Weathering the pandemic

PayNet Digital Payments Insights Study 2022

PayNet
PAYMENTS NETWORK MALAYSIA

Content

Foreword

It gives me great pleasure to introduce the PayNet Digital Payments Insights Study 2022, our inaugural publication focusing on key trends influencing and reshaping the payments landscape in this country

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Sdn Bhd

The recent 2 ½ years was unparalleled by any measure. COVID-19 impacts are still resonating and, in many respects, have completely transformed our lives. Movement controls, physical distancing and heighted personal hygiene concerns jolted rapid adoption of digital payments by consumers and digital transformation by businesses. Digital payments continues to be a critical enabler for economic development and growth.

Payments Network Malaysia Sdn Bhd ('PayNet') commissioned Nielsen IQ to conduct this Study in Q4 last year to gauge the extent of payment behaviour changes among consumers and businesses throughout the country.

6 key trends were observed in re-shaping the Malaysian retail payments landscape. Preference for mobile over desktop banking in making payments, the rise of QR payments, continued trust in cards (especially debit cards) for in-store payments and dwindling cheques usage were noted. An important trend to note from two key observations is the significant erosion in cash usage, although it remains the primary payment mode.

Two key observations from our fieldwork in Q4 2021 are, firstly, use of cash by consumers in making payments was not as high as before the pandemic and secondly, businesses' payment behaviours across the nation differ. Those in the South and East Coast regions had not noticeably changed their preference for cash payments. In other regions, particularly the North, clear shifts to digital payments since the pandemic can clearly be seen.

Our Study also included 2 special focus areas - the extent of digital payments adoption in SMEs' digital transformation agenda and factors driving continued use of cash for payments.

Findings from this Study indicate Malaysia is on the right trajectory for mass digital payments adoption and we conclude with 4 key enablers for sustained adoption. We trust this Study provides useful information and valuable insights as we navigate through the new age of digitalisation.

6 April 2022

Insights and trends

Malaysian payments landscape: 6 key trends

1 **Mobile banking preferred over desktop banking**

Consumers increasingly prefer 'on-the-go' mobile banking for payments compared to desktop online banking, mainly due to the flexibility in catering to both online and in-store purchases.

3 **Cards are trusted for in-store e-payment**

Card payments are the most popular digital payment mode for in-store purchases, mainly due to the high degree of trust and convenience (wide acceptance and easy to use).

5 **Cash is still the main payment mode**

Despite declining trend, cash remains the most preferred payment choice. 78% of Malaysians still prefer cash, 11% lesser since the pandemic (89%). 48.4% still pay by cash on a daily basis, more so in non-urban areas (nearly 2/3) than in urban areas (36.2%).

2 **Rapid rise in QR payments**

QR payments grew the fastest during the pandemic, with 13% higher usage. Factors include convenience (increased merchants' acceptance), usage promotions by providers and merchants as well as its use for disbursing government payouts.

4 **Lower usage of cash payments**

Malaysians generally use 2-10% lesser cash compared to before the pandemic. Age, gender, location and income levels influence preference. Businesses in Southern & East Coast regions remain staunch users of cash.

6 **Cheque usage continues to dwindle**

Cheques are the least preferred payment option with only 4% of Malaysians still using this payment mode, down 5% from 9% before the pandemic.

Note: 'Before pandemic' or 'pre-pandemic' refers to prior to 18 March 2020, 'currently' refers to Q4-2021 (when the field study was conducted) and 'e-payment services' refer to JomPAY, FPX, DuitNow, DirectDebit and IBG

Businesses noted their customers no longer prefer to pay by cash

From companies' perspective, e-payments services are now the most preferred payment mode, followed by e-wallets. A deep dive on the rise of e-wallets is on pages 19-22.

E-payment services overtook Cash as the most preferred payment option since the pandemic

Before Pandemic

1 Cash

2 Credit Card

3 E-payments services

4 Debit Card

5 E-wallets

Currently

1 E-payments services

2 E-wallets

3 Cash

4 Credit Card

5 Debit Card

Source:
Q17. Could you rank the top 5 payment methods (used by customers) in your company before COVID-19 pandemic?
Q20. Could you rank the top 5 payment methods (used by customers) in your company currently?

Overall use of cash is still high although this declined since the pandemic

78%

Malaysians use cash to pay

Down -11% since the pandemic

Consumers' use of digital payments depends on their age, gender, ethnicity and their location (i.e. urban vs non-urban)

Urban and single females who are 18-25 years **tend to prefer digital payments**

Non-urban and married males who are 61-65 years **tend to still prefer cash**

Businesses' digital payments usage tend to be influenced by their customers and supply chain's preferences, geographical location, type and size of business.

- Businesses in Northern, Central and East Malaysia **are moving to digital payments as the preferred mode**

- Businesses in East Coast and Southern regions **tend to still prefer cash**

Source:
Q18. What kind of payment methods have you used before the COVID-19 pandemic?
Q20. What kind of payment methods are you using currently?

On average 48.4% of Malaysians still use cash for daily expenses, even more so in non-urban areas

The preference for cash is lesser for payment of daily expenses, with 48.4% daily expenses in Malaysia still paid in cash.

In this context, the 'urban-rural divide' is obvious – only 36.2% living in urban areas and nearly 2/3 living in non-urban areas are sticking to cash payments. Convenience (accepted everywhere) is the main reason cited for paying with cash and for not wanting to switch to cashless. Refusal to adopt cashless is also due to the perceptions of technology failure and the notion that it is easier to keep track of personal budget.

36.2%
urban areas

63.5%
non-urban areas

Top 3 reasons for pay with cash

1 Cash is accepted everywhere   (80%)

2 Personal preference   (50%)

3 Feels more secure   (37%)

Top 3 reasons for not wanting to switch to digital payments

1 Cash is accepted everywhere   (78%)

2 Fear of technology failure   (53%)

3 Easier to stay within budget   (38%)

Key observations

Malaysia retail payments landscape: the big picture

When movement controls were first imposed in March 2020, economic activities were deeply impacted.

Many businesses quickly pivoted to digital and remote working with home delivery options for survival. These changes have since remained as many transitioned to a hybrid setting as the country transitions into an endemic phase.

The accelerated consumer adoption of digital payments has yet to fully offset the dominance of cash, but our study suggests cash usage has slowed. The observed behavioural changes since the pandemic are also expected to be largely permanent.

The Malaysian digital payment consumers persona

Age, gender, ethnicity and geographic locations influence payment behaviours. Early adopters tend to be among 18-25 year old single females living in urban areas, whereas 61-65 year old married males living in non-urban areas tend to be among the last to adopt or use digital payments. Mainstream users tend to be 18-40 year old males and females living in urban areas.

61-65 year old married males
living in non-urban areas

18-40 year old
living in urban areas

18-25 year old single females
living in urban areas

Later adopters   **Mainstream consumers**   **Early adopters**

Based on highest user age group monthly

Adoption and usage drivers

We observed age also influences the choice of digital payment mode.

Credit cards

"Allow consumers to borrow funds to pay for goods and services."

Main user groups:
26 – 30 year old

Debit cards

"Deduction of bank balance upon payment of goods and services."

Main user groups:
36 – 40 year old

E-wallets

"A pre-paid account where user's top-up periodically."

Main user groups:
31 – 35 year old

Based on highest user age group monthly

Choice of digital payment mode is also influenced by generational attitudes towards technology

Gen Y & Z
("I want to")

Technology barrier – Low

Digital natives. Technology is second nature, ingrained in almost every aspect of daily lifestyle.

Motivation – Perks and rewards (for Gen Y), gamification and instant gratification (for Gen Y & Z).

Influence – Typically relies on social media & netizens' comments, tweets, reviews and feedbacks in decisions to adopt and/or continue usage. More inclined to what is trendy.

Generation X
("I don't mind")

Technology barrier – Moderate

Digital adopters/adapters. Uses technology more for necessity in some parts of their daily lifestyles.

Motivation – More substantive rewards (e.g. cashback, rebates and discounts) are key attractions for this Generation.

Influence – Typically relies on 'word of mouth' positive experience from own social and family circles. Adopts and uses only when digital payment is already mainstream, popular and proven convenient, easy to use with no security or trust issues.

Boomers
("I have to")

Technology barrier – High

Trust issues with technology, adopting and using with help or support of tech-savvy family members or friends.

Motivation – Not motivated by perks or rewards. Will adopt digital payments when there is no other choice and extremely simple to use (e.g. contactless cards, not requiring PIN or TAC).

Influence – Typically relies on decisions made by family members who are also willing to assist in adoption and usage.

Consumer articulation in qualitative focus groups

Consumers perspectives of cash usage

Across all demographics, **cash usage decreased since the pandemic.**

Leading the change are 18-25 year old single females living in urban areas. 18-35 year old (Gen Y & Z) are the highest adopters of digital payments.

At the other end of the spectrum, 61-65 year old married males in non-urban areas (a sliver of the Boomer Generation) are the slowest to adopt digital payments.

	Before pandemic	Currently	Before vs After
Male	25.47	19.72	-5.74
Female	24.18	17.16	-7.02
Malay	25.89	20.06	-5.83
Chinese	23.12	14.42	-8.69
Indian	24.59	21.62	-2.98
Others	23.11	18.49	-4.62
Urban	23.31	14.12	-9.18
Suburban/ Rural	27.01	24.74	-2.27
18 - 25 years old	25.56	17.26	-8.30
26 - 30 years old	24.04	15.96	-8.08
31 - 35 years old	23.66	15.55	-8.11
36 - 40 years old	24.48	18.25	-6.23
41 - 45 years old	25.29	19.11	-6.18
46 - 50 years old	25.99	21.90	-4.09
51 - 55 years old	24.94	21.13	-3.82
56 - 60 years old	25.49	21.24	-4.25
61 - 65 years old	26.00	23.78	-2.22

Orange font refers to above average changed cash usage

Red denotes lowest change in cash usage

Source:
Q19a. How frequently in a month do you use [cash] before COVID-19 pandemic?
Q21a. How frequently in a month do you use [cash] currently?

Consumers' digital habits drives digital payments adoption and growth

Malaysia has a relatively young population with a median age of 29.6 years. 69.6% are aged 15-64 year old[1].

This means that Malaysia has a sizeable population, who are more likely to opt for digital payments. Online lifestyles and needs of the mass digital payment user segment (i.e. 18–40 year old) can largely be categorised into 3 main groups.

Mainstream and familiar	Essential needs and services consumed online and represents **mass digital payments adopters**	• Shopping • Food & dining • Travel/holidays • Other general services (e.g. beauty, health) • Money transfer
Modern and trendy	**Early majority**, among the first to try what's new and 'in', motivated by FOMO (fear of missing out)	• E-hailing/transportation • Entertainment • On-demand services • Other payments (e.g. loans, insurances, rent, utilities)
New and emerging	**Innovative e-payments users** in new untested areas, increasingly gaining traction as new activities and needs shape adoption and usage	• Knowledge/e-learning • Gaming • Health & fitness • Home privacy & security

[1] Dept of Statistics Malaysia, extracted 16 Feb 2022
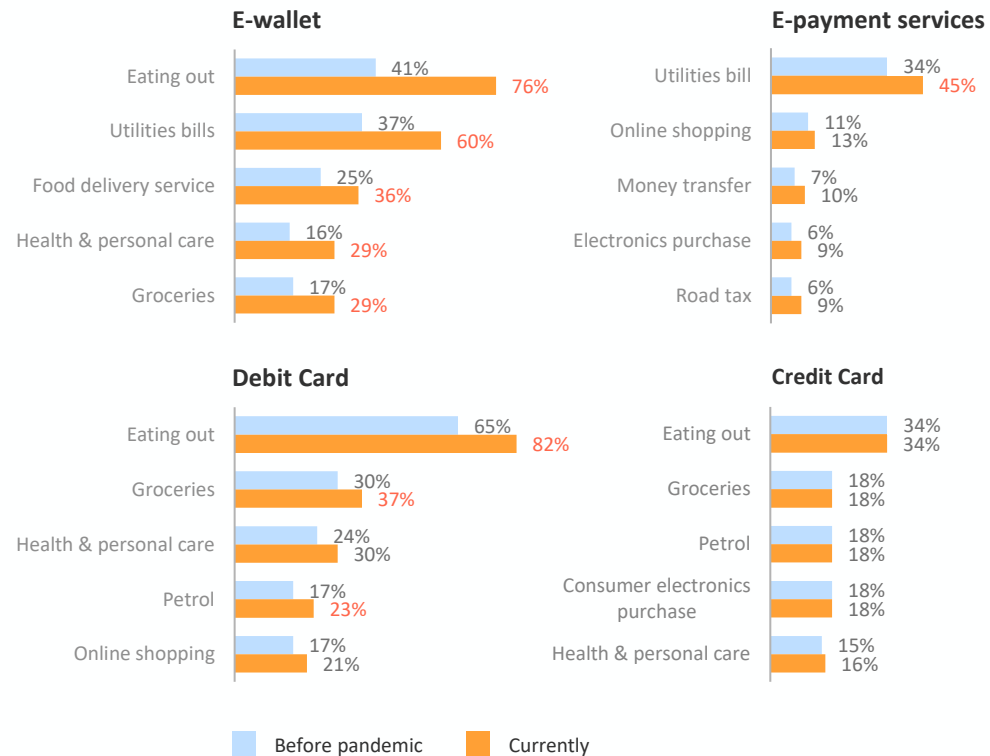
Source:
Q23. Which mode of payments do you use for making the following types of payment currently?

Different digital payment modes are preferred, depending on context

Debit cards and e-wallets are used more for out-of-home consumption (e.g. eating out, retail & groceries spend in-store).

E-payment services are used for utilities and bills payments, mainly out of necessity (i.e. counter closures due to movement controls). The habit largely continued even after counters re-opened. All types of digital payments increased in this space, except for credit cards payments.

Credit card usage behaviours remained stable, probably due to its relative maturity (mainstream usage).

E-wallet

	Before pandemic	Currently
Eating out	41%	76%
Utilities bills	37%	60%
Food delivery service	25%	36%
Health & personal care	16%	29%
Groceries	17%	29%

E-payment services

	Before pandemic	Currently
Utilities bill	34%	45%
Online shopping	11%	13%
Money transfer	7%	10%
Electronics purchase	6%	9%
Road tax	6%	9%

Debit Card

	Before pandemic	Currently
Eating out	65%	82%
Groceries	30%	37%
Health & personal care	24%	30%
Petrol	17%	23%
Online shopping	17%	21%

Credit Card

	Before pandemic	Currently
Eating out	34%	34%
Groceries	18%	18%
Petrol	18%	18%
Consumer electronics purchase	18%	18%
Health & personal care	15%	16%

■ Before pandemic   ■ Currently

Source:
Q22. Which mode of payments do you use for making the following types of payment before COVID-19 pandemic?
Q23. Which mode of payments do you use for making the following types of payment currently?

Consumer attitudes toward digital payments

The higher inclination toward digital payments suggest Malaysia is nearing an 'inflection point' of consumer mindset transformation. Behavioural shifts were noted, with preferred digital payment modes depending on the payment contexts.

Before Pandemic   **Currently**

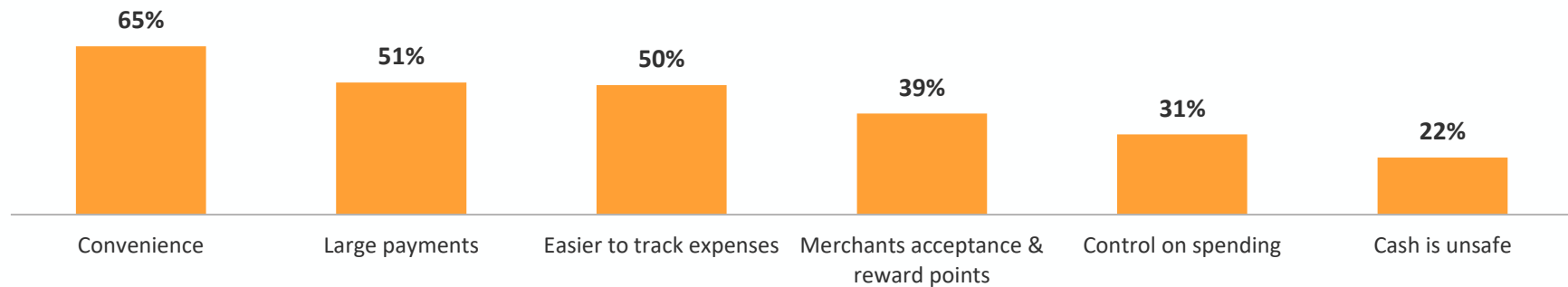| Before Pandemic	Currently
Cash or cheques for over-the-counter payments of utility and bills payments	**E-wallets, JomPAY, DuitNow and FPX**, especially since the movement controls. For over-the-counter bill payments, debit cards and QR payments are replacing cash
Cash for purchases of F&B, retail or groceries at hawkers, food trucks, stalls and other micro sellers	**E-wallets, DuitNow and debit cards**, as micro sellers turned to food delivery apps, online marketplaces and social media as physical operations were stopped
QR payments were 'niche' (only to those familiar with QR technology), despite increased awareness & adoption campaigns	**QR payments reaching mainstream acceptance** as major e-wallets become inter-operable and DuitNow QR available in mobile banking apps

Source:
Qualitative Focus Group Discussion with digital payment users aged 18-65 years old living in Klang Valley

Trust in card payments remains high

Cards continue to be a trusted digital payment mode.

65%	**51%**	**50%**	**39%**	**31%**	**22%**
Convenience	Large payments	Easier to track expenses	Merchants acceptance & reward points	Control on spending	Cash is unsafe

Debit and credit cards are among the earliest forms of digital payments and remained the digital payment of choice for 3 main reasons.

Convenience (accepted at many businesses and easy to use), able to handle large payments and track expenses are main reasons for using cards. Rewards and cashbacks (more for credit cards and recently, debit cards) reinforced continued usage.

Source:
Q29. Why do you use Debit or Credit Card for your transactions?

E-wallets strong growth

Our study confirmed increasing acceptance of e-wallets. Out of 64% Malaysians* who use e-wallet apps, all except 4% are monthly users. Monthly usage frequency on average rose 60% since the pandemic from 10.5 times to 16.8 times. Non-urban users also grew, thanks to government incentives disbursements via major e-wallets and continuous incentives for usage by e-wallet providers and merchants.

The average per transaction value increased 15% to RM175, compared to RM152 before the pandemic, mainly due to expanded features (e.g. bill payments, investments, insurance and other in-app financial products purchases and subscriptions) and expanded user groups of 31-60 year old (BP: below 30s).

*18-65 year old Malaysians, BP – Before pandemic (prior to 18 March 2020)

Source:
Q17. Which of the following statement applies to you?
Q18. What kind of payment methods have you used before COVID-19 pandemic?
Q19a. How frequently in a month do you use [e-wallets] before COVID-19 pandemic?
Q19b. You have mentioned that you spent on [e-wallets] before COVID-19 pandemic, how much on average you spend per transaction?
Q20. What kind of payment methods are you using currently? Please select all that applies
Q21a. How frequently in a month do you use [e-wallets] currently?
Q21b. You have mentioned that you spent on [e-wallets] currently, how much on average you spend per transaction?

64%

Malaysians* are e-wallets users

BP: 51%

96%

Use e-wallets monthly

BP: 92%

Average monthly usage:

16.8x

BP: 10.5x

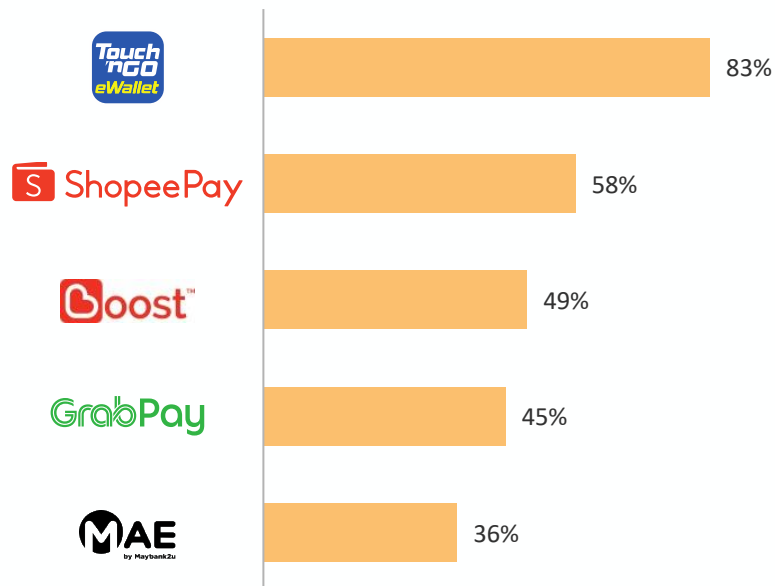**Average transaction value:**
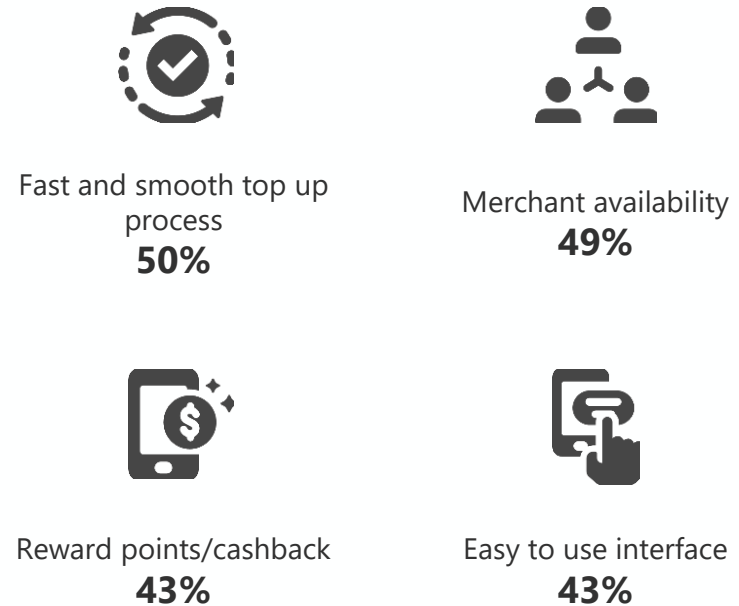
RM175

BP: RM152

The e-wallet market is crowded, but consolidating

78% of Malaysians have more than 1 e-wallet but this ecosystem of more than 50 bank and non-bank e-wallets[1] is witnessing users gravitating toward the following top 5 e-wallets:

Top 5 e-wallets downloaded by Malaysians

- Touch 'n Go eWallet — 83%
- ShopeePay — 58%
- Boost — 49%
- GrabPay — 45%
- MAE — 36%

Top 4 driving factors for e-wallet downloads

Fast and smooth top up process
50%

Merchant availability
49%

Reward points/cashback
43%

Easy to use interface
43%

Consumer sentiments infer need for consolidation of e-wallets

6 common sentiments observed among Malaysian e-wallet users:

Synonymous with cashless payments	Top-of-mind association for cashless payments
Attractive rewards	Synonymous with rewards and other benefits including cashback, vouchers, points collections and prize redemption
Wide acceptance at many businesses	Wide acceptance across many payment contexts and locations, regardless of merchant size, especially in urban areas
Convenient	User-friendly, easy to download, set-up, use and top-up
Inter-operable DuitNow QR	Convenient to have more than 1 e-wallet, as most support inter-operable acceptance
Too many providers	Despite inter-operability, there are too many e-wallets with little differentiation among the brands

The highest feedback received was for Malaysia to have a national consolidated e-wallet. This indicates consumers' desire to maintain a single source of fund to make any QR payments.

The rising popularity and adoption of e-wallets are driven by rewards, flexibility and convenience but overall user sentiment is that e-wallet is a saturated space with too many e-wallet players

Drivers of e-wallet adoption and usage

Incentives have spurred adoption and usage

Government-driven incentives

Our study revealed novelty and incentives tend to drive adoption and usage. After the upfront reward/incentive is exhausted, some got into the habit, but some also returned to cash usage.

Commercially-driven incentives

Payers' choice of e-wallets are driven by rewards based on their lifestyle needs and usage. Gamification-based rewards tend to appeal to Gen-Y and Gen-Z.

"I think it is about 2 or 3 years ago. It is an incentive under the previous government."

- Male, Engineering student, 24, B40, living in Cheras, Kuala Lumpur

"Maybe people start to be aware of all these. Some don't know, but because they want to get the money, then only they start to download the app, and get used to the app."

- Female, Insurance agent, 36, M40, living in Semenyih, Selangor

"I use A (marketplace platform) because they come with free delivery and coins. I used the coins to offset my purchase amount. That is why I prefer using APay[1]."

- Female, Housewife, 58, B40, living in Sri Petaling, Kuala Lumpur

"Everyone installed the app to get the RM30."

- Male, Tech follower & Business Analyst, 26, B40, living in OUG, Kuala Lumpur

"I first used it to redeem the RM30 incentive, and from that I started to use it. I then top up the wallet and link my bank account there."

- Female, Admin Operation Assistant & Tech Savvy, 28, B40, living in Bukit Jalil Kuala Lumpur

"I like to use e-wallet because I like to collect the cashback and voucher for my next purchase. That's it. It is easy."

- Female, Admin, 23, B40, living in Melawati, Selangor

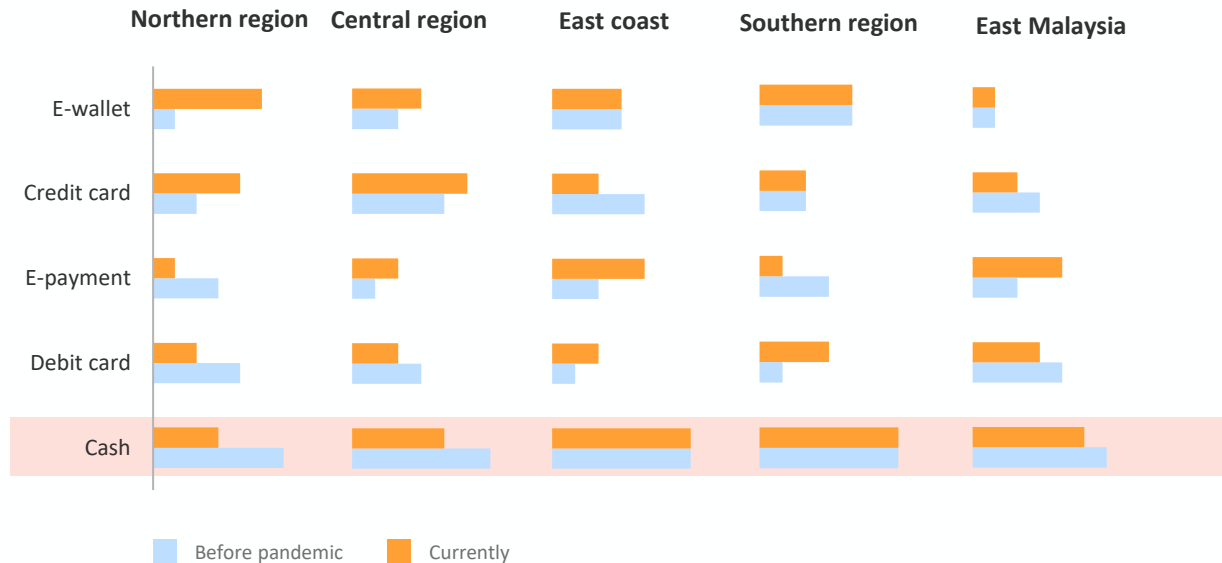*"Shop X does not have e-wallet A, I prefer this more than my bank's e-wallet because I realised that they will give me a rewards through the game in their app."*

- Male, Part-time Hardware Sales-Person, 24, B40, living in Kepong, Kuala Lumpur

Identity of respondents, marketplace platforms and e-wallets anonymised

Source:
Qualitative Focus Group Discussion with digital payment users aged 18-65 years old living in Klang Valley

Businesses experienced significant customer payment behaviour shifts

| Northern region | Central region | East coast | Southern region | East Malaysia |

(Chart rows, top to bottom: E-wallet, Credit card, E-payment, Debit card, Cash)

Legend: ▢ Before pandemic ▢ Currently

Businesses report changed customer payment behaviours since the pandemic (cash dropped from most used to 3rd place). However, the East Coast and Southern regions did not experience any change in cash preferences. Other regions moved away from cash as the most preferred payment mode, with the Northern region showing the most pronounced change.

Nationwide

Before pandemic

1 Cash

2 Credit Card

3 E-payments services

4 Debit Card

5 E-wallets

Currently

1 E-payments services

2 E-wallets

3 Cash

4 Credit Card

5 Debit Card

Source:
Q17. Could you rank the top 5 payment methods (used by customers) in your company before COVID-19 pandemic?
Q20. Could you rank the top 5 payment methods (used by customers) in your company currently?

Paradigm shifting among businesses

Our study revealed among the challenge to digitally transform is partly mindset change (i.e. business owners' own perception that their customers doubt safety & security of e-payments) and partly operating environment (i.e. workers and supply chains requirements for cash).

Cash or post-dated cheques were reported as being more efficient in businesses that rely mainly on manual migrant workers (daily wages paid in cash as they do not have bank accounts) as well as those with cash intensive supply chains. Businesses without these impediments are steadily shifting to digital payments, to keep up with customer demands

"Acceptance among the consumers are great and encouraging. In major cities, growth has been exponential. Now it is spreading everywhere, no longer urban focused."

- Senior banking industry professional

"COVID-19 catapulted into everyone doing things they never did. It expedited the adoption (of digital payments) from the individual (customers) and among retailers. Worries on trust issues dissipated."

- Senior banking industry professional

"Even my parents who are in their seventies started to use e-wallets last year. So surprising, I think COVID-19 expedited it. If there is no pandemic, no MySejahtera, I don't think my parents will ever think of using e-wallets. Because they are so familiar with QR scanning, there is very little need to educate on how to make QR payments."

- Senior payment gateway professional

Source:
Qualitative Focus Group Discussion with digital payment users aged 18-65 years old living in Klang Valley

Online presence helped B2C companies survive during the pandemic

Our study revealed that businesses that survived and thrived during the pandemic have the following characteristics.

Omni-channel presence

Products and services sold online (own website and/or marketplaces) and in-store (shops, stalls or kiosks)

E-payments enabled

Able to accept cash and e-payments both in-store & online

Always-on

Open 24hrs/7 days a week (at least online)

Beyond local market

Serves beyond their own locality or area (ships nationwide, regionally and/or internationally)
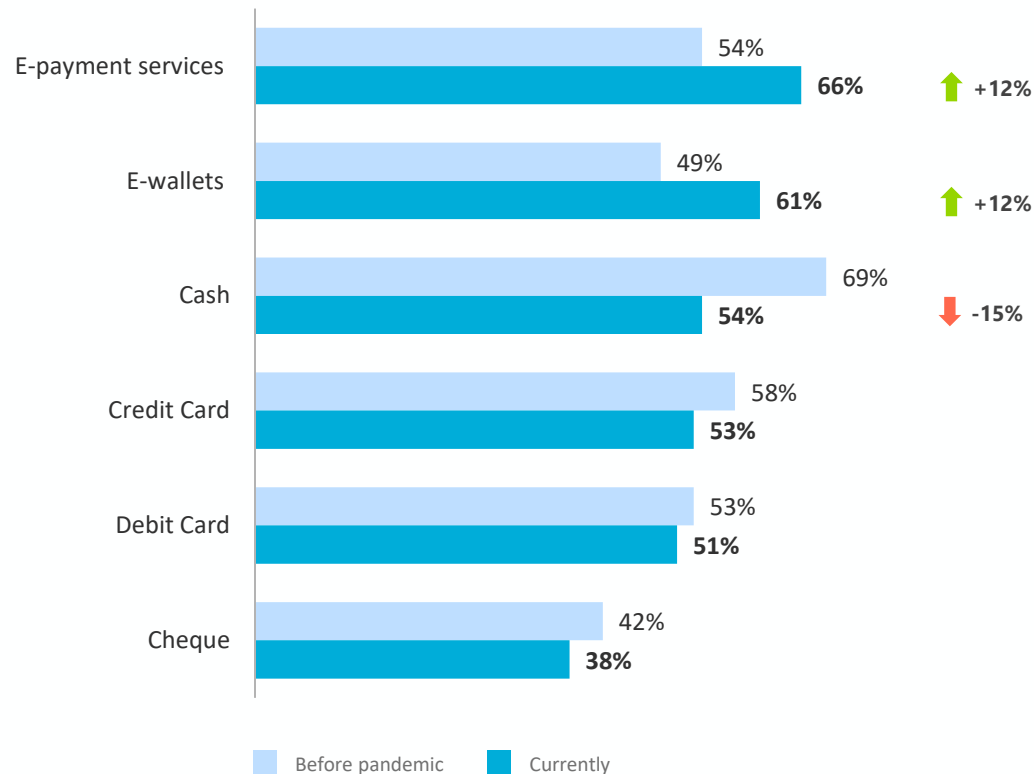
Source:
Qualitative Focus Group Discussion with e-wallet users aged 18-65 years old living in Klang Valley
Qualitative In-Depth Interview with Business Owners from Education Sector, F&B Sector and Retail Sector

Special Focus 1:
SMEs adoption of digital payments

B2C SMEs are rapidly expanding digital payment options

E-payment services — 54% / **66%** ⬆ **+12%**

E-wallets — 49% / **61%** ⬆ **+12%**

Cash — 69% / **54%** ⬇ **-15%**

Credit Card — 58% / **53%**

Debit Card — 53% / **51%**

Cheque — 42% / **38%**

Legend: Before pandemic | Currently

15% lesser merchants are accepting cash compared to before the pandemic (shifting to e-wallets and other types of e-payment services)

Segments accepting cash payments:

F&B (i.e. restaurants, stalls) — 78%
Groceries (i.e. mini markets) — 78%
Retail (i.e. clothing stores) — 75%
Education (i.e. tuition centre) — 59%
E-commerce — 45%

Note: Profile of SMEs surveyed included online-only sellers and e-commerce only providers which stopped accepting cash since 18 March 2020 and still do not accept cash at the time of the field work

Source:
Q16. What kind of payment methods did you offer before COVID-19 pandemic?
Q19. What kind of payment methods are you offering currently? Please select all that applies

Motivation for digital transformation among SMEs

Business expansion, maintaining growth momentum, staying ahead of competition and brand building are among the main reasons cited by SMEs (especially among those who are more mature) for digitally transforming, including in adopting and offering a range of digital payments options. Advanced SMEs recognise the role of digital payments in facilitating business growth for survival. Apart from these, SMEs see the following role of digital payments in driving their business goals:

Role of digital payments in driving SMEs' business goals

1 Assists in **delivering quality service**

2 **Increases efficiency and saves time** – eliminates administrative and finance work (reconciliation, easily monitor and track inflow and outflow of funds)

3 **Safety and security** – reduces risk of robbery, thefts, cash shortage and losses from counterfeit notes

4 **Expands customer base** – cater to payment needs of omnichannel shoppers, across multiple platforms

Other specific reasons include:

Business expansion
Facilitates entry into different districts and subsequently scale to nationwide presence by attending to more customers' digital payments preferences.
SME (Education), SME (F&B), SME (Retail)

Sustain business momentum
Obtain information on consumers' satisfaction with digital payment mode for continuous improvement.
SME (F&B), SME (Retail), SME (e-Commerce)

Curb competition
Secure competitive advantage with various digital payment options across platforms, enables regular tracking and benchmarking of performance.
SME (F&B), SME (Retail)

Brand building
Drive traffic as digital transformation elevates the brand through social media marketing and search engine optimisation and easier conversion to sales.
SME (F&B), SME (e-Commerce)

Source:
Qualitative In-Depth Interview with Business Owners from Education, F&B, e-Commerce & Retail sectors

Motivation for multiple digital payment modes among SMEs

Businesses confirmed consumer behaviors and demands have been changed by 'showrooming'[1] and 'webrooming'[2], particularly since the pandemic. Forward-looking SMEs pivoted into omnichannel presence with multiple digital payment options online and in-store to remain competitive. These became the catalyst for end-to-end SMEs' digital transformation.

Showrooming & webrooming fuel need for omnichannel presence and multiple digital payment modes

"I believe that most of my customers want many kinds of cashless options to pay in our café. Not long after e-wallets introduction, people started to ask, when are we making them available."

- SME in F&B

"I get people who say that they don't want to see my website and don't want to go to online marketplaces.

They just want to transfer funds to me via internet banking, WhatsApp me the confirmation and order so that I just deliver them what they bought."

- SME in e-commerce

"My customers will come to the nearest store that does home deliveries. They are scared to shop in-store due to the pandemic. They are also afraid to handle currency notes to make payments due to the risk of contracting the virus."
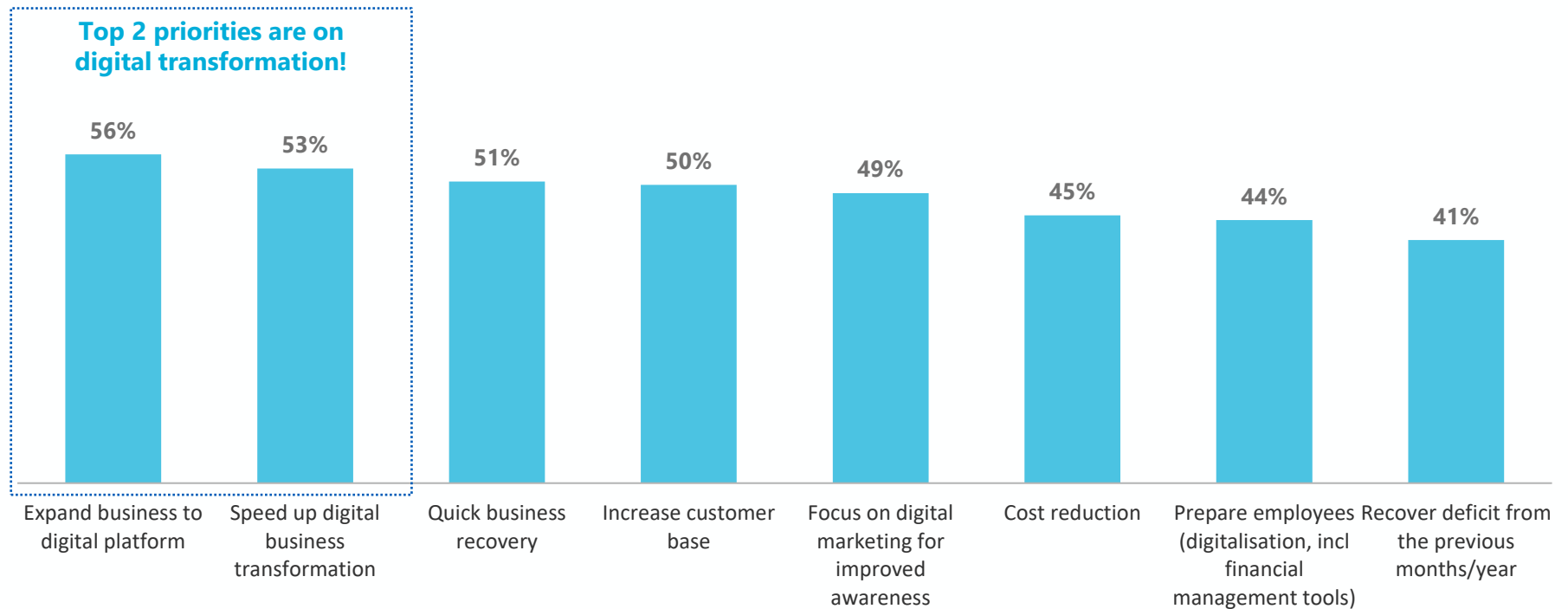
- SME in Retail

[1] Shopping behavior where consumers visit physical stores to touch and feel the products but opt to purchase them online
[2] The opposite of showrooming

SMEs priorities in 2022

SMEs cite expanding to a digital platform and speeding up digital transformation as their top 2 priorities this year.

Top 2 priorities are on digital transformation!

56%	53%	51%	50%	49%	45%	44%	41%
Expand business to digital platform	Speed up digital business transformation	Quick business recovery	Increase customer base	Focus on digital marketing for improved awareness	Cost reduction	Prepare employees (digitalisation, incl financial management tools)	Recover deficit from the previous months/year

Source:
Q32. What are your plans for your business in 2022?

SMEs barriers to adopting digital payments

SMEs do not find fees & charges as top reason for not adopting digital payments. Our study revealed the following:

Top 5 'pain points':

Too many technical jargons	43%
Too many documentations/paperwork	38%
Lengthy application processes and long time for approvals	33%
Low awareness and education	33%
Confusing digital payment options to choose from	27%

Top 5 'wish list':

Simpler onboarding (plain language & shorter forms)

Shorter processes and time to approve applications

On-the-ground support by banks/non-banks

Proper explanation, more awareness and education by banks/non-banks

Recommend digital payments to suit SMEs' specific needs
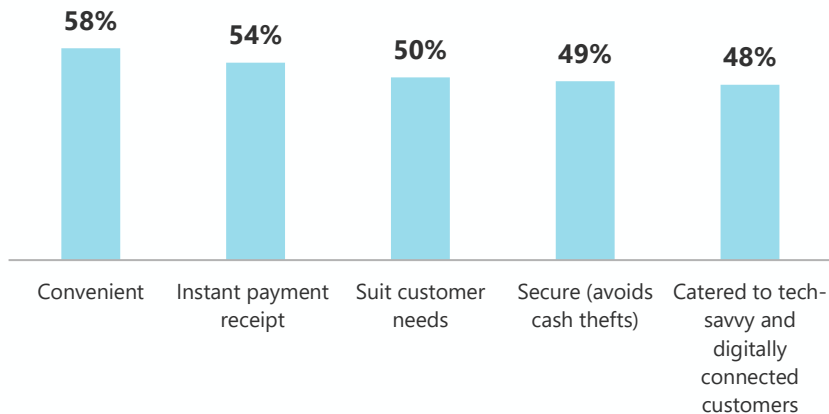
Source:
Q41. What are the key pain points with the digital payments as compared to the cash/cheque?
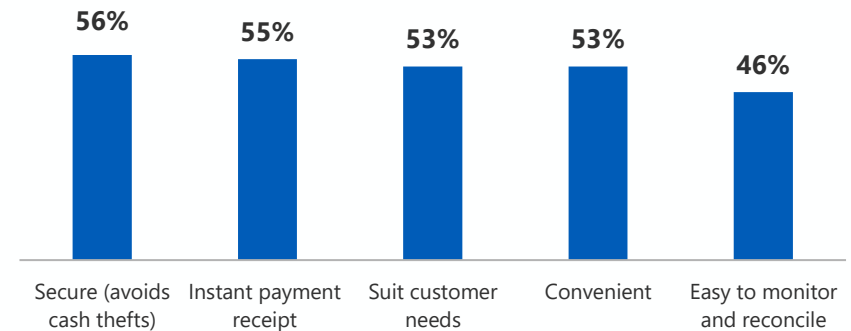   Please select all that apply
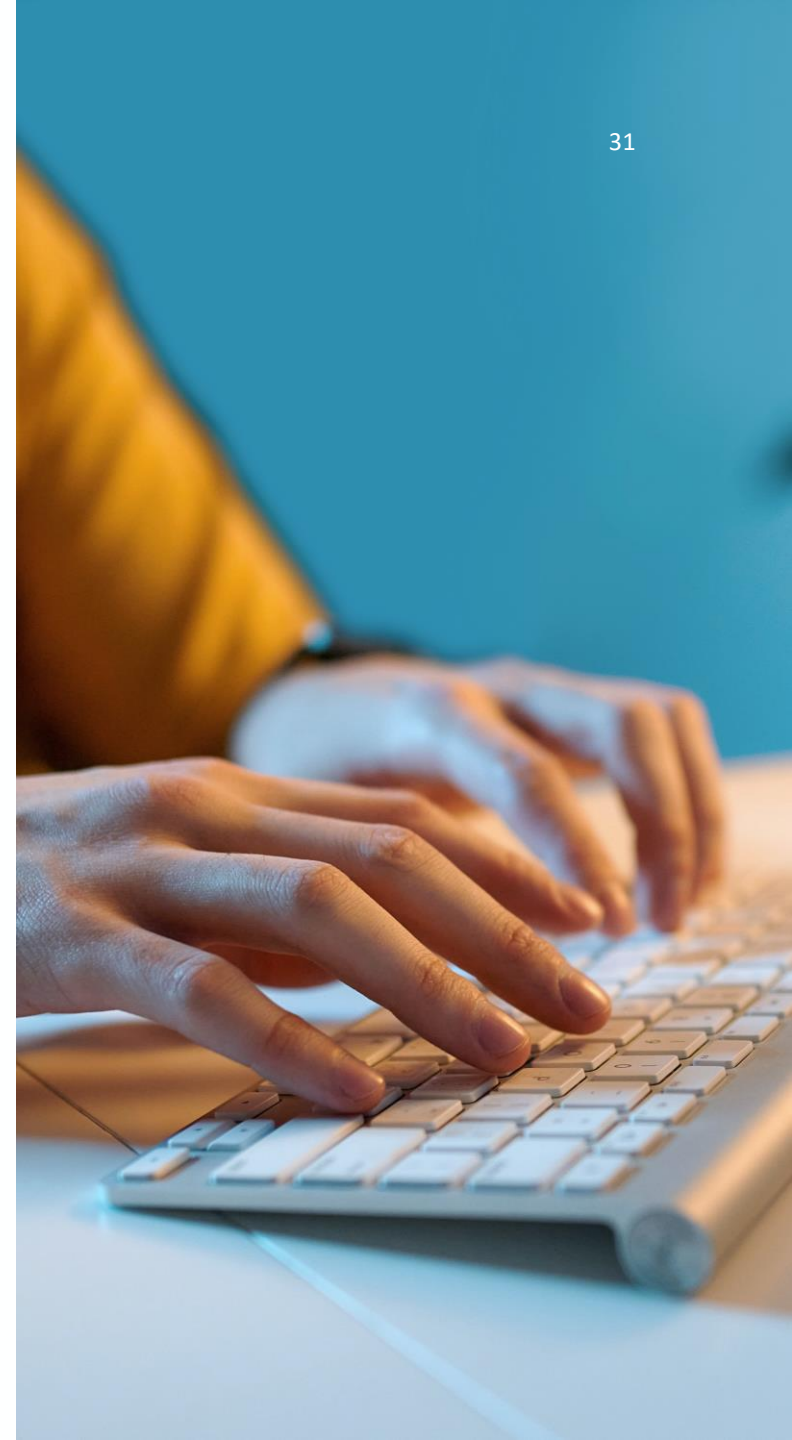
SMEs reasons for accepting both cards and e-wallets

Security is cited as the main reason for accepting cards whereas convenience is cited as the main reason for accepting e-wallets.
E-wallets, debit and credit cards' abilities to issue instant receipts and meet customer needs are cited as the 2nd and 3rd reasons for accepting these payment forms.

E-wallets

Convenient	Instant payment receipt	Suit customer needs	Secure (avoids cash thefts)	Catered to tech-savvy and digitally connected customers
58%	54%	50%	49%	48%

Debit/Credit Card

Secure (avoids cash thefts)	Instant payment receipt	Suit customer needs	Convenient	Easy to monitor and reconcile
56%	55%	53%	53%	46%

Source:
Q27. Why do you accept Debit or Credit Card for your business transactions?
Q30. Why do you Accept Mobile Wallet Apps (e.g. GrabPay, Boost, TouchnGo e-wallets) for your business transactions?

Special Focus 2:
Relevance of cash

Average Monthly Usage:

	Before Pandemic	Current	
Cash	24.78x	18.36x	↓
E-wallets	10.47x	16.82x	↑
E-payments services	7.61x	10.99x	↑
Debit Card	8.99x	10.31x	↑
Credit Card	8.39x	8.29x	↓

The pandemic did not replace cash as the main payment mode, but usage has been less frequent
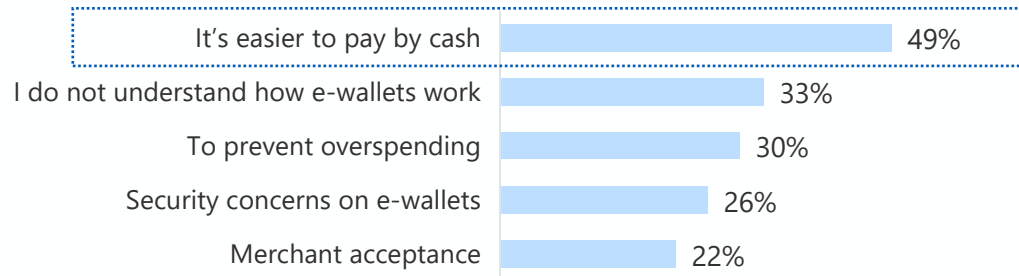
Source:
Q19a. How frequently in a month do you use [cash/e-wallets/e-payments services/debit card/credit card] before
    COVID-19 pandemic?
Q21a. How frequently in a month do you use [cash/e-wallets/e-payments services/debit card/credit card] currently?
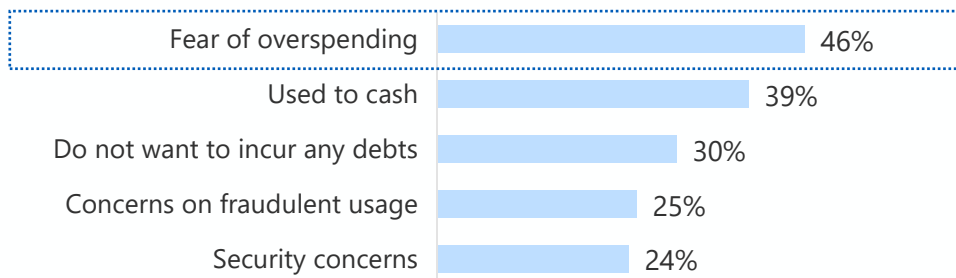
Barriers to cashless adoption from customers perspective

E-wallet

It's easier to pay by cash	49%
I do not understand how e-wallets work	33%
To prevent overspending	30%
Security concerns on e-wallets	26%
Merchant acceptance	22%

Debit & Credit Card

Fear of overspending	46%
Used to cash	39%
Do not want to incur any debts	30%
Concerns on fraudulent usage	25%
Security concerns	24%

Our study confirmed businesses and customers do not face any barriers in accessing Online or Mobile banking. However, in using e-wallets, Debit and Credit Cards, cited the following:

1 **Habit and fear of overspending** is one of the common main reasons why cash is still preferred over e-wallet, Debit or Credit Cards

2 **Perceived security or fraud concerns** is also cited as a usage barrier

3 **Lack of merchant acceptance** for not using e-wallets (from slightly more than 1 in every 5 consumers)
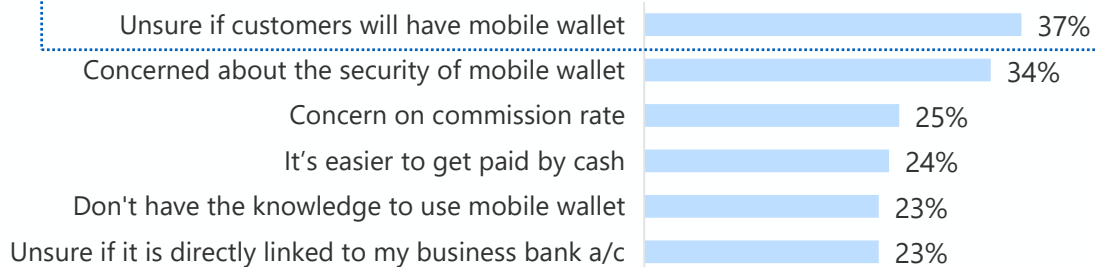
Source:
Q27. Why do you not use e-wallet for your transactions?
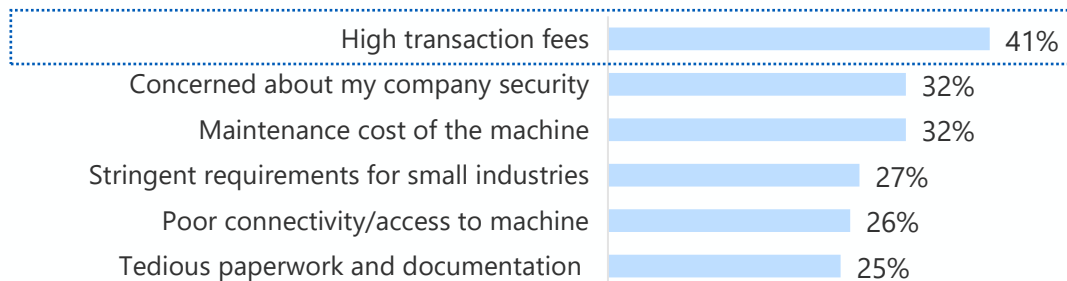Q24. Why do you not use Debit or Credit Card for your transactions?

Barriers to cashless adoption from SMEs perspective

E-wallet

Unsure if customers will have mobile wallet	37%
Concerned about the security of mobile wallet	34%
Concern on commission rate	25%
It's easier to get paid by cash	24%
Don't have the knowledge to use mobile wallet	23%
Unsure if it is directly linked to my business bank a/c	23%

Debit & Credit Card

High transaction fees	41%
Concerned about my company security	32%
Maintenance cost of the machine	32%
Stringent requirements for small industries	27%
Poor connectivity/access to machine	26%
Tedious paperwork and documentation	25%

SMEs believe their customers still preferred cash because they believe their customers do not have e-wallets, and perceptions of high card transaction fees and concerns over security

Source:
Q22. Why do you not accept Debit or Credit Card for your business transactions?
Q23. Why do you not accept e-wallet for your business transactions?

What is cash being used for?

71%
BP: 82%

Roadside food stall

68%
BP: 80%

Eating out at budget place
(i.e. food court, mamak)

51%
BP: 61%

Groceries

50%
BP: 66%

Eating out at fast food

50%
BP: 59%

Sharing cash with
friends and family

49%
BP: 59%

Paying for petrol

46%
BP: 57%

Health and personal care
(i.e. pharmacies)

33%
BP: 45%

Eating out at mid range
restaurants

Top 8 payment contexts where cash is still widely used are in everyday spend, but cash usage is lesser since the pandemic. Some payers remained staunch cash users mainly due to habit, lack of familiarity, reluctance and bad experience when paying with other methods:

1 Used to pay in cash

2 Cash is preferred payment method, always

3 Feels secure with cash

4 Not familiar with other payment methods

5 Reluctant to learn/adopt new payment methods

6 Bad experience when paying with other methods

BP – Before Pandemic (prior to 18 March 2020)

Source:
Q22. Which mode of payments do you use for making the following type of payment BP?
Q23. Which mode of payments do you use for making the following types of payment currently?

Conclusion

The future of digital payments in Malaysia: a promising outlook

Malaysia is on the right digital payments growth trajectory.

The awareness among businesses, including SMEs, of the need to undergo digital transformation for survival and to remain competitive is fueling adoption of digital payments. Businesses we spoke to generally do not face difficulty in accessing desktop online banking or mobile banking for payments. However, they did cite several process-related pain points which can be overcome. At the consumers' end of the spectrum, their demands for specific forms of digital payments are driving businesses to offer more than one payment mode. Neither businesses nor customers cited lack of suitable digital payment products as the reason for still using cash or not wanting to use digital payments – the top reasons cited are habit (used to paying with cash) and convenience (accepted everywhere).

However, there are clear 'urban-rural' and generational divides observed. **In urban areas** where infrastructure limitations are minimal, cash usage will reduce if the mindset and habits for digital payments are inculcated by increasing familiarity through awareness. Some city areas (e.g. lower income areas) still have low merchant acceptance. **In non-urban areas**, apart from basic digital payments infrastructure and expanding acceptance points, digital financial literacy is key to reducing cash usage. Different engagement modes should be used to effectively reach different generations. For younger generations, social media advocacy is more effective but for the older generations (Gen X and older), face-to-face interactions yield better results. Adoption of digital payments has accelerated significantly since the pandemic and the increased familiarity is expected to sustain the growth momentum.

The adoption curve will shorten with focus on 4 key drivers (next page).
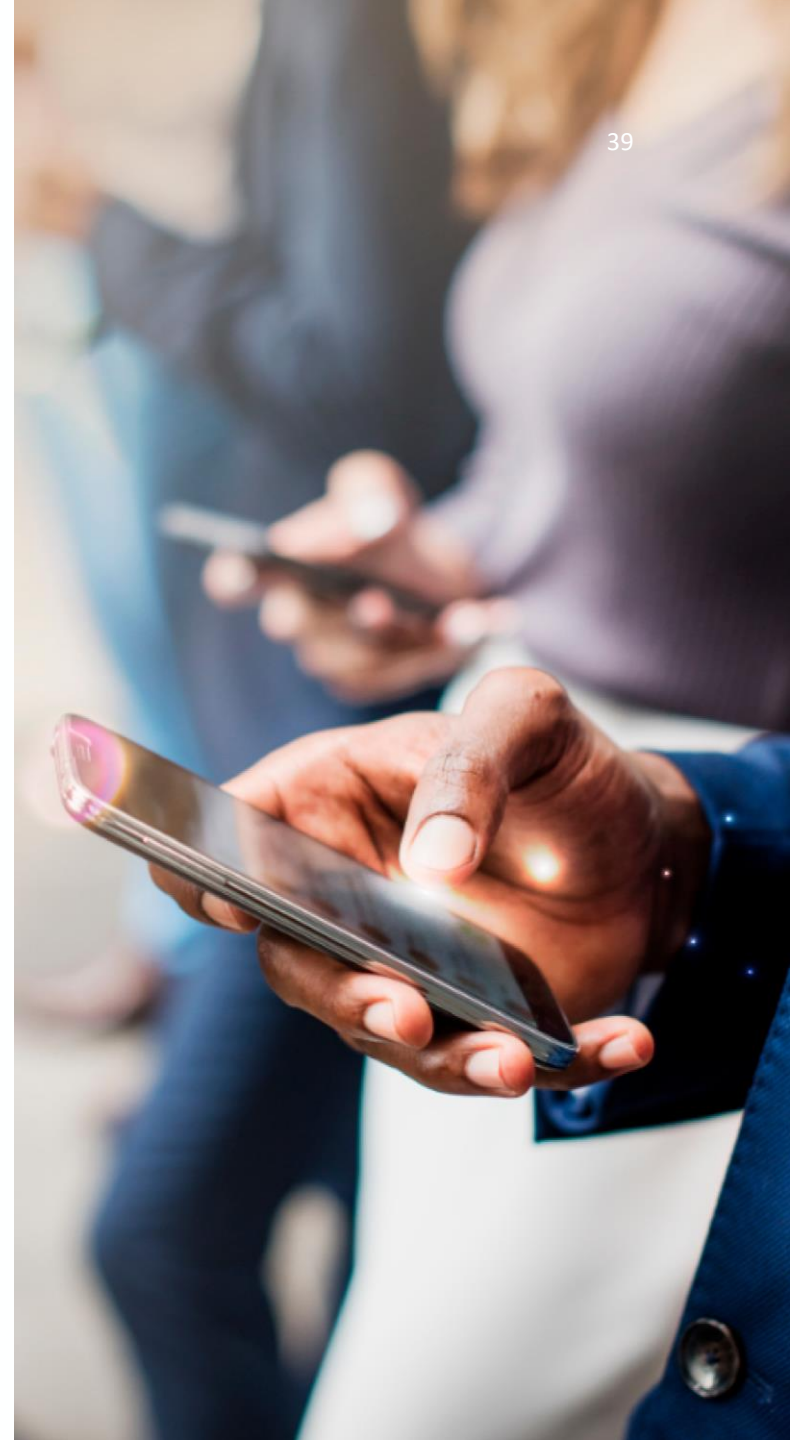
4 key drivers for sustained digital payments adoption

Education and awareness

Continuing awareness programs on the benefits of digital payments as well as education on safety and security, including prevention of fraud and scams are needed for consumers and businesses.

Acceptance points

Enabling businesses (including SMEs and micro-SMEs) and public amenities (mass transport, bill payment kiosks, public hospitals and mass parking facilities) where there is high payment frequency (regardless of value) would increase accessibility to digital payments.

Public sector and regulator support

Continued support from the following are critical:

- Bank Negara Malaysia, in ensuring a conducive and facilitative environment for digital payments to prosper as laid out in the Financial Sector Blueprint 2022-2026.

- Government, to set in place essential infrastructure needed to embrace digital payments as planned under the MyDigital Economic Blueprint.

Central payments infrastructure and ecosystem

Central payments infrastructure that is accessible, reliable, secure and inclusive is essential for the nation's competitiveness and efficiency and to build trust and confidence in digital payments.

Having an ecosystem of diverse participants ensures all business and customer segments are served, including those in the underserved segments.

About PayNet

Payment Network Malaysia

Payments Network Malaysia Sdn Bhd is the national payments network and shared central infrastructure for Malaysia's financial markets.

As the national provider of financial market utilities, PayNet aims to build inclusive, accessible and efficient payments and financial eco-systems for Malaysia.

In line with this developmental objective, PayNet's shareholders do not receive dividends, and surplus profits are instead re-invested to ensure that the nation's financial market infrastructures and payment eco-systems are resilient, competitive and accessible to all.

Bank Negara Malaysia is PayNet's single largest shareholder, with eleven Malaysian's financial institutions namely, Malayan Banking Berhad, RHB Bank Berhad, Public Bank Berhad, CIMB Bank Berhad, AmBank (M) Berhad, Hong Leong Bank Berhad, Affin Bank Berhad, Alliance Bank Malaysia Berhad, Bank Islam Malaysia Berhad, Bank Muamalat Malaysia Berhad and Bank Kerjasama Rakyat Malaysia Berhad, as joint shareholders.

Vision:

Empowering Malaysia's digital economy

Mission:

Trusted enabler of inclusive and collaborative financial ecosystems

Product and services

- **Sistem Penjelasan Informasi Cek Kebangsaan secara Elektronik (eSPICK)** – Malaysia's national cheque clearing system.

- **Interbank GIRO (IBG)** – A funds transfer system that allows account-to-account credit transfers between 43 participating banks in Malaysia.

- **JomPAY** – Malaysia's national bill payment scheme where customers can pay any registered biller from Internet or Mobile banking. Billers need only sign up with one bank to collect payments via 42 banks.

- **MyDebit** – Malaysia's domestic debit card scheme, which allows point-of-sale payments using ATM cards issued by banks in Malaysia.

- **FPX** – Direct-to-bank Internet payment gateway, which facilitates Internet payments and e-commerce purchases.

- **Direct Debit** – Allows billers and merchants to debit a consumer's bank accounts on a periodic basis to collect recurring payments.

- **DuitNow Transfer** – Pay instantly to any account or to a DuitNow ID such as mobile number or NRIC number.

- **DuitNow QR** – Malaysia's National QR Standard where any compliant QR Code can take payments from any participating Banks and e-wallets mobile apps.

- **Shared ATM Network and MEPS ATM** – Enables bank customers to conveniently access their funds anywhere from more than 10,000 ATMs of participating banks.

- **Cross-Border Cash Withdrawal** – This service offers participating banks' customers the convenience of making cash withdrawals via ATMs in participating countries.

- **Smart Card and Certification Services** – Provides functional and security testing as well as certification of chip cards, acceptance terminals, mobile payment products and payment systems.

- **Currency Notes Processing** – Banknotes processing where used banknotes are collected for sorting and redistribution.

NielsenIQ

Arthur C. Nielsen, who founded Nielsen in 1923, is the original name in consumer intelligence. After decades of helping companies look to the future, we are setting the foundation for our future by becoming NielsenIQ. We continue to be the undisputed industry leaders as evidenced by our experience and unmatched integrity. As we move forward, we are focused on providing the best retail and consumer data platform, enabling better innovation, faster delivery, and bolder decision-making. We are unwavering in our commitment to these ideals and passionate about helping clients achieve success. For more information, visit niq.com.

Appendix:
survey questions answered by consumers

Demographic/Screener	
Q2c	Decision-making on financial related matters
Q3	State
Q4	Region
Q6	Urbanization
Q7	Age
Q7a	Age group
Q8	Gender
Q9	Ethnicity
Q10a	Monthly Personal Income (MPI)
Q10b	Monthly Household Income (MHI)
Q11	Occupation
Q12	Relationship Status
Q13	Highest attained education level
Q14	Currently use banks
Q15	Bank/ Non-bank user

Main Questionnaire	
Q16	Products/ services currently use/ owned
Q17	Statement applies
Q18	Payment methods used (Before COVID-19 pandemic)
Q19a	Frequency (Before COVID-19 pandemic)
Q19b	Spent (Before COVID-19 pandemic)
Q19c	% of payments made using cash (Before COVID-19 pandemic)
Q19d	Reasons to use Cash (Before COVID-19 pandemic)
Q20	Payment methods used by customer (Currently)
Q21a	Frequency (Currently)
Q21b	Spent (Currently)
Q21c	% of payments made using cash (Currently)
Q21d	Reasons to use Cash (Currently)
Q21e	Reasons of same cash usage
Q22	Mode of payments (Before COVID-19 pandemic)
Q23	Mode of payments (Currently)
Q24	Barrier to Use (Debit/ Credit Card)
Q25	Barrier to Use (Online Banking)

Main Questionnaire (Continue)	
Q26	Barrier to Use (Mobile Banking)
Q27	Barrier to Use (e-Wallet)
Q28	Barrier to Use (e-payment services)
Q29	Reason to Use (Debit/ Credit Card)
Q30	Reason to Use (Online Banking)
Q31	Reason to Use (Mobile Banking)
Q32	Reason to Use (e-wallet)
Q33	Reason to Use (e-payment services)
Q34	Concerns about security of e-payment services
Q35	e-wallets (Aware of)
Q36	e-wallets (Used before)
Q37	e-wallets (P1M)
Q38	e-wallets(MOUB)
Q35 - Q38	e-wallets (Funnels)
Q39	Reasons to Use as MOUB
Q40	e-payments services (Aware of)
Q41	e-payments services (Offered before)
Q42	e-payments services (Past 1 month)
Q40 - Q42	e-payments (Funnels)
Q43	NPS (e-payments)
Q44	Reasons for NPS score
Q45	Improvements to get 10 out of 10
Q46	Source of awareness
Q47	Frequency of using e-payments (Before COVID-19 pandemic)
Q48	Frequency of using e-payments (Currently)
Q49	Biggest obstacles (Aware but not use)
Q50	Aware of making cashless payments in daily transactions
Q51	Source of awareness for cashless payments
Q52	Aware that Debit Card is ATM card
Q53	Statements on cashless payment
Q54	Reasons (Satisfied with cashless payment)
Q55	Reasons (Not satisfied with cashless payment)
Q56	Circumstances to pay with cash
Q57	Parties who should initiate the change in payment system
Q58	Approaches to encourage the adoption of cashless payments

Appendix:
survey questions answered by businesses and SMEs

Demographic/Screener	
Q3	Industries
Q4	Operating years
Q5	Involvement in company
Q6	Annual sales turnover
Q7	Size of company
Q8	Level of seniority in company
Q9	State
Q9a	Region
Q10	Age
Q10a	Age group
Q11	Gender
Q12	Ethnicity
Q13	Highest attained education level
Q14	Currently use banks
Q15	Bank/ Non-bank user

Main Questionnaire	
Q16	Payment methods offered (Before COVID-19 pandemic)
Q17	Payment methods used by customer (Before COVID-19 pandemic)
Q18	Amount received (Before COVID-19 pandemic)
Q19	Payment methods offer (Currently)
Q20	Payment methods used by customer (Currently)
Q21	Amount received (Currently)
Q22	Barrier to Accept (Debit/ Credit Card)
Q23	Barrier to Accept (Online Banking)
Q24	Barrier to Accept (Mobile Banking)
Q25	Barrier to Accept (Mobile Wallet)
Q26	Barrier to Accept (e-payment services)
Q27	Reason to Accept (Debit/ Credit Card)
Q28	Reason to Accept (Online Banking)
Q29	Reason to Accept (Mobile Banking)
Q30	Reason to Accept (Mobile Wallet)
Q31	Reason to Accept (e-payment services)
Q32	Plans for business in following year
Q33	Top 3 challenges in managing payment related issues
Q34	e-payments services (Aware of)
Q35	e-payments services (Offered before)
Q36	e-payments services (Past 1 month)
Q37	NPS
Q38	Reasons for NPS score
Q39	Improvements to get 10 out of 10
Q40	Source of awareness
Q41	Key pain points with digital payments/e-payments as compared to cash/ cheque
Q42	Statements on cashless payment
Q43	Reasons (Satisfied with cashless payment)
Q44	Reasons (Not satisfied with cashless payment)
Q45	Satisfaction towards financial service providers
Q46	Reasons (Satisfied with financial service providers)
Q47	Reasons (Not satisfied with financial service providers)
Q48	Parties who should initiate the change in payment system
Q49	Approaches to encourage the adoption of cashless payments
Q50	Rating towards current digitalisation in Malaysia