



Banking & Payments

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The Cashless World

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Table of Contents

About GlobalData	2
Executive Summary.....	4
Cashless Environment in Asia Pacific	5
Cashless Environment in Western Economies	8
Future Implications	11
Contact Us	12

Executive Summary

There is no single route to a cashless society

The path towards the adoption of cashless payments has become very different between markets. In developed markets where customers are well accustomed to the use of payment cards the focus is still chiefly on these card transactions. In developing markets, on the other hand, payment cards have not been widely adopted so the consumers are leapfrogging straight from cash to mobile payments. On aggregate the speed of this transition to a cashless economy has been swift. However, in some countries, such as the US and Japan, the transition has been much slower due to cultural, demographic and regional factors that limit the rate at which cash is abandoned. As such we should not expect a significant part of the world to go cashless anytime soon.

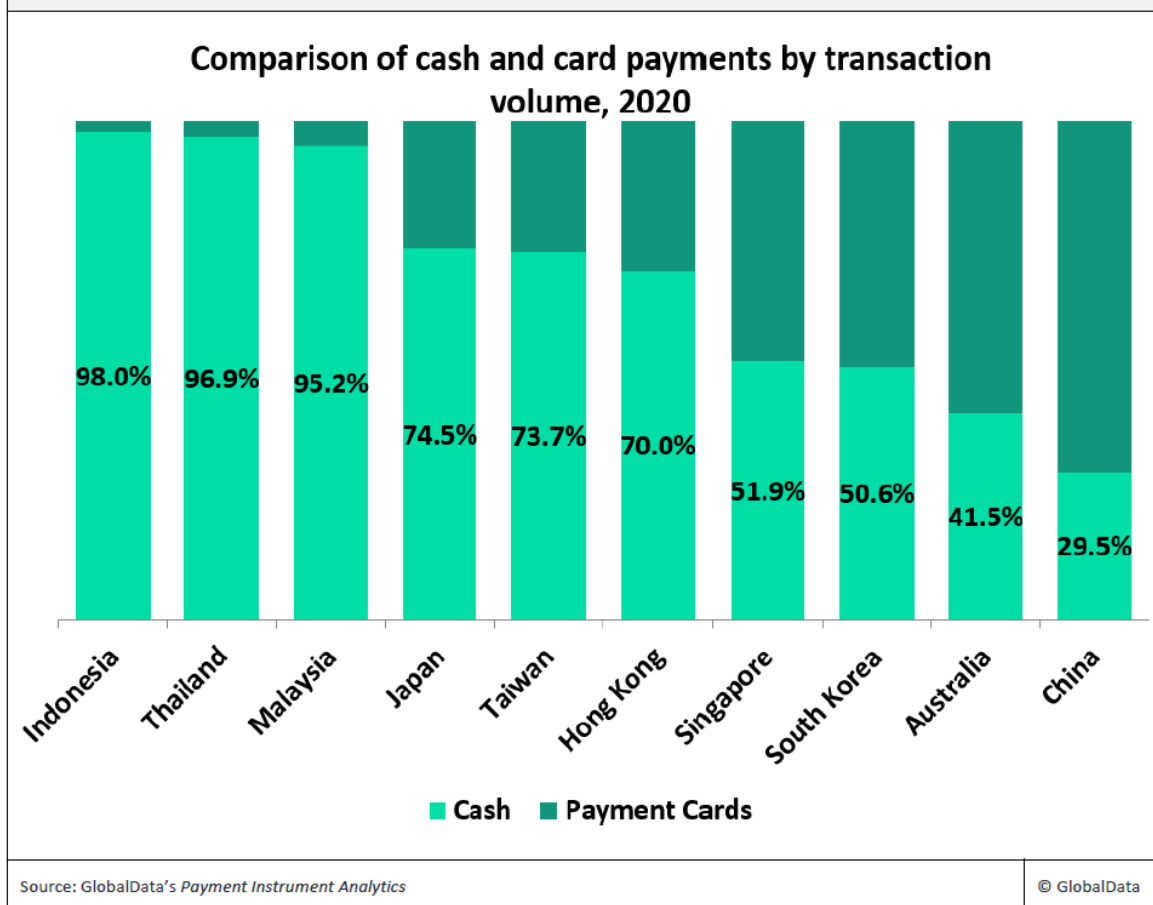
Key Findings:

- In markets where there is a large financially unserved segment, mobile wallets have proved an efficient way of providing banking and payments facilities
- In such markets, internet infrastructure is crucial to ensuring financial inclusion for this segment of society, which will in turn increase the cashless payment rate in the market
- Markets with smaller populations can learn from the cashless progression of countries like Sweden and adopt some of the steps they have taken. Linking up a national ID, bank account, and mobile phone number as part of a mobile payment system is a smart and efficient way of implementing a wider national cashless payment system.

Cashless Environment in Asia Pacific

In markets in the West, consumers are long accustomed to payment cards. Yet in Asia Pacific, consumers are leapfrogging from cash to mobile payments, bypassing the use of payment cards. Whilst there have been developments on the road to cashless payments in Asia Pacific in recent years, advancement differs greatly between markets. In some markets consumers still have a strong preference for cash, while in others consumers are accustomed to non-cash payments. In most other cases, the cashless payment journey is being limited by aspects of the payment environment, such as the lack of proper digital payment infrastructure or the lack of internet connectivity. Japan and China are analysed more closely below.

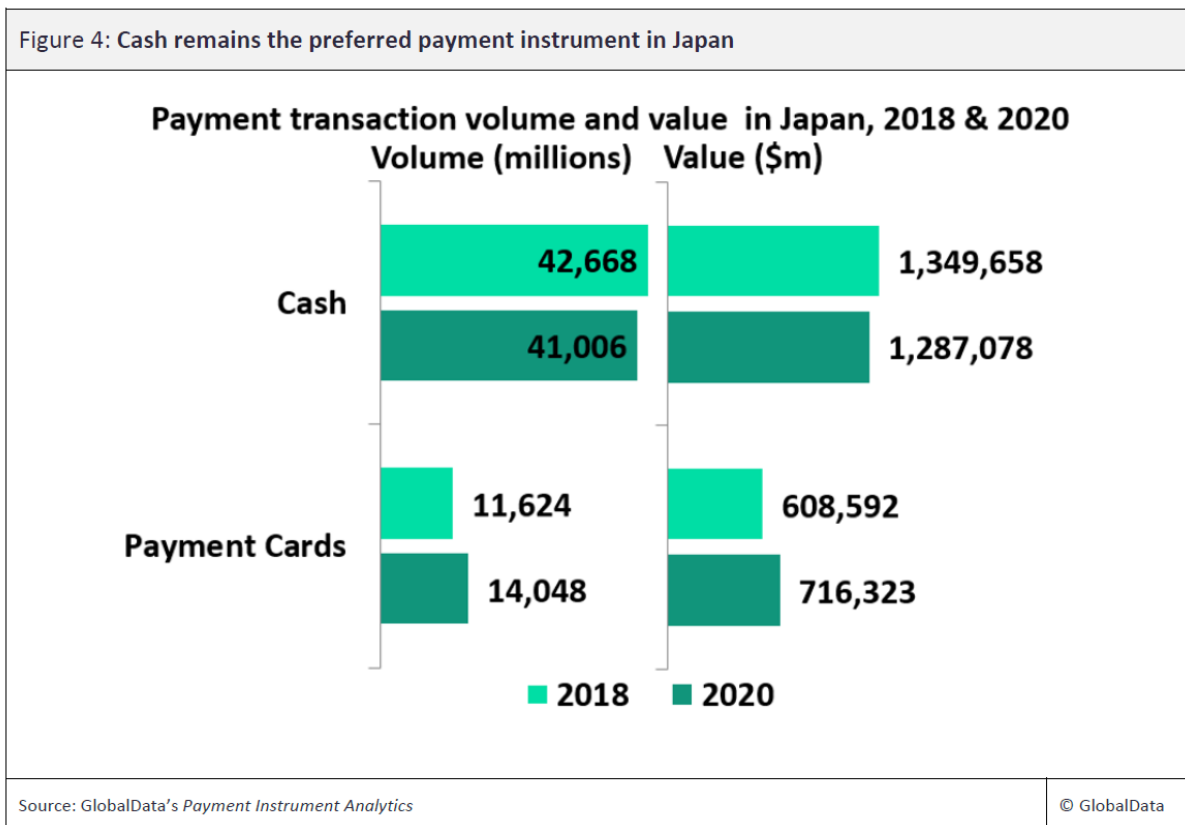
Figure 1: Japan is one of the most cash-heavy markets in Asia Pacific



Japan

As an advanced economy, Japan should have a very similar payment environment to most other developed markets, but instead its cashless progression has been slow. Even with established digital payment infrastructure and with domestic payment card network JCB, consumers still prefer to use cash over other payment methods. As a result, fintechs and payment companies have been reluctant to launch electronic payment solutions in the Japanese market.

The Japanese government is doing its part to promote cashless payments though. It carried out a nationwide Cashless Week campaign over the 10-day Golden Week holiday between April 27 and May 6, 2019. Major banks, card schemes, and mobile payment providers participated in the promotion in the hopes of raising awareness and encouraging adoption in the market. From late 2018 to the first quarter of 2019, just before the Cashless Week promotion, PayPay spent over \$180m on cashback incentives in order to encourage mobile payment use.



As per our *Payment Instrument Analytics*, the amount of cash-based transactions in Japan has been on a slow decline, falling from almost 50 billion transactions in 2010 to just over 41 billion transactions in 2020 (at a compound annual growth rate [CAGR] of -1.93%). A more encouraging sign is the use of payment cards and payment card-linked transactions recorded a CAGR of 10.59% over the same period, rising from 5.4 billion transactions in 2010 to 14.8 billion transactions in 2020. Going forward we should expect continuous incentives to keep consumer enthusiasm up, as Japanese consumers can be slow to embrace change.

China

China is the largest consumer market in the world with 1.4 billion people, as well as the largest payments market in the world. The combined value of transactions using cash and payment cards for the US in 2020 was estimated at \$7.2tn, compared to \$18.8tn for China in the same year. China's advancement in the mobile payment space inspired neighboring countries in the region. China has served as a case study as to how mobile payments can help financially underserved segments and fast-track electronic payment adoption. Just a few years after China's mobile payment environment took shape, the rest of Asia (especially Southeast Asia) saw the launch of a host of mobile wallet startups. Alipay, for example, claims to have around 1 billion active users in China and around 300 million users across nine other countries. Estimates suggest that Alipay accounts for 55% of the country's mobile payment market, with WeChat Pay accounting for 40%.

However, as per our 2020 Banking and Payments Survey around 41% of Chinese consumers over 65 are using mobile wallets. While this figure is quite high in a global context, there are still a lot of older people who are not accustomed to using mobile wallets. As a result, cash is still vital to this segment of the market – unlike in the West, older consumers in China do not have an extensive history of using cards, so their preference for cash is even more pronounced.

Cashless Environment in Western Economies

For most developed Western economies, the cashless payment environment has been in place for a few decades now. Yet even in this region, adoption varies significantly between countries. Once again, this means a one-size-fits-all strategy is not viable. For example, Germany is similar to Japan: a risk-averse nation that still favors cash. Based on our Payment Instrument Analytics, cash accounted for 46.8% of overall payment transaction volume in 2020, compared to a 14.4% share for payment cards. In contrast, the shares are essentially reversed in the UK: cards accounted for 56.2% of transaction volume while cash accounted for 16.0%. Meanwhile, Sweden is projected to be fully cashless by 2023. The following pages contain a closer look at both the UK and the US.

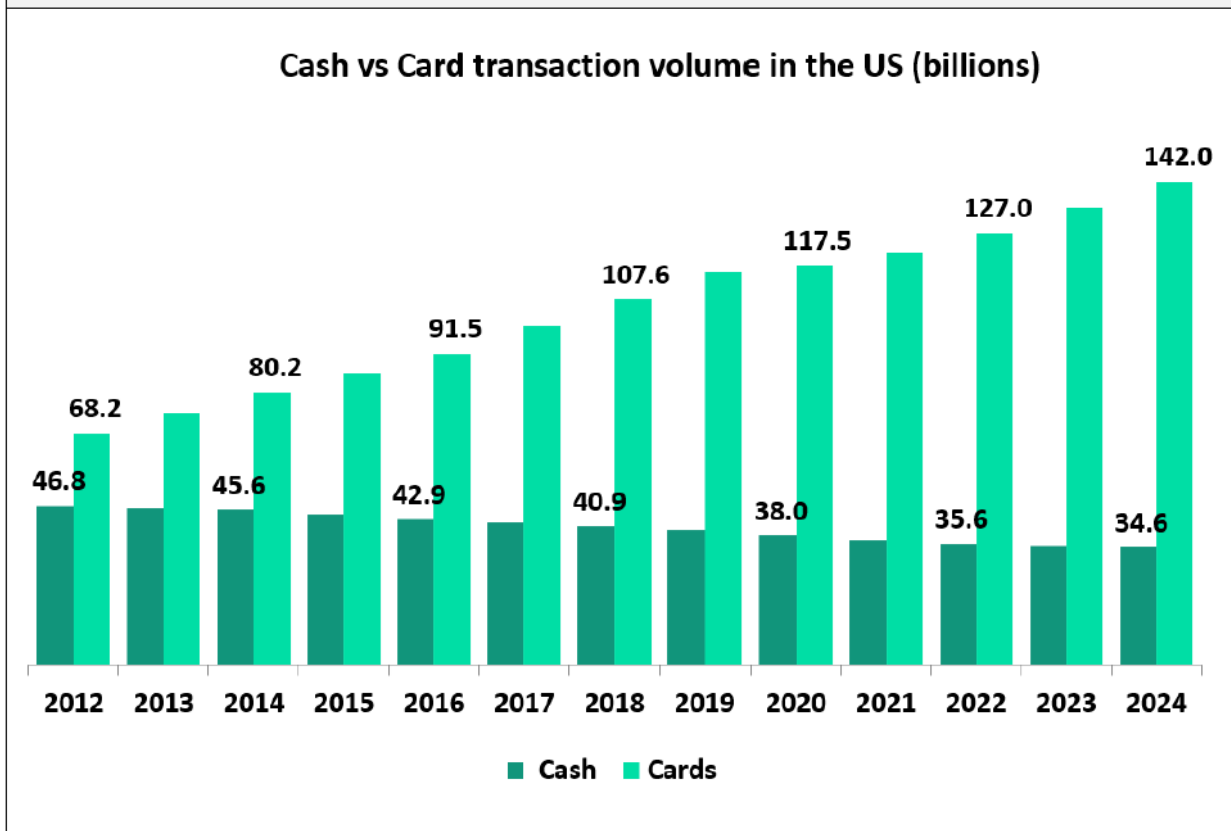
The US

The transition towards a cashless society in the US is progressing at a much slower pace compared to many other developed markets around the world. The use of payment cards in the US recorded a CAGR of 7.1% between 2012 and 2020. Over the same period, cash use only declined by 2.6% as per our Payment Instrument Analytics. There are several reasons for this. There are a significant number of underbanked individuals who still rely on cash. The US has been slow to roll out NFC-enabled POS terminals across its vast geography, while the complex network of players in the payment space makes it difficult to roll out cashless acceptance across the entire market uniformly. Legislation is also slowing the transition with New York, New Jersey, and San Francisco prohibiting businesses from not accepting cash.

Consumers in the US have been accustomed to using payment cards for decades, and the development of broadband, ecommerce, and mobile commerce means they are comfortable using payment cards both in-store and online. There are a wide range of card-issuing and alternative payment brands covering P2P, ecommerce, and mobile proximity payments, giving consumers plenty of choice. Many merchants appreciate the shift towards cashless payments, as it reduces cash-handling costs as well as security concerns around having to keep a lot of cash on hand.

COVID-19 will have also accelerated the shift away from cash. Offline merchants have been forced to launch online sales platforms or potentially lose out on sales. Meanwhile, as in other markets many consumers will have been reluctant to use cash, instead favoring payment methods perceived to be “safer.”

Figure 11: Cash transaction volume is falling in the US, albeit at a slow pace



Source: GlobalData's Payment Instrument Analytics

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The UK

The UK is one of the leading Western markets when it comes to cashless payments. Based on our Payment Cards Analytics there were 1.1 debit cards per person in the UK as of 2006; this figure rose to 1.4 debit cards per person in 2020. As for credit cards, the figure went from 1.2 cards per person in 2006 to 0.95 cards per person in 2020, signaling the shift in preference in favor of pay-now cards. Growth in the payment card market over the past five years has been driven by the rise of contactless payments, a surge in debit card payments, and the increasing use of mobile wallets (including international brands Apple Pay, Google Pay, and Samsung Pay as well as local solutions such as Pingit and Paym).

The shift away from cash risks leaving behind those still dependent on cash according to Natalie Ceeney, the former chief ombudsman of the UK's Financial Ombudsman Service. An estimated 1.7 million people in the UK do not have a bank account, meaning they are essentially outside of the cashless payment space. The cashless trend also has implications for individuals living in rural areas, those with poor internet or mobile connectivity, and older individuals.

Future Implications

Despite increased uptake of cashless payment methods, cash will remain the most widely used payment instrument for a big part of the world for at least the next decade. Even in markets that are already well into their cashless progression such as Sweden, the UK, South Korea, and China, cash will remain a part of their payment environment and will not completely go away in the foreseeable future. A complete shift will only occur in the long term, and will require significant commitment and effort from countries in order to achieve. While there are lessons to take from the successes and failures in this space, ultimately there is no one-size-fits-all approach that can be deployed across markets.

One commonality affecting the entire world is the COVID-19 pandemic, which has changed many aspects of life for everyone – including the way people make payments. With lockdowns and social distancing implemented in much of the world, the ecommerce sector and online payment services have benefitted. The pandemic prompted many offline businesses to launch online operations and encouraged previously reluctant consumers to purchase via online channels. In many cases, these behavioral shifts will persist even after COVID-19 is eradicated and remaining restrictions are lifted.

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