THE END OF COLD, HARD CASH
AND
THE GLOBAL SHIFT TOWARD CASHLESS CONSUMER PAYMENTS

EXECUTIVE SUMMARY
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MULTIPLE DRIVERS OF A GLOBAL SHIFT TO CASHLESS PAYMENTS

Though money has been facilitating trade for thousands of years, it is constantly changing forms. In the modern world, where consumers are increasingly connected with and doing business with companies and other consumers from all around the world, transactions are ever more cashless. As trade continues to move from in-person interactions to remote and online transactions, so, too, will money transition from physical currency to electronic transfers.

As new payment options are introduced to more consumers, spending will grow. Transactions that previously could not take place due to lack of cashless options will now occur. We estimate that up to $10 trillion in global consumption over the next decade will be unlocked by the growth of cashless payments.

The transition to a cashless economy is only accelerating as a result of four underlying drivers:

MOBILE TECHNOLOGY
Globally, internet penetration is reaching an inflection point, and by 2020, 4.4 billion consumers worldwide will be online. The majority of the growth in internet access over the next decade will be the result of consumers in developing markets using mobile devices. For them, gaining internet access will enable new shopping patterns, including online purchases, for which they will need cashless forms of exchange.

GLOBAL GDP GROWTH
Over the next five years, The Conference Board projects that mature economies will grow by just over 2% annually, while emerging markets will grow by 4% per year. The growth in GDP, particularly strong in emerging markets, will translate to higher levels of household income and consumption. Much of the consumption growth will be fueled by a consumer segment, introduced by The Demand Institute elsewhere, called the Connected Spenders, who are highly engaged with the modern consumer economy.
FINANCIAL INCLUSION
The World Bank estimates that 2 billion consumers around the world—the so-called unbanked—do not have an account at a financial institution. Most, but not all, of these consumers live in emerging markets. As our work on the Connected Spenders¹ shows, many of them are eager participants in the modern consumer economy, despite their low levels of income. New payment options will connect these would-be consumers to the modern economy, enabling them to engage in e- and m-commerce, consumer credit markets, and peer-to-peer payments and remittances.

SECURITY
In many parts of the world, carrying cash in person is not safe, and the danger of theft is understood to be a key motivator for the use of mobile exchange and storage services, once they become available. Digital payments have their own security concerns, especially as information is shared with third parties in online and offline transactions, and privacy is a growing concern for consumers. Being able to trust that cashless payments are safe and will not lead to theft or identity fraud is vital for consumers.

ONGOING PAYMENT INDUSTRY DISRUPTION

The cashless-payments landscape is complex and becoming more so, partly because of consumer behavior. Connected Spenders lead the way with new shopping behaviors that are enabled by and are driving demand for cashless payments. There has been an expansion in the ways consumers shop across channels, but online and mobile shopping—and cashless payments—still vary greatly across different product categories. Their eventual role remains uncertain in many categories. Likewise, the forms of cashless payments sought by consumers will depend on many things, including what they use today, which also varies widely across markets.

As a result, the cashless-payments industry is in a state of disruption, with different types of companies battling for market share, using different business models in different parts of the world, against a backdrop of varying financial services infrastructure and market regulations. The coming period of innovation presents opportunities and challenges to all and will touch almost all aspects of the consumer economy. The goal will be to come up with a standard digital payment platform that retailers and consumers know to be safe and that improves upon the conventional experience of using a physical wallet of cash and cards.

To illustrate how the industry will evolve in response to demand for cashless payments, we describe three different types of companies currently operating, and the market advantages and objectives for each in the coming years (see figure).
GLOBAL PAYMENTS LANDSCAPE

ROLES
- PAYMENT SERVICE PROVIDERS
- RETAIL BANKS
- REMITTANCES PROVIDERS
- RETAILERS
- CLOSED-LOOP STORED-VALUE CARDS
- TECHNOLOGY COMPANIES
- TELECOM CARRIERS AND DEVICE MAKERS

CENTRAL OBJECTIVES
- MAINTAIN PROMINENCE IN EXISTING MARKETS
- EXPAND INTO LESS PENETRATED REGIONS
- LEVERAGE TECHNOLOGY IN NEW WAYS
- CUT TRANSACTION COSTS OF PAYMENTS
- DRIVE LOYALTY OF CONSUMERS
- EXPAND CASHLESS PAYMENTS TO MORE SHOPPING OCCASIONS
- INCREASE FINANCIAL INCLUSION GLOBALLY
- CONNECT PAYMENTS AND THE REST OF CONSUMERS' LIVES
- EXPAND CURRENCY EXCHANGE AND STORAGE TO ADDRESS CONSUMER NEEDS

CONSUMER DEMAND ADVANTAGES
- CONNECTION TO OTHER FINANCIAL SERVICES
- CONNECTION TO OTHER PARTS OF THE SHOPPING EXPERIENCE
- MOBILE AND ONLINE CONNECTION TO DIGITAL PAYMENTS AND OTHER SERVICES

REGULATION COMPLIANCE INFRASTRUCTURE
- INDUSTRY-DRIVEN ADVANTAGES
- TECHNOLOGY
- CURRENT REGIONAL ADVANTAGES
- EMERGING MARKETS
Core Providers

Core Providers, including retail banks, payment network providers and remittance providers, derive most of their revenues from the processing of payments. Many have had strong names for decades, operating in mature markets where credit and debit card transactions are routine, thanks in part to the developed financial infrastructure they provide and support. This established infrastructure lends them a distinct competitive advantage in supplying payment services. Their demand-side strength lies in their ability to connect their payment services to other financial services, giving them a holistic understanding of consumer payment patterns and the relationships between demand for those payments and other financial services. Others—such as China UnionPay and RuPay in India—are newer but operate similar business models.

Core Providers have three key objectives. The first is to maintain their role in cashless payments in mature markets, especially among consumers who have access to the banking system, which will require an understanding of the unmet consumer needs that new payment technologies can fulfill and the benefits they deliver. Their second goal is to expand into less penetrated markets and to engage with the unbanked by innovating and providing credible alternatives to credit and debit cards. The third goal relates to the focus among less established companies in this category on using technology in new ways to further the adoption of cashless payments in all markets.

Adjacent Participants

Adjacent Participants, including retailers and operators of closed-loop payment systems, are the companies that are directly affected by the processing of payments but whose main source of revenue is derived elsewhere. These businesses share the desire to reduce the transactions fees they incur when accepting cashless payments and to increase loyalty by offering new benefits via their payment platforms. Many of them, especially in mature markets, are pitting themselves against the experience and infrastructure advantages of Core Providers. Their main advantage is their ability to incorporate new payment methods into consumers’ purchasing experiences and to address the needs of unbanked consumers by extending the use of stored-value cards, such as those used by closed-loop systems, into other types of cashless payment.

Adjacent Participants have three key objectives, all of which are related. The first is to reduce transactions costs. The second is to increase revenues by encouraging customer loyalty, and the third is to extend digital payment options to those without access to traditional cashless options. The construction of new cashless-payment platforms that accomplish the second and third objectives will also accomplish the first, allowing the Adjacent Participants to largely circumvent the existing payment infrastructure and associated fees. These platforms will allow greater interaction between retailers and consumers, creating more personalized experiences and offers and increasing loyalty with consumers.

New Entrants

New Entrants, including both well-established and start-up companies across industries like technology and telecommunications, are the most likely to disrupt the payments industry with new cashless offerings. Many of them will not survive, but those that do could form the next generation of major players in consumer payments. In mature markets, their main advantages are agility and mobile-technology prowess. In developing markets, their advantage is using technology in new ways to provide the underbanked with alternative payment options that do not rely on traditional infrastructure development.

New Entrants have three key objectives. The first will be to increase the use of cashless-payment options around the world by developing new business and technology models that are profitable and have lower transactions costs. The second area of focus will be to apply the connective power of social networks to promote the use of cashless payments. The third area of focus will be using their technological advantage to meet specific consumer payment needs such as greater convenience and security, particularly but not exclusively in the developed world.
IMPLICATIONS FOR THE CONSUMER PAYMENTS INDUSTRY AND BEYOND

As the global economy becomes increasingly cashless, driven by the actions of the participants involved and the forces outlined in this report, so, too, will the structure of the cashless-payments industry be transformed. We expect three main factors to shape the future business model of the payments industry. The first two are the result of the growth in financial inclusion. The third is driven by the shift toward payments integration.

REVENUE EARNED PER TRANSACTION WILL DECLINE.
The objectives of the Adjacent Participants and New Entrants will lead to the creation of payment options that will be processed over the internet and cellular networks at rates lower than the Core Providers charge for use of their networks. Likewise, advances made chiefly by Core Providers and New Entrants will increase security and reduce fraud, major sources of cost in processing payments today. Payment platforms relying on lower-cost, mobile technologies will be favored.

THE NUMBER OF TRANSACTIONS WILL RISE, WHILE AVERAGE TRANSACTION SIZE WILL DECLINE.
Innovations aimed at increasing financial inclusion will lead to more users of cashless payments in the developing world, while progress made in mature markets will transition more transaction types to cashless. These new users and transaction types will have lower average size than today’s typical transaction.
INDIRECT REVENUE OPPORTUNITIES WILL INCREASE.

Innovations that affect the shopping experience will make identifying shopping habits across channels more efficient. And as cashless-payment methods become better integrated into the rest of consumers’ financial and digital lives, the ability to measure consumer behavior and interactions will grow. Consumer-facing businesses will be able to offer more personalized and relevant products and promotions than ever before, and at a lower cost.

The resulting changes in shopping habits from the accelerating use of cashless payments have specific implications, representing significant challenges, for retailers and manufacturers. First, we expect smaller, local and specialty retailers—which remain the biggest and fastest-growing channels in many countries, particularly in the developing world—to flourish from the ability to accept new forms of cashless payments, an option previously unavailable for reasons including a lack of infrastructure. These retailers will have access to more consumers with more payment options. Second, we expect consumers to display more “omnichannel” behaviors as a result of new cashless-payment platforms that make it easier to shop and pay for products across channels. They will likewise demand more customized, convenient and cost-saving options within the platforms. Third, we anticipate an expansion of cross-border trade enabled by the growth of e-commerce made possible by new cashless-payment options.

These challenges are not insurmountable, and retailers and manufacturers can take several actions to benefit in the near term. The first is to view the payment process from the consumer point of view in order to identify ways that technologies and cashless-payment platforms can benefit consumers and fuel demand. The second action is to test and learn how payment platforms can provide data that enables a business to measure and improve its performance, learn more about customers and create new ways to engage with them. The third action is to explore alliances and partnerships that would help launch these new methods of payment and engagement while enabling mutual learning in a fast-changing and uncertain environment.

Collaboration is likely to be the key word. From the VHS-versus-Betamax war of the 1980s to Blockbuster’s more recent refusal to parley with Netflix, history suggests that competition over innovations can lead to costly battles for businesses and less-than-optimal outcomes for consumers. By contrast, collaboration has already given birth to new payment options as varied as CurrentC, m-pesa and Softcard, to the benefit of all parties. There is plenty of space for more.