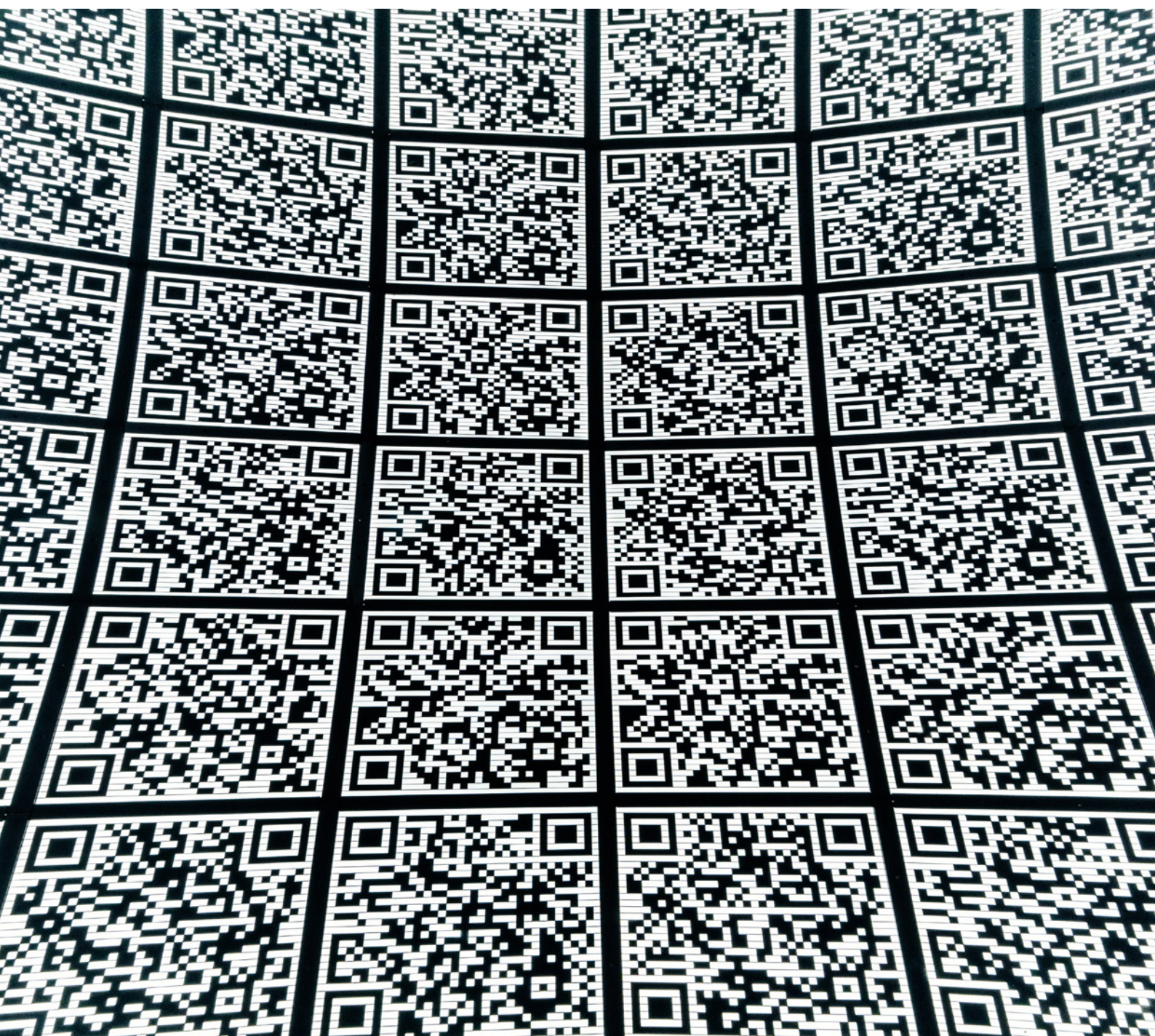


# What Would a Cashless Society Mean for Asian Consumers?

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By Jill R. Baker, CFA

Technology and COVID-19 have led to increasing adoption of cashless transactions. More and more, consumers are buying online, and vendors are rushing to adjust their business models to accommodate remote buying and touchless payments. In the face of this change, what does going cashless mean for different economies?

## Q. Who benefits from a cashless society?

Governments, companies, and individuals benefit. While still acting as a store of value, a unit of account, and a medium of exchange, e-money leads to reduced friction or transaction costs, elimination of the expense of printing money, and, due to the traceability of transactions, less tax evasion.

The trend toward cashless transactions is enabling innovation, financial inclusion, and speedy transfers. In India, for example, the Aadhaar system gives each citizen a unique identity, which allows cashless disbursement of government benefits more quickly and efficiently than before. In a world where individuals both control their data and have the right to share it (or not) with vendors and entities of their choice, cashless transactions can be a boon to inclusion. In many parts of Asia, individuals with no bank accounts now use digital wallets, which they top up at retail stores. Those with little or no formal credit history can now qualify for loans and use services like “buy now, pay later,” an interest-free deferred payment offering, based on their transaction history and social data. Singaporean ride-hailing and delivery giant Grab, for example, lets qualifying customers order services from a range of different merchants, and pay for them in instalments or defer them into the next month.<sup>1</sup>

## Q. What are the negatives?

A cashless society can exclude people who don't have smart phones, or are not digitally savvy enough, from receiving services. In practical terms it is not always convenient to be cashless; for example, in some cities in China it's impossible to get around using cash. Cash is a useful budgeting tool for many, and that would be lost in a cashless society, as would anonymity in one's purchases.

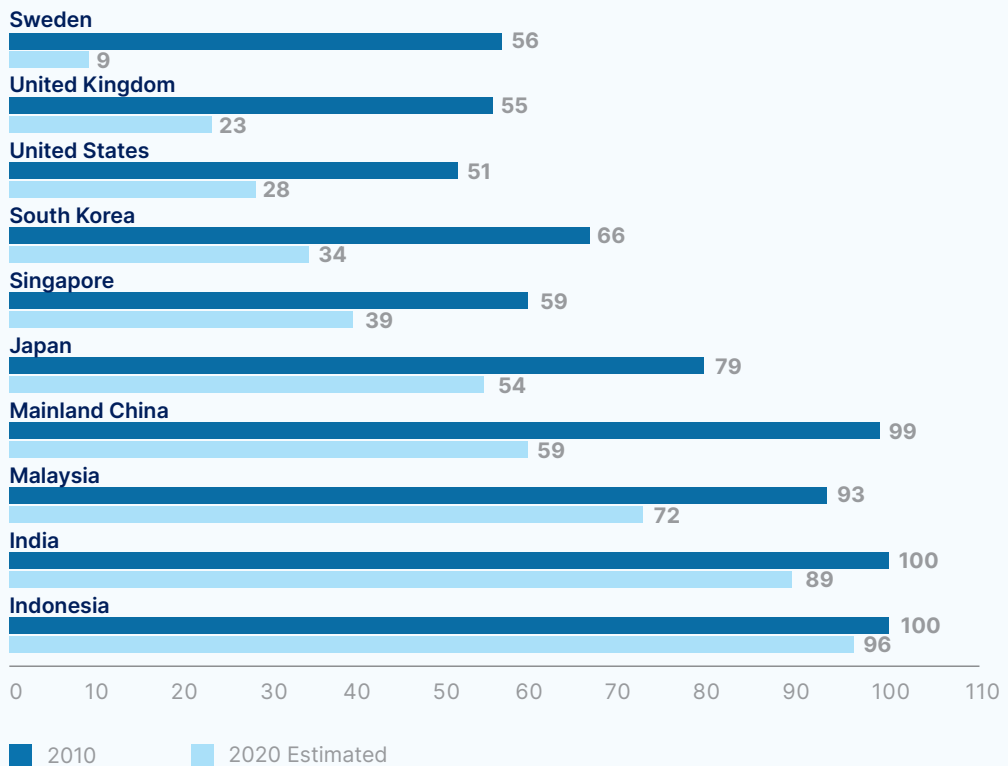
## Q. What are some examples of cashless innovation across Asia?

Entire economies have leapfrogged credit cards and are now using payment super apps like WeChat Pay and Alipay in China, Paytm in India, KakaoPay and Samsung Pay in South Korea, and GCash in the Philippines. These payment apps offer services that include P2P, merchant payments, money transfer, and other e-wallet functionality. Below are examples from three different Asian economies of how cashless innovation is changing the consumer landscape.

FIGURE 1

### Are We Cashless Yet?

CASH USAGE BY COUNTRY  
PERCENTAGE OF CASH USED IN TOTAL TRANSACTIONS BY VOLUME, %



Note: Non-cash forms of payment refer to electronic peer-to-peer and consumer-to-business payments, including digital or cashless transactions (e.g., contactless payments, card, and wallet-based forms of payment)

Source: The 2020 McKinsey Global Payment Report

In South Korea, one of the Asian economies where cash is least used (see graphic), consumers are able to use cryptocurrency when shopping with Danal Fintech's Paycoin Wallet, one of South Korea's most popular e-wallets. This is unique, as cryptocurrencies are not widely accepted at point of sale in most places. In South Korea, more than 60,000 merchants, including 7-Eleven, Domino's Pizza, and KFC, accept paycoin, Danal's cryptocurrency. Danal plans to be the first company to commercialize Bitcoin in South Korea, supporting Bitcoin and eventually Ethereum in the Paycoin Wallet.<sup>2</sup>

In Singapore, where cash use is also quite low (see graphic), e-payments are part of the Singapore Monetary Authority's (MAS's) agenda to make Singapore what it calls a smart financial center. One of SMA's innovations is the Singapore Quick Response (SGQR) code. The SGQR reduces hassle and increases convenience by combining

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QR codes of different payment apps into a single code used at point of sale, where previously multiple codes were used. It also eliminates the need for physical point-of-sale terminals.<sup>3</sup> During COVID, Singapore's Hawkers Go Digital program incentivized hawkers to go cashless and adopt the SGQR code by offering cash bonuses. CNA reports that about half of Singapore's hawkers, previously holdouts from the cashless trend, have gone digital.<sup>4</sup>

In Indonesia, the world's fourth most populous country, cash use is still quite high (see graphic), though the popularity of cashless transactions is growing quickly. Data from Bank Indonesia show the value of electronic money transactions reached 201 trillion rupiah (\$13.95 billion) in 2020, growing by almost 40% from 145 trillion rupiah in 2019. As of January 2020, the largest driver of digital transactions was retail spending, at 28%, followed by transportation (27%), food ordering (20%), e-commerce (15%), and bill payments (7%).<sup>5</sup> For many smaller merchants, digitalizing traditional business has helped keep them afloat during COVID.

Valued at \$40 billion, Indonesia's fast-growing e-commerce market has attracted innovative competition from an international group of investors. On August 7th, PT Bukalapak, an e-commerce platform that focuses on micro, small, and medium-sized warungs, or small storefronts, raised \$1.5 billion in Indonesia's biggest-ever initial public offering (IPO). PT Bukalapak counts among its investors Alibaba affiliate Ant Group, (it uses Ant Financial-backed Dana as its e-wallet), Microsoft, and Singapore sovereign wealth fund GIC. It competes with the likes of Tokopedia, Lazada, and Sea Ltd.'s Shopee.<sup>6</sup>

### Q. Where on the planet are we closest to cashless?

Sweden is the society closest to being cashless today. It plans to be completely so by 2023.<sup>7</sup> It is a fairly homogeneous society, with a high level of trust in banks and government, and a high level of financial innovation. In 2019, Sweden's central bank began to test out its own digital currency, the eKrona. Sweden's banks and financial service providers developed BankID, which has been adopted by 94% of the population. The BankID system gives users a unique six-digit digital identifier. It is meant to improve security, allow for seamless digital transactions, and function as an electronic identity document, accepted on par with a driver's license or a passport. Swish, a payments app that was developed by Sweden's largest banks, has also been widely adopted. Cash in Sweden is now more a store of value than a medium of exchange. Bank robberies and tax evasion are down. But identity theft is a growing problem.<sup>8</sup>

### Q. What role do cryptocurrencies play?

Cryptocurrencies, though a source of fascination and controversy, are not yet widely accepted as a medium of exchange. This is because unlike currencies regulated by central banks, their value is a function of supply and demand and can fluctuate wildly, and because regulators are uncomfortable with them.

Cryptocurrencies are hard to regulate, in part because, unlike central bank digital currencies, they are decentralized by design. Bitcoin was described in a white paper written by its founder as a "purely peer-to-peer version of electronic cash that would

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allow online payments to be sent directly from one party to another without going through a financial institution.” For many who wish to transact anonymously, this is a strength. So is the fact that since inception, Bitcoin’s price has risen from \$.0008 to \$50,000 (at the time of writing).<sup>9</sup> This high – though volatile – return has attracted interest from traders as well as those who see cryptocurrency as a way to diversify investment portfolios.

The Chinese government recently banned cryptocurrency mining and intends to tamp down speculation in Bitcoin and other cryptocurrencies. This has been a big issue for China. It had been home to something on the order of 65% to 75% of bitcoin mining, which worldwide consumes as much power as the country of Argentina. The industry’s energy intensity was not aligned with China’s carbon neutrality goals, and the government did not like that many mining operations were posing as “big data” companies to qualify for state subsidies. In addition, the State Council’s Financial Stability and Development Committee chaired by Vice-Premier Liu He made it clear that cryptocurrency aided criminal activity like money laundering and the drug trade, and that rampant and often leveraged speculation in cryptocurrencies was a risk to the economic and financial order.<sup>10</sup> The U.S. has not banned speculation in cryptocurrency, but Securities Exchange Commission Chair Gary Gensler told Fox News in August of this year that cryptocurrency “is not going to reach any of its potential if it tries to stay outside of our laws.”<sup>11</sup>

Binance, the world’s largest crypto exchange, which operates a fiat-to-cryptocurrency platform from its base in Singapore, has raised regulators’ hackles in Malaysia, Japan, Thailand, Hong Kong, the U.S., Germany, Italy, the Netherlands, and the U.K. Their actions have ranged in severity from warnings to outright bans.<sup>12</sup> Binance’s founder and CEO, Changpeng Zhao, known as CZ, is working to establish the firm as legitimate, rather than a threat to systemic integrity. CZ said he is determined to work with regulators in different jurisdictions to “pivot [Binance] from a technology innovator into a financial services company.”<sup>13</sup> He has much hard work ahead of him.

### Q. What would a central bank digital currency (CBDC) mean for China’s rise?

In 2019, Zhou Xiaochuan, the former governor of the People’s Bank of China, suggested that China could learn from Facebook’s proposed Libra, a digital currency (now renamed Diem) that was backed, like Hong Kong’s currency, by hard currency reserves.<sup>14</sup> Since then, China has trialed a digital yuan in several provinces. How would a digital yuan work beyond China’s borders? The concept could conceivably take off – in the same way Facebook’s Diem could – that is, as long as a large ecosystem of shops and vendors accepted it. Likewise, as with Diem, it could work for remittances in cases where the digital yuan was more stable than the currency of the recipient’s country. As long as the digital yuan was accepted widely, there would be no need to convert it. This digital yuan’s advantage of stability would be less attractive in economies like the U.S. or Europe where the underlying currencies are stable. More broadly, a digital yuan’s uptake would still be limited by its non-convertibility.

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## Q. What will a cashless society mean for data privacy?

Financial system digitalization, including going cashless, raises key questions about data privacy. It is important to find a balance between the advantages gained from the full digitalization of payments and the privacy risks that come along with it. How is financial data used by those who collect it? Who has access to these data? How can societies guard against misuse of data by the state, such as discrimination against individuals based on their data profiles?

Though business models built on the premise of unfettered access to individuals' data are at risk as regulators adjust their stance to protect consumers, there is not always a way to protect consumers from governments. In late August of this year, China's Standing Committee of the National People's Congress passed the Personal Information Protection Law. China's law is similar in many ways to Europe's General Data Protection Law, currently one of the most robust frameworks for protecting online privacy, though it differs in one essential aspect: It does not limit Beijing's access to personal data. Policy analysts worry it will not protect individuals from China's burgeoning surveillance state. Karman Lucero, a fellow at the Yale Law School Paul Tsai China Center, summed up the risk of the law: "Chinese civil society still has very limited means of 'watching the watchmen.'"<sup>15</sup> To a greater and lesser degree, countries around the world will face a similar challenge and must find ways of balancing the convenience and economic case for a cashless society with individual privacy.

## Endnotes

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