E-payments are the catalyst for a global cashless society

Covid-19 has ramped up the role digitisation plays in the financial lives of more and more of the world's population, sparking a massive transformation in the financial services industry with electronic payments at the epicentre.

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Payments are increasingly becoming cashless, and the industry’s role in fostering inclusion has become a significant priority. As digital money draws a stronger interest, the financial services industry must recognise the entire infrastructure of payments is being reshaped, with new business models emerging.

A PwC survey reveals how even before the pandemic, cashless payments like sending a text to pay for a bus ticket in Turkey, or using a QR code to buy groceries in China are evidence of a steady shift to a digital economy - a shift that might ultimately lead to a global cashless society. Global cashless payment volumes are set to almost double from 2020 to 2025, from about one-trillion transactions to about 1.9 trillion.

According to findings, Asia-Pacific will grow the fastest, with cashless transaction volume growing by 109% from 2020 to 2025 followed by Africa (78% from 64%) and Europe (64% from 39%), Latin America comes next (52% from 48%), and the US and Canada will have the least rapid growth (43% from 35%).

"A cashless world is in plain sight. The Covid-19 pandemic reinforced an already growing shift to digital payments and likely drove a three- to five-year acceleration in their use.The acceleration towards digital payments will create new opportunities for the entire payment ecosystem, including banks. But it will also expose weaknesses for those not prepared to adapt," says Kurtis Babczenko, global banking and capital markets leader, PwC.

“Covid19 is a catalyst for change – we have seen the rapid deployment of payment services across Africa. Current market conditions have given rise to the need for more financial inclusion, as well as greater innovation and collaboration among financial services players.

“As an emerging market, unencumbered by large amounts of legacy technology, South Africa has the potential to develop a modern payments infrastructure and a cutting-edge payment platform that places customers at the core," says Chantal Maritz, strategy& payments transformation lead Africa at PwC, says.

PwC findings reveal the key themes that are influencing the payments industry and highlights the importance of how the industry responds to these trends. In order to properly plan for their future FS leaders need to fully understand the industry trends:

1. Inclusion and trust

In developing countries, financial inclusion will continue to be driven by mobile devices and access to affordable, convenient payment mechanisms. By 2025, smartphone penetration will likely reach 80% globally, largely via uptake in emerging markets.

In Africa, mobile operators and retailers are taking the lead in equipping customers with cashless means of payment. They’re also playing a key role in bringing about financial inclusion and trust in digital payments. In addition, regulators are stepping in to drive financial inclusion. It is also being strengthened by the need of many African migrant workers to send money home via affordable cross-border payments.

2. Digital currencies

CBDCs (central bank digital currencies) are predicted to have the biggest disruptive impact over the next 20 years.

South Africa has embarked on its second CBDC project to explore the use of both a wholesale CBDC and wholesale settlement tokens for interbank use.

Sarb looks into central bank digital currency
25 May 2021

3. Digital wallets

Looking ahead, 86% of our survey respondents agreed or strongly agreed with the prediction that traditional payment providers will collaborate with fintechs and technology providers as a main source of innovation.

Alternative ‘closed loop’ systems such as e-money and telecom-led mobile money solutions will continue to dominate a large proportion of the African continent, especially sub-Saharan Africa, due to the foothold mobile money agent networks have already established. This trend will persist, with more financial-services offerings built on top.

4. Battle of the rails

Senior payment professionals surveyed expect important regional developments towards a payment infrastructure in which card and other transactions run on joint account-based payment rails. Key initiatives in Latin America, South-East Asia and Europe give testimony of this development.

In Africa, account-to-account credit transfers are likely to continue growing given enhancements to the national clearing infrastructure focusing on low-value, high-volume payments such as the Rapid Payments Programme (RPP) in South Africa. Ghana, Nigeria and Kenya have also introduced instant payment solutions.

5. Cross-border payments

In our survey, 42% of respondents said they felt strongly that there would be an acceleration of cross-border, cross-currency instant payments and B2B payments in the next five years.

6. Financial crime

In our survey, security, compliance, and data-privacy risks and related issues were the top concern for banks, fintechs and asset managers in implementing a fully integrated technology strategy.

“Aside from this shift to a cashless society, we need to also pay attention to a more profound change. Not only are consumers saying goodbye to traditional ways of paying for goods and services—including the humble paper check and analogue invoices, but the entire infrastructure of payments is being reshaped.

That reshaping involves two parallel trends: an evolution of the front- and back-end parts of the payment system (instant payments; bill payments and request to pay; and plastic cards and digital wallets); and a revolution involving huge structural changes to the payment mix and ecosystem (emergence of so-called ‘buy now, pay later’ offerings; cryptocurrencies; and work underway on central bank digital currencies.” says Babczenko.