



Outlook for the payments ecosystem post Covid-19 pandemic

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* Views expressed are strictly the author's.




Eric Grover
988 Bella Rosa Drive
Minden, NV 89423
USA
+1 775-392-0559
+1 775-552-9802 (fax)

Eric.Grover@IntrepidVentures.com

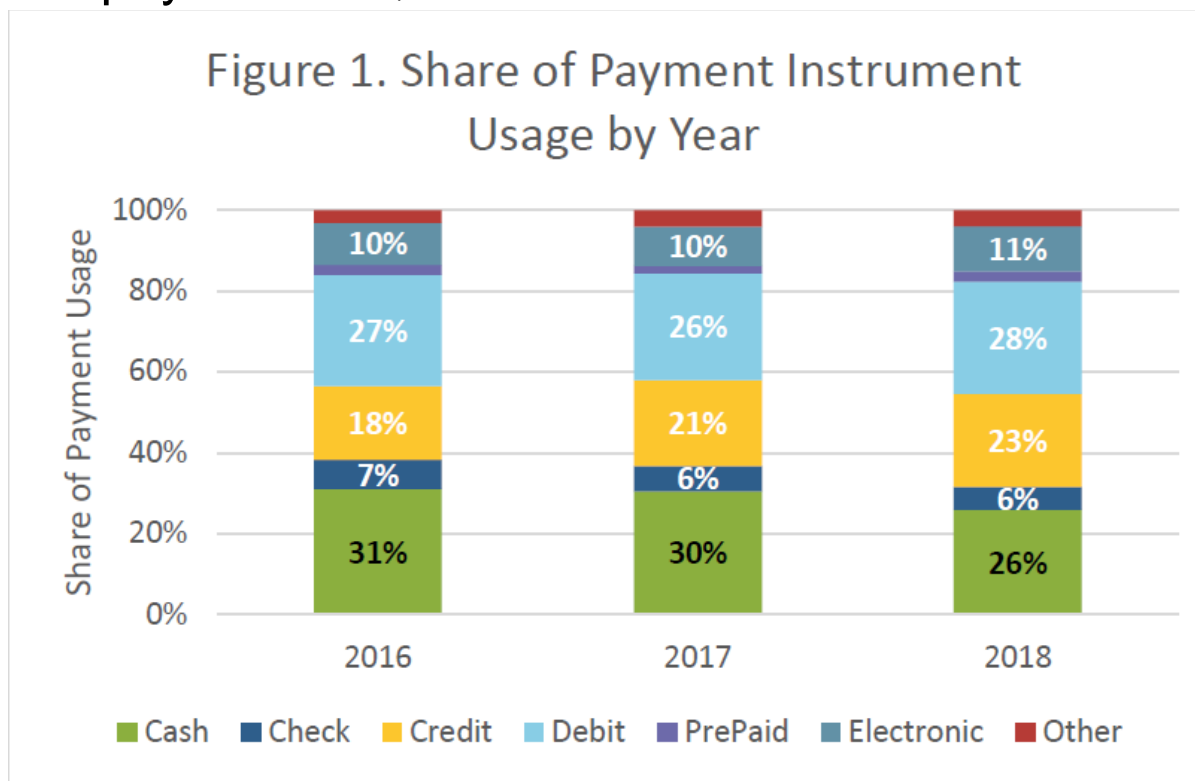
Payments in a post Covid-19 world

- Accelerated migration from cash to electronic payments
 - Contactless adoption in laggard markets like US
- At physical pos, domestic and cross-border
- E-commerce
- Digital currencies, private and public
- Protectionism
- Concentration
- Take-aways

Acceleration worldwide of migration of cash to electronic payments

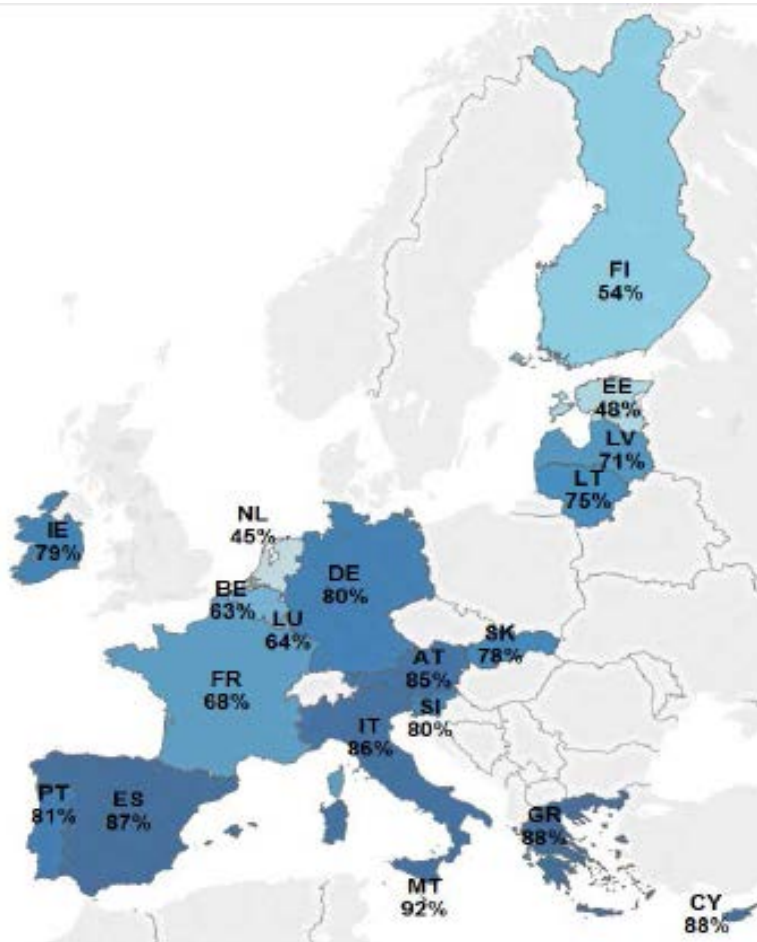
- The payments industry has battled cash since Diners Club's 1950 inception.
 - Electronic payments have slowly but inexorably taken share from cash.
 - In a handful of developed countries electronic payments have displaced cash as the primary retail-payment system.
 - In most countries cash is still the leading retail-payment system.
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- The Covid-19 pandemic makes consumers and merchants increasingly leery of transacting in potentially contaminated physical cash.
 - Longstanding slow displacement of cash by existing and new electronic-payment systems will accelerate.

- Even in mature heavily-penetrated payments markets, cash continues to account for a significant percent of retail payments at the physical pos, particularly for smaller transactions.
- US consumers in 2018 used cash in 26% of transactions, down from 30% in 2017 –a) Cash in 2018 accounted for 35% of in-person payments. –b)



(a-Raynil Kumar and Shawn O'Brien, "2019 Findings from the Diary of Consumer Payment Choice," Cash Product Office Federal Reserve System, June, 2019, p. 5
 (b- Ibid, p. 3

Cash pos payments in the euro area



The ECB estimated in 2016 cash accounted for 79% and 54% of all payments transactions and value at the physical pos in the euro area. –a)

UK

LINK ATM Transaction Volumes by Week (millions)

Week Ending	29-Mar	05-Apr	12-Apr	19-Apr	26-Apr	03-May	10-May	17-May
2019	55.1	51.8	50.7	52.5	50.6	55.0	49.8	51.2
2020	21.2	20.3	20.5	20.3	22.4	23.6	23.5	24.3
Change	-62%	-61%	-60%	-61%	-56%	-57%	-53%	-53%

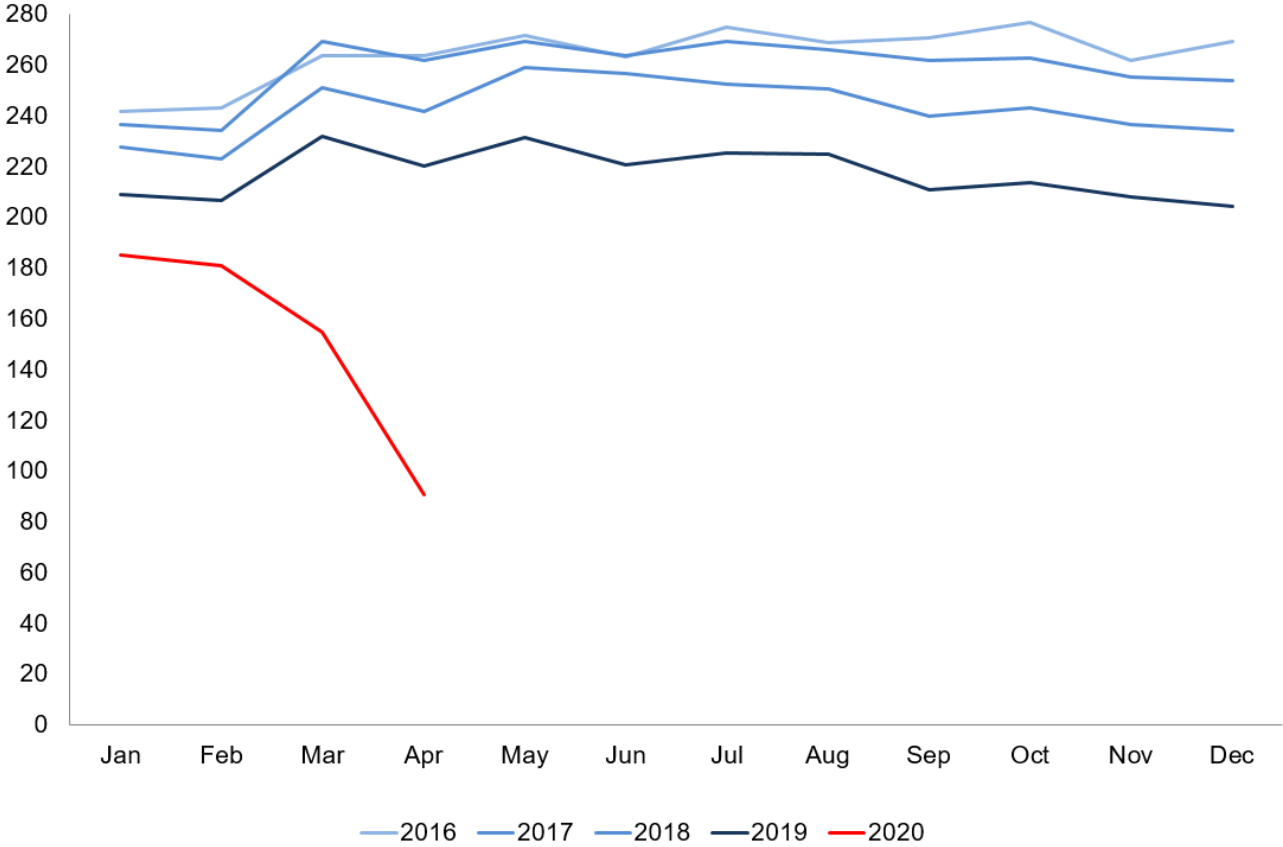
-a)

- 75% of consumers reported they're using less cash. -b)
- 54% of people say they're now avoiding cash -b)
- 10% said they wanted to pay in cash but it hadn't been accepted. -b)

(a- <https://www.link.co.uk/about/statistics-and-trends/>)

(b- "Coronavirus Crisis means cash use down but UK still withdrawing £1 billion from ATMs each week," Link, April 28, 2020)

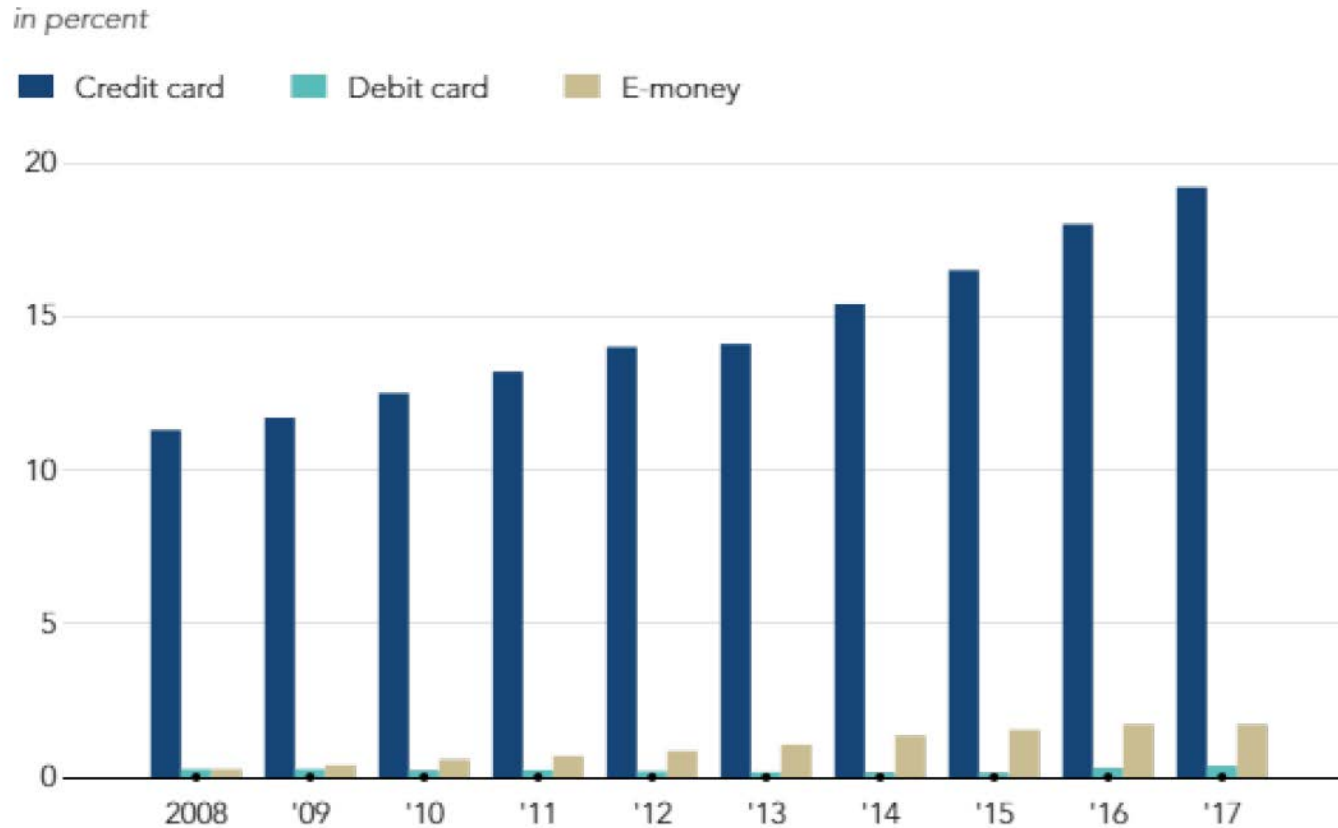
Link ATM network transactions (in millions)



-a)

(a – Link. Figures include balance inquires and rejected transactions, but don't include transactions by customers at their own banks' ATMS.

Cash payment rate remains low in Japan



Rate of payment compared to private final consumption expenditure.

Source: The Ministry of Economy, Trade and Industry

-a)

Huge emerging markets still operate overwhelmingly in cash

- Bangladesh > 97% of retail payments made in cash. –a)
- India > 95% of retail payments made in cash. –b)
 - In 2016 86% of Indian employers paid their employees in cash. –c)
- Indonesia 98% of retail payments at the pos in 2017 made in cash. –d)
 - A significant percent of Indonesian e-commerce is till cash on delivery
- Pakistan > 95% retail payments at the pos made in cash. –e)

(a- “Building Digital Bangladesh: The Way Forward for Digitizing Payments,” Better Than Cash Alliance, November, 2016, p. 2

(b- Wade Shepard, “A Cashless Future Is the Real Goal of India’s Demonitization Move,” Forbes, December 14, 2016

(c- “Global Cash Index India,” Cardtronics/Pymts.com, p. 13

(d- Payments in Indonesia 2017: What Consumers Want,” Acceo Tender Retail, January, 2018

(e The “Financial Inclusion Insights Pakistan survey Wave 1 Report” September, 2014, p. 9, reported 99% of payments were made in cash. Cash still dominates, but electronic payment systems have made some headway.

Cash used for e-commerce in many countries

- Boleto Bancário (Brazil)
- Kobini (Japan)
- Pay Easy (Japan)
- Openbucks (US)
- BCashy (Middle East)

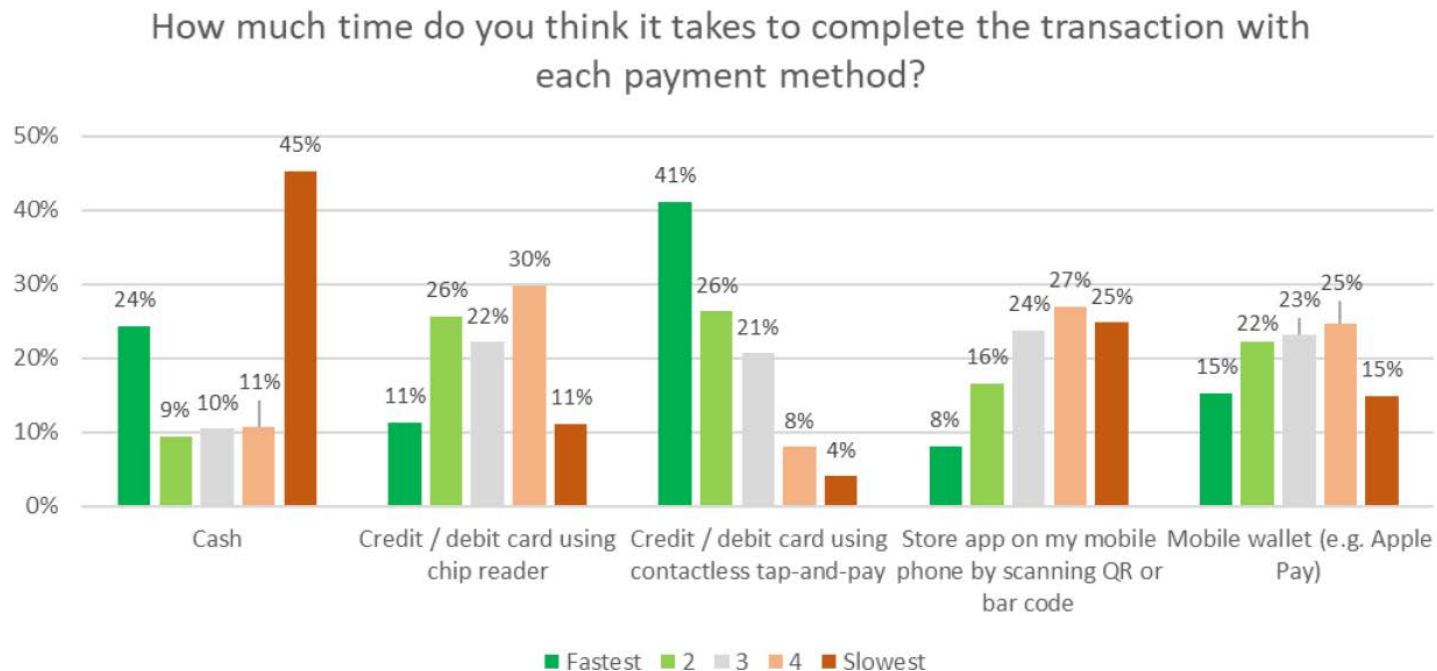
Cash for online purchases

Country	Cash on Delivery
UAE	78%
Saudi Arabia	76%
Egypt	80%
Kuwait	79%

-a)

(a- World Cash Report 2018, G4S, p. 48. Use of cash for e-commerce is however declining in most markets.

Pre-Covid-19 contactless's biggest selling point was convenience



-a)

Contactless

- For a quarter of a century the US payments industry has half-heartedly tried to spur contactless payments. In 1996 Mastercard in Manhattan and Visa at the Atlantic Olympics ran pilots. It wasn't compelling for either consumers or merchants. Swiping cards was habit and nearly frictionless.
- Google Wallet, Apple Pay and Samsung Pay launched in 2011, 2014, and 2015, respectively. Mobile-wallet evangelists enthused they would usher in an era of contactless payments at NFC-enabled merchants. Joe Cardholder and Jose Merchant didn't bite.
- Covid-19 is more persuasive. Cardholders and merchants don't want to touch. Issuers are rushing to put contactless cards in consumers' leather wallets.
- 44% of UK consumers surveyed in April say they will use contactless payments more ^{-a)}
- Visa and Mastercard both reported tap-to-pay payments in the quarter ended March, 2020 increased 40% yoy.
- 9 of Visa's top 10 US issuers are issuing contactless. 9 of the top 10 grocery stores are accepting contactless.

(a- "Coronavirus Crisis means cash use down but UK still withdrawing £1 billion from ATMs each week," Link, April 28, 2020

Post Covid-19 payments at the physical pos, domestic and cross-border

- Nobel-prize winning economist Vernon Smith observes “once the pandemic passes and vaccines and treatments appear, people will be ready again to spend on services, travel and hotels.” –a)
- Commerce at the physical pos will come back. Virtual bars, restaurants, and barbershops don’t cut it. Consumers, slowly, will return to bars and restaurants, fly to Europe for business and holidays, and again take cruises.
- Cross-border payments at the physical pos will crawl back.

(a- Vernon Smith, “The Economy Will Survive the Coronavirus,” WSJ, April 5, 2020)

E-commerce

- Mastercard CNP payments in April, 2020 accounted for over 50% of volume, up from 40% in 2019.
- Pre-Covid-19 the global e-commerce market forecast to increase 53% by 2023, to be \$5.9 trillion. –a)
- E-commerce will resume healthy growth and continue to gain payments share.
- Reinforced salience of omnicommerce

Digital fiat currencies

- Fear of the coronavirus will spur greater interest in digital fiat currencies, from central banks, banks, payment networks, and technology players.
- Eighty percent of 66 central banks responding to a BIS 2019 survey are working on wholesale and/or general-purpose digital money.
- Signature Bank and Chase have token-based [Signet](#) ^{-a)} and [JPMCoin](#) ^{-b)}, respectively, backed by dollars on deposit, focused on business-to-business payments. [Wells Fargo Digital Cash will launch this year](#) ^{-c)} to support cross-border payments, substituting tokens for fiat currencies being transferred.
- The PBOC is rolling out a digital-currency pilot in 4 Chinese cities: Shenzhen, Suzhou, Chengdu and Xiong'an, a satellite city of Beijing.-d) Four biggest state-owned banks participating.

(a- Benjamin Pirus, "Signature Bank Beats JP Morgan To Ethereum-Based Token Services," Forbes, February 22, 2019

(b- Daniel Palmer, "JPMorgan to Start Customer Trials of Its 'JPM Coin' Crypto," Coindesk, June 25, 2019

(c- Ben Munster, "Wells Fargo to launch proprietary digital currency," Yahoo Finance, September 20, 2019

(d- Jonathan Cheng, "China Rolls Out Pilot Test of Digital Currency," WSJ, April 20, 2020

Digital fiat currencies

- The Riksbank's [piloting a permissioned distributed-digital-ledger-based e-krona](#) distributed through banks and licensed representatives. –a) It will issue e-krona tokens to banks in exchange for reserves at the central bank. From digital wallets users will make deposits and transfers and make and receive payments.
- The world's largest electronic payment network Visa filed [a patent application](#) for a “Digital Fiat Currency.” –b) It's well positioned to support an electronic fiat currency through its bank licensees, albeit with thinner transaction economics than it enjoys with credit cards.

(a- “The Riksbank's e-krona pilot,” Riksbank, February, 2020

(b- Jason Brett, “Visa Applies Fo Digital Dollar Blockchain Patent,” Forbes, May 14, 2020

Digital fiat currencies: Libra 2.0

- Facebook pivoted from its plans announced last year, which provoked a din of hostility from regulators and politicians worldwide. The rethink ^(a) will keep Libra's transaction ledger permissioned and back its stablecoins with each jurisdiction's national currency, rendering them akin to electronic banknotes. That won't threaten government monopolies creating money.
- The Switzerland-headquartered Libra Association is putting a former regulator at the helm. It's [appointed HSBC's chief legal officer Stuart Levy](#), who previously was a regulator at the Treasury Department, CEO. And it's [appointed the former director of the U.S. Treasury Department's Finance Crimes Enforcement Network Robert Werner](#) as general counsel.

Payments nationalism

- Borders and control of critical supply chains for ventilators, masks and drugs, are at the fore. Many nations and the supranational EU view payments as critical infrastructure. The Covid-19 pandemic is stoking protectionist sentiment.
- ECB board member Benoît Cœuré declared “Strategic autonomy in payments is part and parcel of the European (EU) agenda.” –a)
- Cœuré lamented that the leading pan-European card schemes aren’t European, declared that “dependence on non-European global players creates a risk that the European payments market will not be fit to support our Single Market and single currency, making it more susceptible to external disruption such as cyber threats, and that service providers with global market power will no necessarily act in the best interest of European stakeholders.”
- The EU wants a pan-EU payment system to take resented American Mastercard and Visa down a notch.

Payments nationalism

- EU
 - EU Payments Initiative
 - Smart Payments Association PSD2 Proposal
- Russia - Mir
- Turkey - Troy
- China – UnionPay, Alipay and WeChat Pay
- Sri Lanka - LankaPay
- Indonesia –National payment gateway
- Bangladesh - National Payment Switch Bangladesh (NPSB)
- India – Rupay
- Saudi Arabia – National QR-code-based system in development
- Et al

Payments nationalism implications

- Alipay, China UnionPay, WeChat Pay
- Mastercard and Visa
- American Express, Discover, PayPal
- Amazon Pay, Apple Pay, Facebook/Libra, Google Pay

How to think about Google Pay

- India
- US
- Europe

Concentration: The strong are going to get stronger

- Facebook, Google,
- Amazon, Walmart, Costco, Carrefour, Shopify
- Traditional “card” networks and alternative payment systems
- Processors
- Banks

Take-aways

- Greater share for electronic payments: traditional card networks, alternative and digital-wallet-anchored payment systems, and digital fiat currencies
- Increased tension/strife between global and national players and governments
- In some sectors increased concentration will put more pressure on payment transaction economics.

Q&A