Dreams of a cashless society

The paradox of cash

Whether it's brick and mortar shops or online retailers, the one unifier has to be payments. Simply put, if you want to be in business, you need to be paid. And in most cases, to pay others too. As much as the means of doing business has changed, so to have the means of settling transactions, thanks in part to the insurgence of new technologies.

Physical cash in terms of notes and coins and credit/debit cards are still widely used, but we're starting to see the rise of virtual wallets and payments via mobile. Major credit card operators like Visa and Mastercard have implemented a tap to pay system for their credit cards as well as app versions for mobile phones, so there clearly is a push to move consumers away from cash. But why so?

The biggest problem with cash, is that it costs money to handle. Anthony Seow, Head of Cards & Unsecured Loans at DBS Bank says that relying on cash and cheque means time is wasted reconciling, tracking, handling and securing cash. Retailers have to spend precious resources handling these issues, while banks too, have to invest in ensuring that sufficient automated tellers (and physical bank branches with staff) are available across the country or risk dealing with aggrieved customers seeking easy access to their own funds.

He quotes a KPMG report by MAS that estimates the cash in circulation in Singapore to be 8.8% of GDP, compared to 4.4% in Australia and 2.12% in Sweden. 12.7 cheques per person were written in Singapore in 2014, compared to 7.1 in Australia. This brings the estimated social cost of cash and cheques to about 0.5% of GDP, or a staggering two billion SGD per year - not a small cost indeed.

For individuals, our reliance on physical cash when we travel means you will invariably incur fees when making currency exchanges to the local currency, or when paying by credit card. While taking out cash from the equation won't completely eliminate that cost (unless the world starts operating on a single unified currency standard), it certainly should bring them down significantly as less middlemen come into play.

And that's not even factoring the time spent physically searching for a money changer or waiting in queue. Plus, you'll no longer have to deal with loose change you can't use after you get back as every transaction will be deducted to the cent electronically.

One of the understated disadvantages of dealing with physical cash is that there's also opportunity cost in terms of gathering data about the customer. Jeremy Tan, CEO of LiquidGroup also makes a good point when he says that e-payments would provide transaction data that would allow merchants and service providers to better understand their customers as everything is recorded in real-time. Contrast this to the difficulties a small street-side vendor would face trying to keep track of his customer habits when all he has to go by is his ledger at the end of the day and his own memory, and it's easy to see his point.

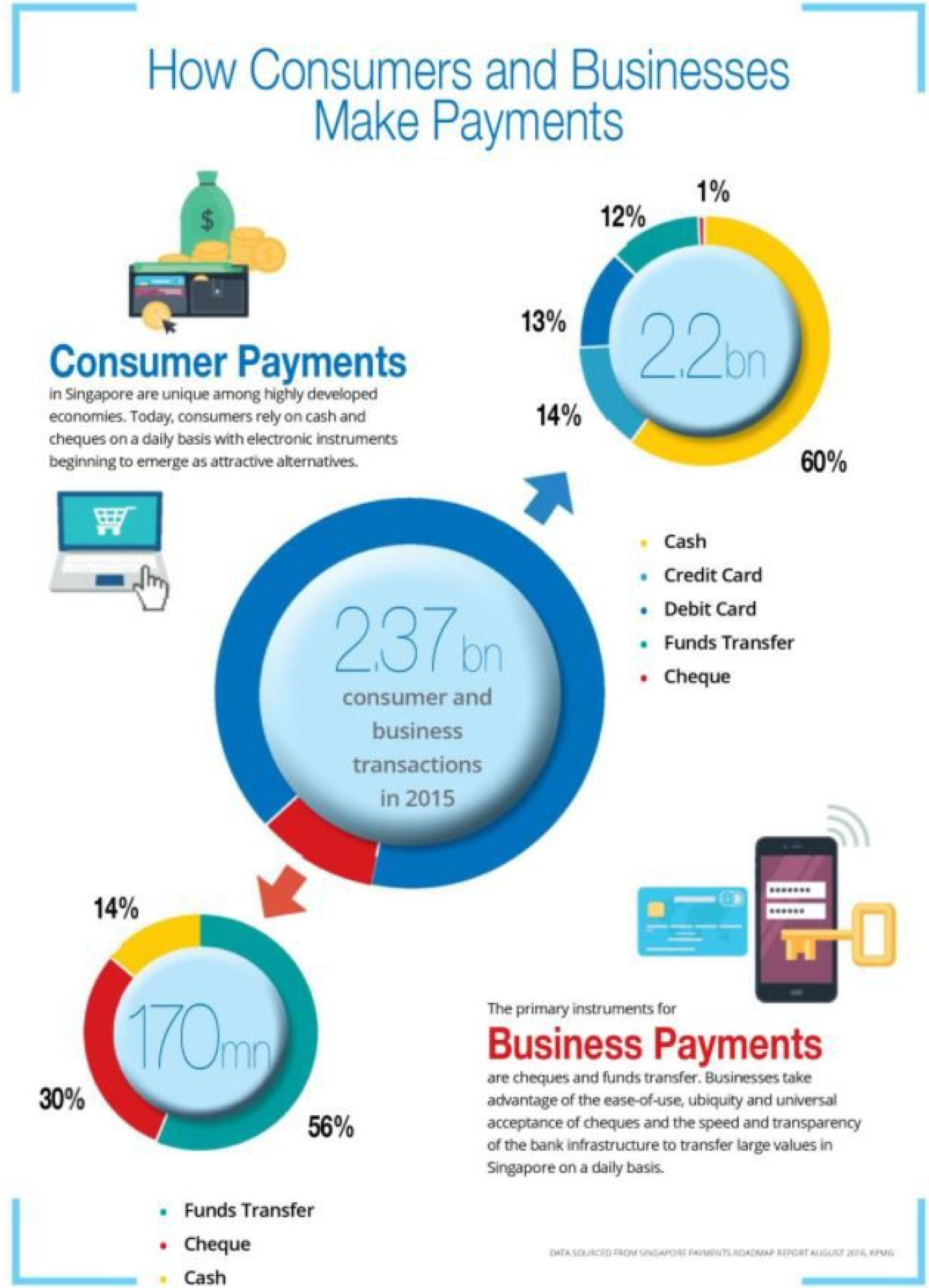
One last point we'd make with the small business owner in mind, is that reducing the amount of cash he has to keep in store would almost certainly reduce worries about security. Hard to rob a place, when there isn't actually any money in it.

Are we ready for cashlessness?

The concept of paying via the Internet and electronic gadgets predate the smartphone. We've had Amazon and PayPal since 1994 and 1998, while contactless NFC cards like EZ-Link and NETS FlashPay (in Singapore) existed since 2000 and 2009 respectively. It's not hard to believe Visa's Consumer Payment Attitudes survey, which stated that 78% of Singaporeans would instead prefer electronic payments as opposed to cash.

That said, it's still an uphill task to satisfy cashless evangelists. Ooi Huey Tyng, Visa Country Manager for Singapore and Brunei, said, "Singapore is a developed market where more than 60% of all transactions are made electronically. However, this means that around 40% of payments in Singapore are still transacted using cash and cheques, presenting a significant opportunity for cash displacement. Certain segments in Singapore, such as hawker centers, food courts, and wet markets, are heavily cash-based. Hence, it is important for the industry to work closely together to introduce new digital solutions to convert cash in these segments so that Singapore can become truly cashless."

When we first looked into mobile payment options back in the HWM July 2016's issue, our coverage excluded new alternatives, such as Qpay by Qoo10, which uses QR codes to facilitate offline shopping without swiping a credit card. E-wallets like GrabPay haven't been idle as well, with their expansion into Indonesia in September 2017. By partnering with an Indonesian online-to-offline e-commerce platform called Kudo, Indonesian residents can use GrabPay across 400,000 authorized agents in 500 towns and cities across Indonesia. E-payment is more than just Samsung, Android, and Apple Pay these days.



Currently, cashless mobile payment has caught the attention of governments and unrelated businesses. During its National Day Rally in August, the Singapore Government posited China as a role model for creating a fluid smartphone e-payments ecosystem. It was easy to see why – China managed to see various e-payment methods take off without massive participation from their authorities. This prompted Singaporean CEO of Razer, Tan Min-Liang, to draft a proposal for a nationwide e-payment solution.

Ironically enough, the proposal threw the ball back into the Singapore Government's court – by stating that the Monetary Authority of Singapore (MAS) should look into a common e-payment framework that's neutrally managed by the authorities.

It's quite plain to see that Singapore isn't quite ready for the new age of e-payments, but we're getting there. Now, there's PayNow, where citizens of Singapore merely need the mobile or NRIC identification number of their peers to transfer cash between friends at no extra charge.

Where the money's at

So why is there a push for more convenient e-payment options when the existing ones are sufficient and entrenched into our lifestyle? To understand that, we have to think outside of our regional borders.

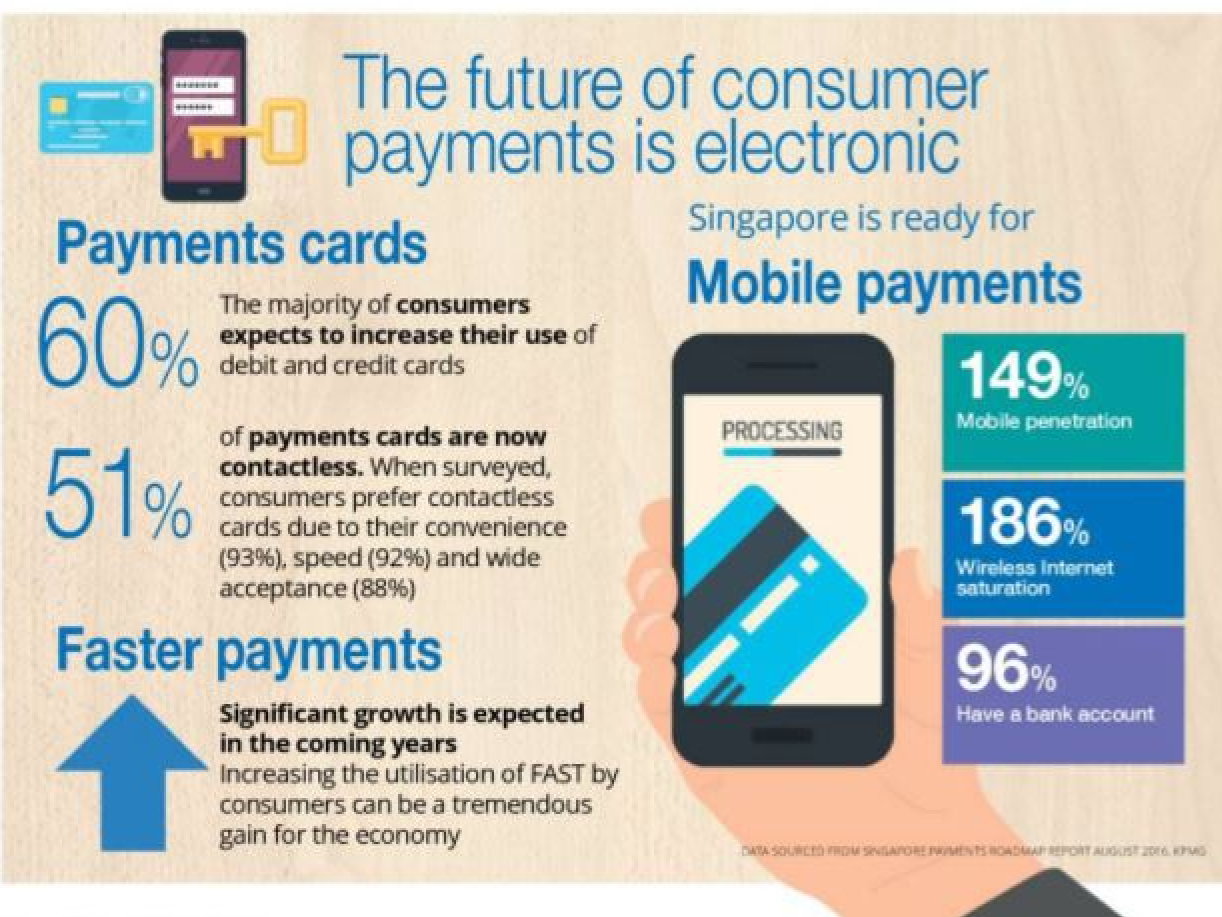
Earlier in August this year, Alipay announced that they chose to partner with a relatively new and unknown fin-tech service provider in Singapore called CCPay. This collaboration will increase the number of Alipay-ready terminals around famous tourist traps, such as Chinatown and People's Park Complex. It provides more convenience to expat Chinese workers residing here as well, since they can spend directly from their homeland's bank accounts, on top of automatic currency conversion services whenever you make a payment via Alipay in Singapore.

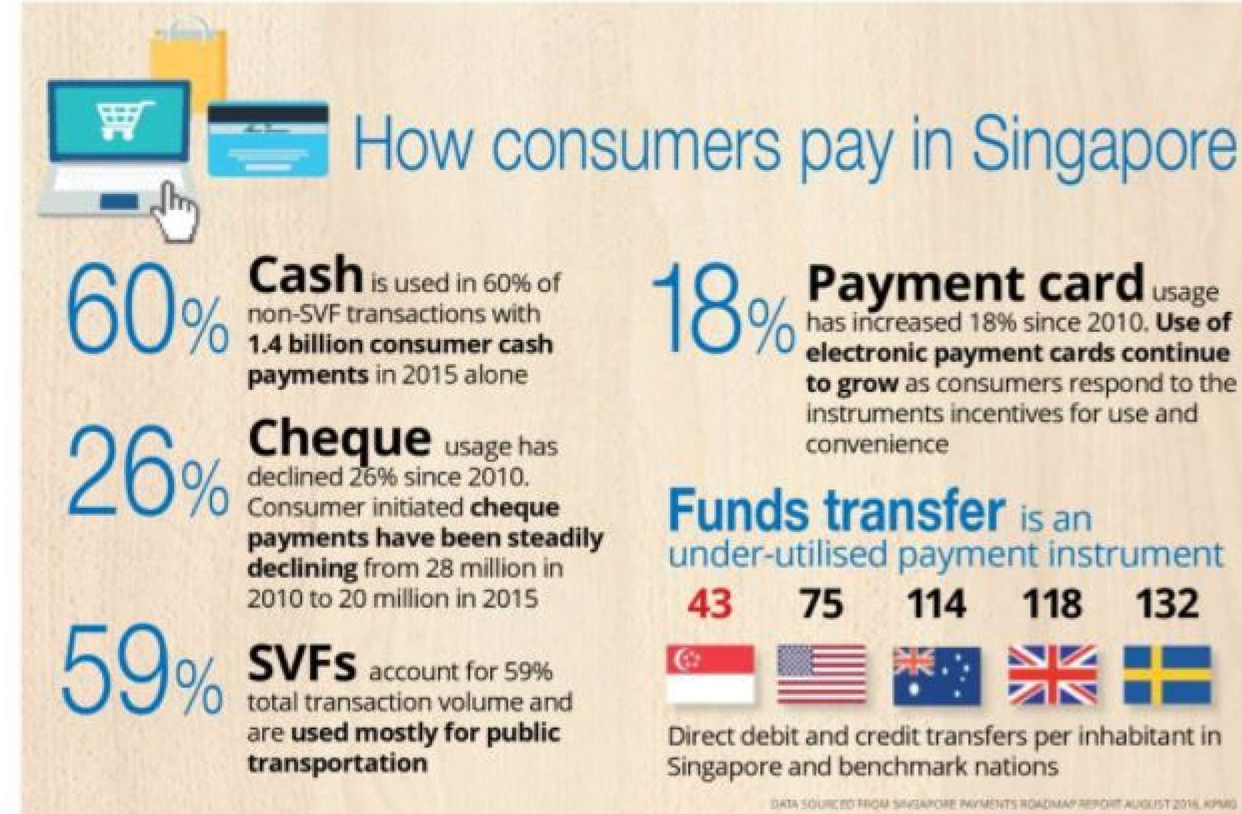
While it may seem unrelatable to residents within the SEA region, making Singapore a prominent venue for Chinese tourists to spend cashlessly at is a strategic move to generate more revenue for local businesses. The country is in a competitive landscape where her neighbors can offer cheaper shopping with a broader variety of goods and services.

The Singapore Tourism Board stated that 2016 saw a total of 2.86 million visitors from China – it would be silly to not 'help' these people spend their money since Alipay saw US$1.7 trillion (~S$2.29 trillion) transacted via the service in just 2016 alone.

In the case of Alipay and CCPay's partnership, the local startup will help the Chinese firm handle all Alipay transactions in Singapore. In return, CCPay gets to charge a service fee, and Alipay can get a cut from it. All costs – such as currency conversion – are borne by the shoppers. It's an orderly arrangement for Singapore, who didn't have to lift a finger to be a part of this scheme.

That's not to say that SEA is idle in the cashless landscape – across the Causeway, we have WeChat Pay working on cross-border licensing, which would allow Tencent's e-payments





system to operate seamlessly in Malaysia. WeChat already has that license and a non-Chinese Yuan app in Hong Kong. Tencent said that WeChat Pay could also be found in 13 markets outside of China, with 10 currencies supported.

Together with Alipay, these two Chinese e-payment firms see CNY18.8 trillion (S$3.826 trillion) worth of transactions in just the first three months of 2017. With that, it's immediately apparent why mobile e-payments is a must for Southeast Asia – almost nobody says no to more money.

But is it really safe?

With all the benefits we've presented thus far, you must be wondering: What's the catch? Well, how about the obvious concerns about safety to start? Everybody we've spoken to for this story from service providers (like Grab and Liquidpay) to the banks (like DBS) to even Government authorities (like MAS) has reiterated that mobile payments are safe - safer than credit cards or even cash in fact. They point to how access to the app is secured behind your mobile phone's security, whether it be biometric or a six digit pin, and say that there is always recourse for action as mobile payments are consider direct funds transfers and so are safeguarded by the same laws.

The advice given from The Association of Banks in Singapore (ABS) is to contact the person to request he send it back to you as it was sent in error and to remind him that using money that does not belong to him is a criminal offence under the Penal code (in Singapore). Presumably, that gives you room for legal recourse - at least, if you're in Singapore.

But somehow, that still isn't the most reassuring answer.

After all, Salvador Mendoza already demonstrated a number of attacks targeting Samsung Pay at Defcon last year, and the hackers of Germany's Chaos Computer Club demonstrated in 2013 that even Apple's vaunted Touch ID can be hacked if people with enough intent put their minds to it.

In Singapore, there's been a case of a consumer who had his credit card details stolen from his smartphone. Six flight tickets worth a total of $12,327 were purchased, and yet his bank is refusing to waive the charges and insisting he pay a lowered sum of $5,000 as they claim their security system was never compromised. Obviously the hackers managed to obtain the two-factor authentication codes somehow, but this just goes to show that all of us need to be vigilant with every transaction.

The low threshold set for mobile payments may also work in favor of the perpetrators as multiple small transactions are definitely harder to track than single large ones.

Given how attached we are to our smartphones these days, it's easy to see someone waiting at least half a day to see if it isn't picked up. In that time, multiple quick transactions could be made - picking up five Apple Store gift cards from a convenience store and then running over to the next one for example - before the thief disposes of the phone. As long as you have access to the mobile phone and the payment solution, no one thinks twice. That's the beauty and the danger of mobile payment.

Until the day we can truly secure our smartphones (or deactivate them instantly without remorse), we'd say the best way to pay is simply to continue to have multiple ways. Governments and retailers will just have to accomodate.

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