe have also helped the adoption of digital and mobile payments). They bring massive numbers of consumers with them through the iOS and Android operating systems residing on mobile devices. Consumers expect the wallets to work wherever they shop. So, there is demand – and demand should convert to merchant revenue, right?

Sort of. Merchants in higher income countries want to meet the demand, but already accept payments by cash and card. Many are pushing back on the expansion of payment options to include eWallets, because, perversely, they are **forced to pay even more** to the overall traditional payments cartel to accept these eWallets as tender.

This is a market entry opportunity for an all-new electronic payments system. eWallet leaders, in the near future, may see an opportunity to establish themselves **not as facilitators of the current payment networks, but as replacements for these networks** as popularity, convenience, multi-currency and globalisation become more prominent in consumer desires.

Apple and Google have said they have no such plans – at least not right now. Amazon has been a bit more vague about its intentions. All three have demonstrated **they always, eventually, take over markets where they control the user experience.** The two big Chinese players, Alipay and WeChat Pay – especially Alipay as part of Ant Financial – look like they are already behaving like banks, transacting and funding while earning on float between transaction and settlement, rather than earning only transaction fees. Indeed, this new, cost-effective model makes Alipay a "most likely" disruptor if they learn to operate effectively outside of China.

There are two other players also worthy of watching: Facebook, with their WhatsApp peer-to-peer payment solution that is in beta release in India, brings a massive user base, similar in some ways to Alipay; and Amazon, whose Amazon Pay may win over consumers with loyalty or use incentives that may force other merchants to accept their solution. Both can be counted on to bypass the traditional 4-party payments system.

SO, HOW WILL eWALLETS DISPLACE CARDS?

1. Ecosystem Convenience. eWallets have already taken a significant portion of the online payment market. As online retail embraces globalisation, more and more consumers are cross-border shopping. In fact, the trend identified in the 2017 Global Ecommerce Study by Pitney Bowes, highlights the danger for online retailers accepting only credit cards as a method of payment. An estimated 70% of consumers are shopping outside their country of residence at least part of the time. Traditional credit cards may not readily work for these transactions, without secondary and inconvenient approvals.
41% of respondents to the Pitney Bowes study indicated they use eWallets as their preferred method of payment for these transactions, surpassing the use of credit and debit cards, and bank transfers. Essentially, **eWallets can do all that cards offer, but quicker, easier, and more securely.**

2. Clear and Simple Buyer Protection. eWallets often offer increased buyer protection, such as PayPal, who will reimburse for missing and damaged items – something only required to be protected on card payments by the Consumer Credit Act on purchases over £100 (in the UK), and is only protected on credit card purchases, not debit.
In turn eWallets, along with mobile payment methods, **may further encourage the decline in use of cards across multiple channels**.

SO, HOW WILL eWALLETS DISPLACE CARDS? [continued]

3. Reduced Cost to Merchants. Today's electronic payment systems are costly for merchants – existing bank and financial institutions have layered these systems on top of existing card processes as opposed to opting to establish their own separate identity. Watch for Alipay and WeChat who are challenging the current card network model in a disruptive and massively successful way by reducing fees for the merchants.

Why not cash, as well?

eWallets cannot replace everything that cash offers in terms of tangibility and near universal acceptability. People will still want a non-electronic payment method long after card usage declines, if for no other reason than a backup plan when networks are down – cash will remain a tangible and trusted payment method that always works.

Cash and digital will coexist.

CONCLUSIONS

In summary, the traditional electronic payments marketplace has become costly for merchants and is ripe for disruption. As smartphones spread, and consumers can access one or more eWallet options, traditional cards and card networks will be supplanted by consumer-friendly eWallets that do not need these traditional networks to function. The traditional market players will evolve or collapse, as will the use of cards. Overall market data supports that this transition of digital payments overtaking traditional networks will happen faster, and perhaps much faster, than cards will replace cash.

Cash on the other hand, will always have a unique selling point over digital payments: it is tangible, credible, ‘hacker-resistant’ and decentralised at the point-of-use. Perhaps that’s why cash has survived the test of time for centuries. Innovation may always drive payments change, but the overall popularity of cash is not really diminishing.

The talk of “the death of cash” has been a hot topic for over 60 years, all the while banknotes in circulation have continued to grow, year-on-year globally, and central banks around the world predict no change in this growth trajectory. In the meantime, smartphones are directly replacing cards as the digital transaction tool of choice. It seems perception and reality are different beasts. **It is time to replace the meme.**

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