On the Brink of a Cashless Society?

The environment in Hangzhou, China today is similar to many other cities around the world: building sites become shiny new shops, offices and apartments; new infrastructure moves people faster than ever, and a vibrant community of people work, study and spend their leisure time. But in one important respect, Hangzhou is quite different.

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A blueprint for China and beyond

In addition to being the home of Chinese technology giant Alibaba and payment service provider Alipay, Hangzhou is a virtually cashless city. Almost everything including utilities, taxis, public transport and retail, services can be paid via smartphone. Naturally, many of Hangzhou's citizens experience quite a culture shock when they visit other cities and have to pay by cash or card. However, the expectation is that paying with mobile will become more the norm in other Chinese cities. How will this rapid and profound shift in the way that people and businesses pay for goods and services affect corporate treasurers?

Although the pace of change can be quicker in some markets, the migration away from cash collections has been well-received by most businesses, not only within China but also globally. Electronic collections are now cheaper, more secure and notably accompanied by richer data. This can all be harnessed to offer intelligence and insight into customers and their behaviours to target marketing campaigns, design incentive programmes and formulate strategies. As regional and global corporations gain experience and recognise the value of electronic collections in one city or country, they are able to transfer this experience to their operations elsewhere, which further accelerates adoption.

Catalysts of change

In many respects, the shift towards electronic payments and collections is neither new nor surprising. Consumers and businesses have a wide range of electronic payment and collection methods available to them, including cards, direct debits, ACH

HSBC

and wire payments, as well as, in a growing number of markets, instant and mobile payments. However, there are three closely-linked trends that are now driving cashless societies at an unprecedented rate:

First is the ubiquity of smartphones. Over half of China's population accesses the internet through a smartphone[1], five times the number of the United States. The growth in smartphone usage is a global trend: China is the 26th country globally ranked by percentage of smartphone penetration, with countries or areas such as the Netherlands, Taiwan, Hong Kong, Norway and Ireland all seeing penetration rates above 90%[2], illustrating the scale of change and opportunity.

Related to this is the use of social media, such as WeChat, which in China offers integrated payment capabilities through WeChat Pay – another trend that is taking shape globally. For example, in March 2018, WeChat's owner Tencent announced that WeChat had one billion active users. They spend around a third of their total smartphone time on WeChat, equivalent to around two hours a day.

Another closely related trend is the level of adoption, and speed of growth in e-commerce. China represents nearly half of the world's e-commerce[3] which accounted for more than 23% of retail sales in 2017, of which 75% – over $1tr - will be transacted via smartphone. This figure is expected to increase to 40.8% by 2021[4].

These phenomena are not only relevant to corporations that have local operations in China; other markets, such as India, Hong Kong and Singapore are also experiencing similar trends. What is different, however, is the drivers of change in each market. In China, for example, the trend towards a cashless society is being driven by market forces; however, in countries like India the digitisation of payments is the result of government or central bank initiatives. For example, the Indian government was keen to use demonetisation as a way to increase transparency in the economy and encourage financial inclusion. One important illustration of this has been the government's support for the Immediate Payment Service (IMPS), an instant, interbank electronic funds transfer platform.

Taking an omni-channel approach

In all markets where the use of digital payments is proliferating, e-commerce volumes are growing rapidly, as the example of China illustrates. The difficulty for businesses selling into China and other markets that are experiencing growing e-commerce volumes is the need to support an expanding range of digital collection methods; however, at

Fig 1. Benefits of migration to electronic collection

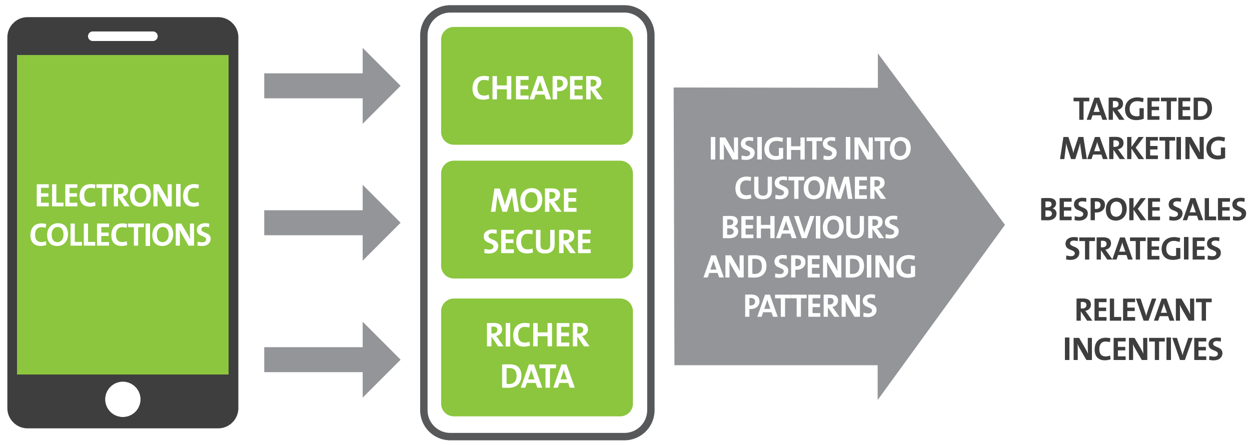

Fig 2. Top 15 Countries by Smartphone Users and Penetration

#1 China

TOTAL POPULATION
1,388,233,000

SMARTPHONE USERS
717,310,000

SMARTPHONE PENETRATION 51.7%

RANK	COUNTRY	TOTAL POPULATION	SMARTPHONE USERS	SMARTPHONE PENETRATION
2	India	1,342,513,000	300,124,000	22.4%
3	United States	326,474,000	226,289,000	69.3%
4	Brazil	211,243,000	79,578,000	37.7%
5	Russian Federation	143,375,000	78,364,000	54.7%
6	Japan	126,045,000	63,089,000	50.1%
7	Germany	80,636,000	55,492,000	68.8%
8	Indonesia	263,510,000	54,494,000	20.7%
9	Mexico	130,223,000	52,993,000	40.7%
10	United Kingdom	65,511,000	44,953,000	68.6%
11	France	64,939,000	42,399,000	65.3%
12	Turkey	80,418,000	40,010,000	49.8%
13	Italy	59,798,000	39,323,000	65.8%
14	South Korea	50,705,000	36,262,000	71.5%
15	Spain	46,070,000	30,771,000	66.8%

the same time offline sales still far exceed those online. Consequently, in addition to emerging new payment methods that support e-commerce and m-commerce, companies still need to support face-to-face payment methods, often including cash. Furthermore, new payment methods tend to add to (rather than replace) existing payment methods, leading to increased complexity and cost. This problem becomes even greater for companies that operate internationally as local payment practices and instruments differ across countries.

A fast-growing number of corporations are choosing to manage the proliferation of emerging and traditional collection methods in a consistent way through omni-channel collection solutions, such as those in the retail and luxury goods sectors. This type of solution, which is gaining particular traction in China, provides merchants with the ability to accept and process a comprehensive range of collection methods through a single channel. Incoming transactions are presented in a standard format, and accompanied with rich information to support reconciliation, financial and strategic analysis. Corporate treasurers therefore avoid the need to establish separate channels for different collection methods or countries. At the same time, an omni-channel approach also resolves the difficulty of different cut-off times and varying post-transaction documentation requirements between countries.

The commercial benefits of omni-channel collection solutions are clear, with customers enjoying a better, more consistent experience when purchasing products and services, leading to fewer abandoned transactions and improved customer satisfaction. Additionally, the working capital benefits should not be underestimated. Efficient collection, predictable value-dating and the ability to use data to automate reconciliation are all essential components in an effective treasury and working capital management strategy. Treasurers can accelerate the cash conversion cycle, improve short-term cash flow forecasting and liquidity planning, and reduce the cash 'buffer' maintained for working capital purposes.

A global view

The value proposition of omni-channel collection solutions extends globally but it is often most compelling in countries such as China and India where payment digitisation is growing fastest. However, this is not an isolated phenomenon. The combined stimulus of smartphone proliferation, use and reach of social media, and growth of e-commerce, particularly in fast-growing and emerging markets where these trends are most acute, will continue to fuel changing consumer behaviours and treasurers will need to respond quickly and efficiently. Furthermore, as e-commerce becomes increasingly cross-border and consumers expect the same level of payment convenience when travelling overseas, electronic and digital payments trends will continue to expand to other parts of the world. The right platforms will allow corporations to not only accommodate trends as they appear today, but also to position their business for change and competitive opportunities ahead.

Notes

1 51.7 percent, Newzoo's Global Mobile Market Report, April 2017
2 Zenith's Mobile Advertising Forecasts 2017
3 eMarketer, 2017
4 eMarketer, 2017