The Path to a Cashless Society
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A cashless society is like a paperless office: often promised, but never quite achieved. Nevertheless, progress is being made in reducing cash transactions in the retail market, as major retailers explore new payment channels for their customers. However, as Hans Van Den Bosch, Global Sector Head, Consumer Brands, Retail & Healthcare, Global Liquidity and Cash Management at HSBC explains, a number of fundamental issues still need to be addressed to smooth the path to a cashless society.

While cashless payments have made progress in recent years, the quality of the underlying payment infrastructure and the capabilities of banks are delaying further progress. Irrespective of the interface used - cards, mobile phones, electronic wallets or any other method - a payment still has to be moved. This transfer of value is immediate with physical cash: a note or coin is handed over in exchange for merchandise or a service. The transfer of value may not be so immediate with other payment methods: much depends upon the infrastructure that actually moves the funds. In some countries, electronic payment systems are now available that can transfer funds in real or near real time (often referred to as ‘instant payment systems’), but elsewhere this process may take anything from overnight to several days. The good news is that this situation is gradually improving, with a growing number of countries committing to, or already building, instant payment systems.

As these new instant payment systems are rolled out, barriers to the introduction of new retail payment methods fall. As they will be able to rely upon the underlying payment systems to transfer value, any new way of initiating a payment will be as immediate as physical cash, but without the physical security risks and physical handling costs, as well as being less costly than other electronic payment methods, such as credit cards. In some cases, new payment mechanisms may also leverage existing electronic methods, such as linking mobile phones, electronic watches or other technology to payment cards. Nevertheless, one of the critical enablers of this progress will be the quality and speed of the underlying mechanism for moving payments.

Network and credibility

Another critical enabler is the choice of entity that puts/collects payments in/out of the underlying mechanism. A retail customer may choose a particular payment medium on the grounds of convenience (or something else), but ultimately they will still want to be certain that any payment will be completed securely. A retailer may choose to offer a range of retail payment options, but again will want to be certain that they will receive the remittance quickly, reliably and securely. At both ends of the transaction, the third party handling the transaction will typically be a bank. Therefore, apart from the speed and reliability of the clearing system used, the speed and reliability of the banks involved is also crucial.

However, more sophisticated and multinational retailers are looking for considerably more. With potentially millions of transactions per day being processed globally across their retail channels in multiple currencies, they need to maximise consistency of data format and of course Straight Through Processing (STP). This no longer just applies to the basic payment information, but also includes customer-specific data that are valuable for developing the relationship.

Their bank will therefore be expected to deliver consistent data that can be easily processed by corporate Enterprise Resource Planning (ERP) systems, irrespective of location and currency. As a result, a bank’s physical network (including its access to local clearing systems) is an important selection factor, as are its integration capabilities with ERP and treasury management systems.

While new technology may not be quite as disruptive in the payments space in other areas
(such as hotels or taxis), it is evident that the rise of financial technology companies (‘fintechs’) is already having an impact. Fintechs do not want to make the huge investment in infrastructure that banks have made, but they still need access to that infrastructure so their new solutions can function, so they have been looking to strike partnerships with banks to achieve this.

Apart from infrastructure, fintechs have other important expectations of their partner banks, such as credibility. Any major retailer will want to know if there is a credible bank partnering with the provider of any new payment medium. If so, then the fact that such a bank is prepared to partner with the provider provides a measure of reflected credibility. In addition, providers of new payment methods will want to maximise the international coverage of their technology, especially if they are pitching to multinational retail brand, which makes the scale and functionality of the bank’s network an essential consideration. A final point for the provider is the bank’s technological capabilities. Does it invest heavily in technology? Is it open to partnering with technology providers?

New cashless solutions

Recent years have seen many developments in the cashless payment space. Card payments and physical cash will probably remain dominant in some countries, but decline in popularity versus solutions such as digital wallets, with companies such as Alipay making major inroads in China and elsewhere alongside US providers such Apple Pay.

From a retailer’s perspective, these new payment mechanisms offer some interesting opportunities. Often, they are not device-specific. For instance, Apple Pay can be used across a range of Apple hardware1. This enables retailers to reach a broader range of users via single provider. A further opportunity arises from the fact that many of these devices incorporate functionality such as near field communication (NFC) and Bluetooth low energy (BLE). These both enable more direct engagement with customers. For instance, in the case of BLE, when a customer is picked up by an in-store BLE beacon, the retailer can potentially identify the customer and offer them targeted promotions. This can provide additional valuable business data, such as customer take up of offers and

1Exact Apple Pay functionality available varies across devices. https://www.apple.com/apple-pay/
changing spending patterns. However, as mentioned above, much depends upon how efficiently such
data can be transmitted and normalised for analysis.

The actual take up by consumers of these newer payment mechanisms is likely to vary from country to
country, just as it has with technology such as contactless card payments. Ultimately, apart from country-
or culture-specific factors, much of the individual consumer’s decision of whether or not to adopt new
payment technologies is a balance between convenience and security/privacy concerns. For instance, as
value limits on contactless payments have been increased, rates of adoption have increased.

**Which horse to back?**

With various new payment mechanisms and functionality becoming available, major retailers are trying to
decide which cashless payment solution(s) to adopt. In order to maximise the customer data information
benefit, considerable investment in process integration and technology will be needed. As a result, HSBC
has been extensively involved in helping these retailers build and analyse various possible business cases.
As yet, it does not seem that a market leading cashless payment solution has established itself, so some
retailers are considering implementing multiple leading solutions. Others are considering rolling out their
own proprietary solutions, which would deliver more direct control of the process but would incur
significant costs, as well as the challenge of persuading customers to adopt the solution.

This dilemma is one of the factors that has driven a gradual shift in the focus of some of the largest
retailers. While some are still working on back-end processing enhancements, there is now more
emphasis on implementing front-end innovations that will help to deliver a seamless retail experience.
Nevertheless, one back-end area that many retailers are watching closely is the expansion of immediate payment systems. This is particularly true in countries where existing payment systems are slow, as there is an opportunity to improve the working capital position if the country introduces immediate payments. Again, this is an area where these retailers are looking to their core banks for assistance in monitoring and ultimately implementing such opportunities.

**Partnerships to maximise opportunity and returns**

While their consultative role is valuable, the part that leading banks can play in this space is potentially far broader and could add a great deal of value. For retailers to implement new cashless payment solutions individually on a piecemeal basis is inefficient. A better approach is for banks to act as intermediaries between cashless solution providers and retailers, because of the economies of scale. Banks can build an interface once with each solution provider that can then be deployed across multiple retailers.

Cashless payment providers appreciate the considerable value to them of bank networks, especially those with extensive geographic reach, so are keen to develop relationships with leading banks. The key point is those banks’ technological capabilities, because retailers do not want to find themselves dealing with multiple different solutions and data formats from multiple retailers. In this context, they will be looking to banks to provide a single consolidated solution and data format across all cashless payment solution providers. This will need to cover payment information, but also any other data that contains potential business intelligence. Banks capable of delivering this will be those that have extensive in-country business and technological expertise in areas such as ERP and treasury management systems.
The data opportunity

The importance of bank capabilities in this respect is underlined by a gradual shift away from the current relatively fragmented data management processes. For example, the data currently collected to facilitate a card payment are typically handled entirely separately from any other data associated with the transaction.

However, there are signs that this is starting to change and that retailers are looking for a more integrated approach, where they receive a single data stream containing all available data associated with a customer transaction.

This would considerably ease the process of data mining and deriving valuable insight that could be used to deliver enhancements in areas such as corporate strategy, customer loyalty programs and advertising campaigns.

Minimising physical cash

Nevertheless, all the above opportunities only apply to well-managed cashless transactions. Physical cash has numerous disadvantages from a retailer’s perspective, such as high costs and security issues. However, in an increasingly data-driven age, another major disadvantage is that cash is anonymous. The note or coin used to
pay with carries no customer-specific information, so in the context of business intelligence, cash payments are a lost opportunity that varies widely from country to country. In Sweden, a low percentage of transactions involve physical cash\(^2\), while in Germany cash transactions remain far higher.

So how best to influence customers’ behaviour so they stop using physical cash? As yet, major retailers have steered clear of penalising customers who use cash or rewarding those who do not, although in countries such as Sweden retailers are legally entitled to refuse payments in cash\(^3\). However, some monopoly providers of services, such as London Transport and SL in Stockholm have successfully abolished cash for certain services\(^4\).

The problem for retailers is the risk associated with being a first mover here and driving customers away to competitors. The success of the UK government’s imposition of a levy on plastic bags dispensed by large retailers\(^5\) suggests that measures to compel the reduction of cash in transactions could be possible by legislation. By applying such a measure equally to all large retailers by law, the first mover risk would no longer apply. However, as yet this remains an outstanding issue for retailers and their banks.

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**Conclusion**

It is apparent that well-managed cashless transactions where data is captured in a consistent manner represent a major business opportunity for retailers. In addition, as instant payment systems continue to proliferate there is the further opportunity to reduce working capital requirements by cutting settlement timelines. Retail customer payments can ultimately be both cashless and near-instantaneous.

The challenge is that in a field where numerous existing and emerging cashless payment providers are competing for retailers’ attention and business, retailers are spoilt for choice. Whether trying to pick one or multiple potential winners in this field, the retailer is still left with the need for a considerable systems investment if it is to maximise the available opportunity. This is where a suitable banking partner can offer support in numerous ways, ranging from analysis and market information, to integration support, to providing a consistent interface to multiple cashless payment providers.

\(^3\)https://www.worldfinance.com/banking/the-end-of-money
\(^4\)https://tfl.gov.uk/modes/buses/cash-free-buses
\(^5\)http://sl.se/en/eng-info/fares/buying-tickets/
\(^6\)Those with more than 250 employees. http://www.bbc.co.uk/news/uk-34346309