



# Economic Benefits of Going Cashless

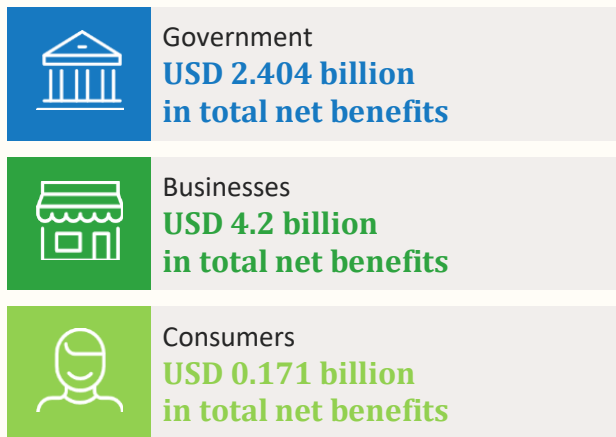
The new normal has accelerated the journey toward a cashless society. Customer behaviours have drastically changed as safety, security and hygiene considerations shift their preference towards cashless and online payments. The convenience and growth of available products and services in the ecommerce domain has further fuelled this shift.



# Overview

Several studies and surveys<sup>1</sup> indicate that there are substantial economic benefits of going cashless for government, consumers and businesses.

A study by Roubini Thoughtlab<sup>2</sup> estimated the potential realisable benefits to government, businesses and consumers to be as follows:



For an emerging economy like Malaysia, the study by BCG<sup>3</sup> estimated the cumulative uplift from cashless adoption over a 15-year period to an economy can be as high as 3% of GDP.



The study by Roubini Thoughtlab<sup>2</sup> conducted in 2017-2018 on 100 cities in 80 countries that included Kuala Lumpur found the net impact depends on levels of digital maturity and “cashlessness”. Cities were categorised into 5 clusters according to Stages of Digital Maturity (see Exhibit 1).


<sup>1</sup> Please refer to the studies and surveys in the Endnote

<sup>2</sup> Refer to Item 1 of the Endnote

<sup>3</sup> Refer to Item 2 of the Endnote

Exhibit 1

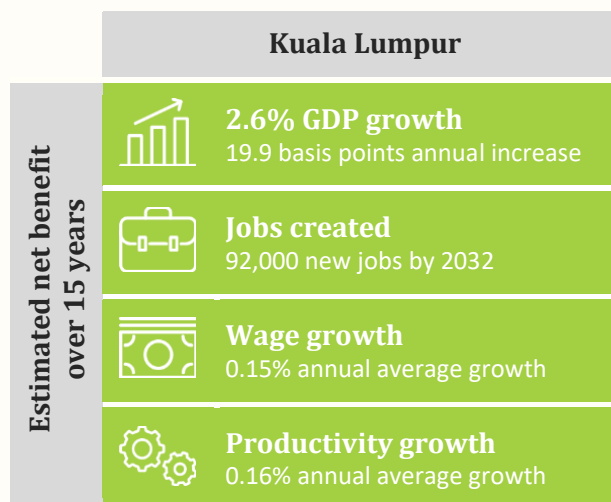
5 Stages of Digital maturity and the catalytic impact of going cashless in 15 years (2017-2032)

	Cash Centric	Digitally Transitioning	Digitally Maturing	Digitally Advanced	Digital Leader
Characteristics	<ul style="list-style-type: none"> <li>• <b>Low</b> adoption readiness</li> <li>• <b>Low</b> digital payments usage</li> <li>• <b>High</b> unbanked population</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Moderate</b> adoption readiness</li> <li>• <b>Low</b> digital payments usage</li> <li>• <b>High</b> unbanked population</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Low</b> adoption readiness, <b>High</b> usage; OR</li> <li>• <b>High</b> readiness, <b>Low</b> digital payments usage</li> <li>• <b>High</b> unbanked population/ culturally inclined towards cash</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Developed</b> digital infra, but maintains <b>considerable cash usage</b></li> <li>• <b>Low</b> unbanked population</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Developed</b> banking and digital payments systems</li> <li>• <b>High</b> usage, <b>high</b> readiness</li> <li>• <b>Almost fully banked</b> population</li> </ul>
Composition	<p><b>25 Cities</b> Mainly African and LATAM cities</p>	<p><b>23 Cities</b> Including LATAM, middle east, Russian and Indian cities</p>	<p><b>24 Cities</b> Mainly APAC cities (including <b>Kuala Lumpur</b> and Chinese cities)</p> 	<p><b>19 Cities</b> Including advanced Asian cities, some Europe and US cities</p>	<p><b>9 Cities</b> Including Stockholm and European, Canadian and Australian cities</p>
Potential catalytic impacts	<p><b>GDP growth</b> 19 basis points annual increase</p> <p><b>Jobs created</b> 91,000 new jobs</p> <p><b>Wage growth</b> 0.09% annual average growth</p> <p><b>Productivity growth</b> 0.06% annual average growth</p>	<p><b>GDP growth</b> 15.5 basis points annual increase</p> <p><b>Jobs created</b> 26,000 new jobs</p> <p><b>Wage growth</b> 0.14% annual average growth</p> <p><b>Productivity growth</b> 0.11% annual average growth</p>	<p><b>GDP growth</b> 19 basis points annual increase</p> <p><b>Jobs created</b> 41,800 new jobs</p> <p><b>Wage growth</b> 0.21% annual average growth</p> <p><b>Productivity growth</b> 0.15% annual average growth</p>	<p><b>GDP growth</b> 21 basis points annual increase</p> <p><b>Jobs created</b> 29,000 new jobs</p> <p><b>Wage growth</b> 0.16% annual average growth</p> <p><b>Productivity growth</b> 0.18% annual average growth</p>	<p><b>GDP growth</b> 27 basis points annual increase</p> <p><b>Jobs created</b> 13,600 new jobs</p> <p><b>Wage growth</b> 0.27% annual average growth</p> <p><b>Productivity growth</b> 0.27% annual average growth</p>

Source: adapted from Roubini Thoughtlab (2017-18)

Kuala Lumpur was classified as “Digitally Maturing”, together with 22 other cities (mainly in China and the Asia Pacific region).

A 15-year projection (2017-2032) using economic modelling estimates Malaysia (using Kuala Lumpur as a proxy) stands to gain a net positive impact of **USD4 billion by 2032** encompassing 2.6% GDP contribution (or 19.9bps annual average growth), 0.16% increased productivity, 0.15% wage growth and creation of 92,000 more jobs.



Source: adapted from Roubini Thoughtlab (2017-18)

The study also projected total direct benefit of **USD6.7 billion expected by 2032** with cumulative benefits for governments, businesses and consumers with detailed breakdowns on additional revenue gains, savings in costs and expenses as well as time and resources (see Exhibit 2). In order to realise the full potential benefits and gains from going cashless, the barriers of adoption must be addressed.

Exhibit 2

The estimated net positive impact for government, businesses and consumers

Government	USD'bil	Businesses	USD'bil	Consumers	USD'bil
Higher tax revenue	1.264	Reduction in cost for paper	13.1	Increased interest earned	0.071
Reduction in admin expenses	1.1	Cost for going cashless	-10.7	Time saved from cash-related activities	0.094
Reduction in cash-related crimes	0.004	Savings from e-payments	1.8	Bank fees and charges	-0.004
				Lesser late fees incurred	0.003
				Reduction cash-related crimes	0.007
<b>Total estimated net positive impact</b>	<b>2.404</b>	<b>Total estimated net positive impact</b>	<b>4.2</b>	<b>Total estimated net positive impact</b>	<b>0.171</b>

Source: adapted from Roubini Thoughtlab (2017-18)

# Barriers of Cashless Adoption

Among known barriers to adoption of cashless payments, some key issues are:



## Inadequate digital infrastructure

Fragmented or lack of national payments infrastructure including low or no interoperability, no national RTGS or real-time settlements, low internet penetration, slow, inaccessible and unaffordable internet connectivity as well as no or lack access to affordable smart devices.



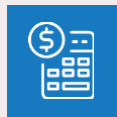
## Limited access to digital payment products

In economies where internet connectivity is low or unstable, access to a wider range of digital payment products can be limited, particularly products which enable real-time payments.



## Lack of trust, security, risk and privacy concerns

Among the top reasons for not using e-payments provided in the survey conducted by Roubini are fear of being scammed, frauds and cyber-related crimes. Apart from these, respondents who do not use e-payments also cite discomfort of the transparency that results from making e-payments.



## Perception that digital payments are more expensive than cash payments

This perception is fuelled by the bank fees and charges for funds handling where if conducted in cash, 'there is no fee'. However, there are "hidden" costs to cash handling (e.g. staff salaries/overtime to conduct physical cash counts and reconciliations, expenditure incurred for secure storage, enhanced security and insurance coverage for cash in transit, theft and other losses) and leaving physical cash idle (e.g. forgone income that would have been earned if the physical cash is placed on deposits or secure investments). These can only be addressed through more education and awareness.



## Cultural and habitual attachment to cash

Countries with sizeable grey economy continue to have a strong preference for cash and this results in revenue losses to the government due to under reporting of income and other taxes.

End-consumers surveyed in Japan and Germany on the other hand are cash-inclined due to perception they have better tracking of their personal budget and living costs.

# Recommendations

The studies<sup>4</sup> also made over 60 recommendations, some of which are applicable to the Malaysian context (see below).

## Recommendation from the studies



### For Government, Policy Makers & Regulators

- Clear national policy on going cashless/adopting e-payment
- Pro-innovation regulation
- Ensure no legal impediments to merchants accepting digital payments
- Policies on tax/rebates and incentives for digital payments adoption and smart device ownership
- Phase out physical cash to and from government and public sector agencies
- Single platform as hub for all payments to/from government that is frictionless, secure and consumer friendly
- Support cities to adopt digital payments solutions
- Secure open-loop payment for transport system & incentives for frequent ridership
- Public-private partnerships for national awareness of digital payments campaigns and financial literacy



### For Digital Payment Providers

- Adopt secure, cost effective solutions suitable even for low value payments
- Secure technology and prioritise adoption of security standards
- Improved KYC/AML
- Educate merchants on payment protection and payment certainty
- Process to allow customers to quickly and confidently address fraud

<sup>4</sup> Recommendations collated from studies referred to in Items 1, 2, 3, 6, 8, 9 and 10 of the End Note

# Resources

For further details, please refer to:

1. How Cashless Payments Help Economies Grow, 18 May 2019  
<https://www.bcg.com/publications/2019/cashless-payments-help-economies-grow>
2. Cashless Cities: Realizing the Benefits of Digital Payments, 2017-18  
<https://responsiblefinanceforum.org/publications/cashless-cities-realizing-benefits-digital-payments/>
3. The benefits of a cashless society, Jan 2020  
<https://www.weforum.org/agenda/2020/01/benefits-cashless-society-mobile-payments/>
4. Global Payments Report 2020, Oct 2020  
<https://www.mckinsey.com/~media/mckinsey/industries/financial%20services/our%20insights/accelerating%20winds%20of%20change%20in%20global%20payments/2020-mckinsey-global-payments-report-vf.pdf>
5. Covid-19 Pandemic Accelerates the Rise of Digital Payments, 20 March 2020  
<https://eiuperspectives.economist.com/healthcare/covid-19-pandemic-accelerates-rise-digital-payments>
6. World Development Report: Digital Dividends, 2016  
<http://documents1.worldbank.org/curated/en/896971468194972881/pdf/102725-PUB-Replacement-PUBLIC.pdf>
7. The Hidden Costs of Cash, 2014 <https://hbr.org/2014/06/the-hidden-costs-of-cash>
8. The Countries That Would Profit Most from a Cashless World, 2016  
<https://hbr.org/2016/05/the-countries-that-would-profit-most-from-a-cashless-world#:~:text=Based%20on%20our%20analysis%2C%20the,Czech%20Republic%2C%20China%20and%20Brazil>
9. Cashing Out: Economic Growth through Payment Digitisation, 2020  
<https://newsroom.mastercard.com/mea/files/2020/05/Mastercard-White-Paper-Cashing-Out-Economic-Growth-through-Payment-Digitisation1.pdf>
10. Digital Payments and the Global Informal Economy, 2018  
[https://navigate.visa.com/\\$/v/2/m/x/Digital\\_payments\\_and\\_the\\_global-informal-economy-report.pdf](https://navigate.visa.com/$/v/2/m/x/Digital_payments_and_the_global-informal-economy-report.pdf)