“SORRY, WE DON’T TAKE CASH”

THE CASHLESS SOCIETY: ARE YOU READY?

RetailWeek CONNECT

In association with worldpay

AT A GLANCE

The end of cash is nigh. Cash payments have been declining rapidly over the past 10 years as millennials and Generation Z consumers continue to drive the use of mobile payments. Research revealed in this report finds that 63% of UK consumers believe their phones will replace physical credit or debit cards as their main method of payment in five years' time, with the same number of shoppers saying checkout-free stores would make a shop visit more desirable.

But how much longer is it until the UK becomes a truly cashless society? And what are the implications and obstacles for UK retailers?

This Retail Week report, produced in association with payments provider Worldpay, will uncover what it will take for the UK to truly transition to cashless payments and why staying ahead of the curve can reap major benefits.

Using new research and global case studies from countries already transitioning away from physical money, this report will highlight:

- The reality of a world without cash – including the economic impact and changes in consumer behaviour.
- The benefits of digitising payments, for both consumers and retailers.
- How to overcome any hidden challenges.
- What retailers need to do now to prepare for a cashless society.

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- Contactless transactions overtook chip-and-pin payments in the UK for the first time in October 2018.
- UK Finance has predicted that only 16% of UK consumer payments made in 2027 will involve cash.

CHAPTER 2

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- Almost half of the world's digital payments in 2017 were made in China.
- The UK ranks as the world's third most cashless country behind Canada and Sweden.
- Contactless payments in Canada have a spending limit of $100, and research shows UK consumers would also like a higher contactless spend limit.

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- New mobile payment technology has the potential to increase retailers' in-store turnover.
- Larger retailers are beginning to tap in to in-store mobile usage.
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- Preventing fraudulent transactions will need to be high on the retail agenda.
- Consumer trust in a retailer can be immediately lost if payment data is compromised through a security breach.
- Continual investment in security systems and fraud detection tools will be necessary.

In association with worldpay

CASHLESS PAYMENTS

16%

THE PREDICTED PERCENTAGE OF UK CONSUMER PAYMENTS MADE IN CASH BY

2027

THE UK IS THE

MOST CASHLESS SOCIETY GLOBALLY

5.6 billion

CONTACTLESS PAYMENTS WERE MADE IN THE UK IN 2017 –

A YEAR-ON-YEAR INCREASE OF

97%

63%

OF UK CONSUMERS BELIEVE THEIR PHONES WILL REPLACE PHYSICAL CREDIT OR DEBIT CARDS AS THEIR MAIN METHOD OF PAYMENT IN FIVE YEARS' TIME

RETAIL WEEK
FOREWORD

ISOBEL CHILLMAN
CREATIVE STRATEGIST, RETAIL WEEK

Most UK millennials won't remember a life before chip-and-pin payments, and you'd be hard-pushed to find a member of Generation Z who uses – or even owns – a cheque book.

Payment technology has been developing at a rate of knots over the past decade, with new innovations driven by consumer desire for ease, speed and simplicity. Cash usage in the UK has plummeted over the past 20 years, making up only 38% of purchases in 2017, down from 78% at the turn of the millennium.

With the cashless evolution already under way, Generation Alpha (children born between 2011 and 2025) may well be the first demographic to accept payments from the Tooth Fairy via Monzo. And with consumers increasingly relying on their cards or mobile phones to make transactions, the end could be near for our notes and coins.

As the UK competes with Sweden and Canada to become the first cashless society, the retail industry needs to prepare for a further surge towards the use of contactless technology. Improving the in-store customer experience – and providing the same level of efficiency as ecommerce – should already be of utmost importance to bricks-and-mortar retailers as the UK high street continues to struggle to drive footfall and sales.

As highlighted in this Retail Week report, in association with payments provider Worldpay, cashless transactions will help drive this efficiency. By providing consumers with simplicity, immediacy and ubiquity in how they make transactions and payments, retailers will in turn be able to cut queues and boost sales.

But the move to paperless payments is not without its challenges. Preventing fraudulent transactions will need to be high on the retail agenda, and the speed of contactless payments relies on the strength of the broadband network supporting it – no internet means no transaction.

The reality of a world without cash is yet to be realised, but preparations can be made today to compete in the cashless society of tomorrow.

> “Generation Alpha may well be the first demographic to accept payments from the Tooth Fairy via Monzo”

RETAIL WEEK CONNECT: THE CASHLESS SOCIETY: ARE YOU READY?

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VIEWPOINT

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STRATEGIC SALES DIRECTOR, WORLDPAY

Cash payments have been in decline for several years as digital alternatives become more accessible and more convenient to consumers.

In 2015, digital payments (credit and debit cards) overtook cash for the first time, with transactions made in cash declining by 10% over the past five years. And this decline is only expected to continue. So what's driving this change?

One of the biggest catalysts for the decline of cash is the adoption of contactless technology, first by issuers and then by consumers. Consumers are not carrying large amounts of cash on them, with 41% stating that they are using less cash than they did a year ago, and 54% of 16- to 20-year-olds typically carrying less than £10.

The rise of contactless payments has meant that physical cash payments have reduced as consumers increasingly tap and go, desiring both greater convenience and speed.

The number of businesses accepting card payments has also impacted cash, with more than 1.7 million businesses now accepting cards. More and more businesses view card payments as crucial to operations, offering consumers greater convenience and a wider choice of how they can pay.

The ecommerce revolution has allowed more businesses to offer their products and services online, which includes businesses that traditionally relied on cash payments to trade.

Consumers can now pay for almost anything online or via their mobile, from donating to charity to paying for their morning coffee.

It is clear that we are moving towards modern money. The opportunity for businesses lies in understanding the benefits that can be unlocked from digital payments, and how optimising transactions can save retailers money and improve in-store efficiency.

“One of the biggest catalysts for the decline of cash is contactless technology”

WORLDPAY

Worldpay is a global leader in payments-processing technology and solutions.

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CHAPTER 1:

THE CASHLESS CONSUMER

Less than 10 years ago, it would have seemed inconceivable that cash could soon be a thing of the past. However, the widespread availability of contactless payment methods has driven card use in recent years, particularly for low-value transactions that would have traditionally been made with cash.

Consumers are increasingly relying on their cards or mobile phones to make such transactions. According to UK Finance, the number of contactless payments made in the UK increased 97% in 2017 to 5.6 billion.

Driven by the continued roll-out of contactless cards and card acceptance devices in stores and on public transport, consumers are becoming increasingly comfortable and familiar with making contactless payments.

The decline of cash

Research from the British Retail Consortium (BRC) finds that cash use fell a further 1% year on year in 2017 – following continual decline in cash usage over the past decade – and accounted for just 22% of total UK purchases (or 38% of consumer-specific purchases, as shown below).

The BRC finds that cards were used to pay for £277.1bn worth of goods during the year, accounting for 76% of all retail sales and passing the 75% milestone for the first time.

Power of tech

More sophisticated methods of payment are making transactions quicker and easier than ever.

Research from Worldpay finds that 63% of UK consumers believe their phones will replace physical credit or debit cards as their main method of payment in five years' time, with the same number of shoppers saying checkout-free shops would make a store visit more desirable.

Contactless transactions overtook chip-and-pin payments in the UK for the first time in October 2018, thanks in part to mobile wallets such as Apple Pay and Google Pay – technology that did not exist a decade ago.

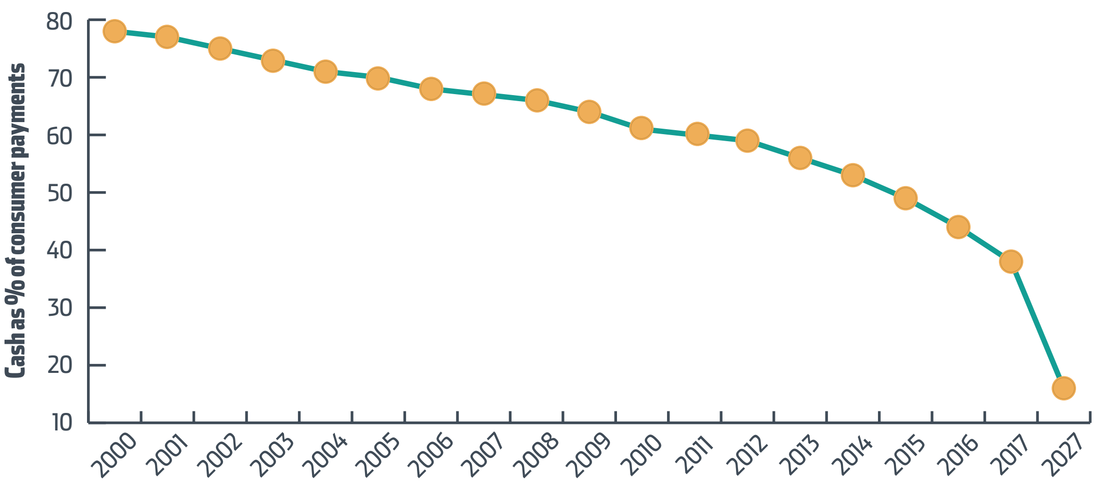
With the speed at which payment technology is advancing, it's not unreasonable to predict another drastic decline in cash payments over the next 10 years. UK Finance has predicted that only 16% of UK consumer payments made in 2027 will involve cash.

But there are still technological barriers to overcome, as the infrastructure required to support frictionless electronic payments on a UK-wide scale does not currently exist.

So will the UK really be cashless any time soon? According to a 2018 announcement from Natalie Ceeney, former chief executive of the Financial Ombudsman Service and chair of the independent Access to Cash Review, which has been set up to consider consumer payment requirements, it could happen sooner than we think.

Ceeney estimated it costs the UK economy £5bn a year to keep currency circulating around society, making cash transactions increasingly expensive for retailers as they reduce in frequency.

TIMELINE OF DECLINE IN UK CONSUMER CASH PAYMENTS



Source: UK Finance

CHAPTER 2:
LEARNINGS FROM GLOBAL MARKETS

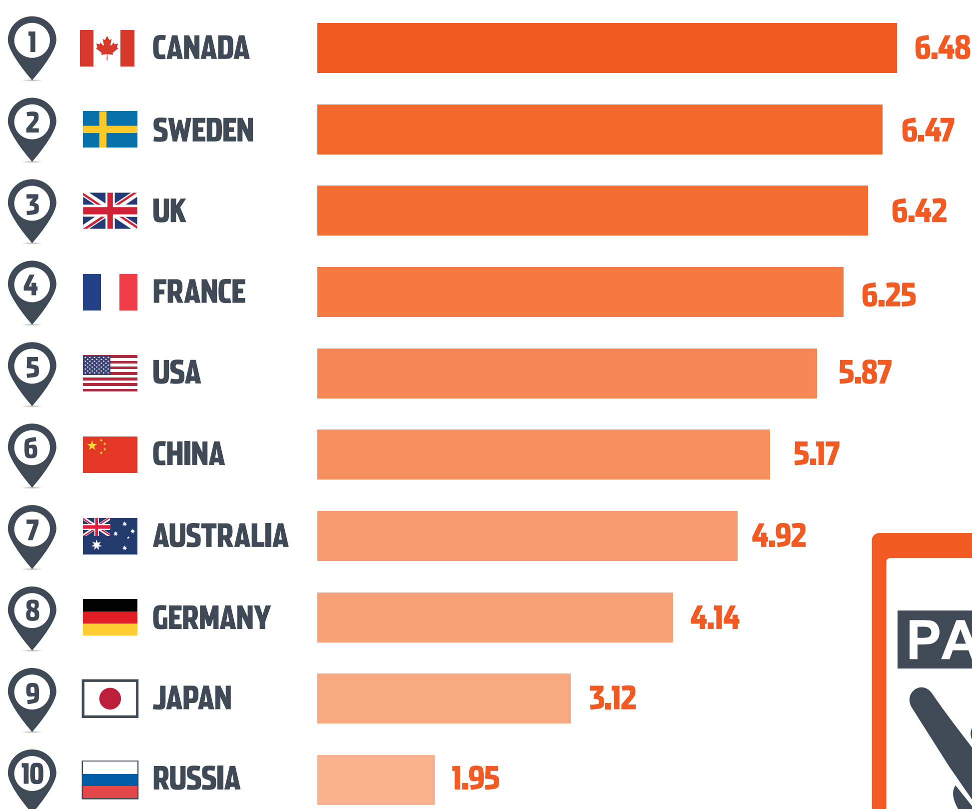
China has historically led the way when it comes to payments, with the first known banknote developed there during the 7th century. It's rather apt the country that helped encourage the use of cash is at the forefront of its demise too. Almost half of the world's digital payments in 2017 were made in China, using apps such as Alipay and WeChat, according to research carried out by PwC. Even homeless people are reported to accept donations via WeChat, using QR codes linked to payment accounts.

The ubiquity of smartphones, the widespread use of social media and the speed of growth in ecommerce has fuelled the decline of cash purchases in the country, to the extent that many retailers now no longer accept cash at all.

China may have started the mobile payments revolution but, now languishing in sixth place in the ranking of the world's most cashless societies, it is no longer leading it.

In this chapter we'll look at other countries heading towards a cashless market and what the UK can learn from them.

THE WORLD'S MOST CASHLESS COUNTRIES



Source: Forex Bonuses – forexbonuses.org/cashless-countries. Rankings out of 10 calculated based on six different metrics including amount of credit cards per person, amount of debit cards per person, cards in issue with contactless functionality, growth of cashless payments over five years, payment transactions made using non-cash methods and people aware of what mobile payment options they have available to use

CANADA

Canada currently takes first position on Forex Bonuses' list of the world's most cashless countries, because of its reliance on plastic – there are more than two credit cards per person in the country.

Canadian banks and retailers have been strong drivers towards cashless payments in the country. By 2016, 40% of retailer point-of-sale devices were contactless-payment enabled, and more than 95% of credit cards in Canada supported contactless payments. For comparison, by October 2017, 81% of UK debit cards were contactless, up from 68% in 2017.

Canadian consumers are also adopting contactless payment at rapid rates. Findings from a 2018 report published by Moneris, Canada's largest processor of debit and credit card payments, showed that nearly half of all transactions in the second quarter of 2018 were completed through contactless technology — the highest share of payments since the technology was introduced in Canada.

Higher-value purchases

One possible reason behind Canada being further ahead in cashless payments than the UK could be the ability to pay for a wider range of goods and services than UK shoppers, because of the increased spending limit. Contactless payments in Canada have a spending limit of $100 – at around £58, it's almost double the UK's current limit of £30.

An increase in spending limit in the UK could prove popular with consumers. Worldpay research from 2017 found that 65% of consumers would be happy to make a contactless payment of up to £50 on their card, rising to 71% for 21- to 34-year-olds.

WHAT CAN RETAILERS LEARN?

An increase in the maximum spending limit on contactless cards in the UK could encourage consumers to use cashless payments more often, by allowing them to pay for a wider range of goods and services.

SWEDEN

Few nations are moving faster towards becoming the world's first completely cashless society than Sweden. According to the central bank of Sweden, the proportion of cash transactions in retail dropped from 40% in 2010 to 13% in 2018, and around half of the country's retailers predict they will stop accepting bills before 2025, such is the rate that cash is being squeezed out. Many consumers now pay for everyday goods using the country's payment app, Swish.

Speaking at a banking conference at the end of 2018, Cecilia Skingsley, deputy governor of the country's central bank (Riksbank), said she expected the change to come even sooner. "Sweden will probably become cashless in three to five years," she said.

But Riksbank governor Stefan Ingves has warned that a completely cashless society would result in a small number of commercial financial institutions being responsible for all transactions, posing a threat to the financial infrastructure. A cashless Sweden could be unprepared if faced with a crisis, he added. Some also worry about the challenges it poses for vulnerable groups, especially the elderly, homeless or refugees, who are more heavily reliant on cash.

Retail benefits

That said, the benefits to retailers could be significant. Swedish furniture giant Ikea recently began trialling a cash-free store in Valbo, after customer surveys revealed Ikea employees dedicate a higher amount of resources to handling cash than is comparable with the number of consumers who want to use cash to pay for their goods. It was the first step in the company's plan to build a digital payments platform for its retail stores that could be rolled out across the world within the next five years.

WHAT CAN RETAILERS LEARN?

Trialling cash-free solutions allows strategies and technology to be tested on a small scale, before committing to a countrywide roll-out. Doing so allows retailers to not only test the technology, but also see whether benefits such as increased productivity from store colleagues are apparent.

AUSTRALIA

Currently ranked as the seventh most cashless society in the world, comparison website Finder.com.au predicts Australia could become cash-free as early as 2026. The number of ATM transactions by the average Australian citizen has fallen dramatically in recent years, down from 40 times a year in 2010 to 25 times in 2017, according to The Reserve Bank of Australia (RBA). At the same time, contactless payments have quadrupled.

Research conducted by market analyst company Roy Morgan found that more than 14.5 million Australians aged 14 and over (72%) used digital payment solutions over a 12-month period to March 2018, and 7.3% of Australians had used a bank's own mobile payment solution.

In November 2018 Australia's central bank declared cash was likely to become a "niche payment" used only in emergencies, while cheques would be phased out altogether. Cash payments of more than AU$10,000 (£5,563) are to be banned from July in an attempt by the government to make it easier to track large transactions and to crack down on tax evasion via the 'cash-in-hand' economy.

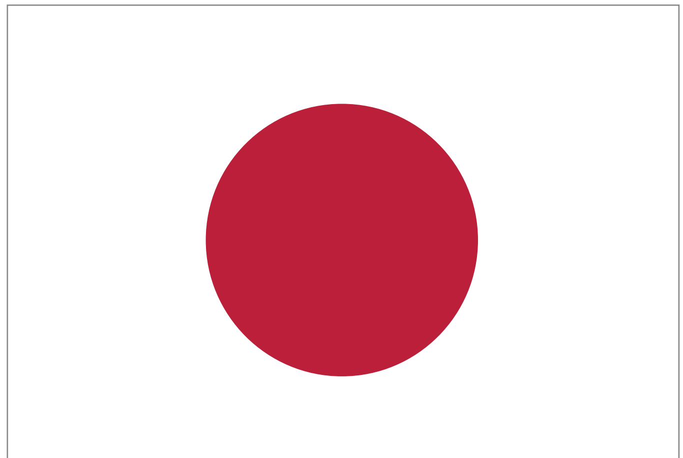
New tech and mobile apps

Part of the success of Australia's push towards becoming cash-free has been the rise of new technology and mobile apps such as Hey You. With an estimated 600,000 users, Hey You allows customers to order and pay for food or drink through their smartphone ahead of time, avoiding queues at cafes and restaurants.

But, while Australia looks towards a near-cashless payments system, RBA governor Dr Philip Lowe emphasised in 2018 that "we don't yet envisage a world without banknotes". "Using cash does not require the internet to be up, electricity to be working and the banks' systems to be operational," he said. "As we rely less on cash, outages affecting retail transactions can have a significant impact on businesses and individuals."

WHAT CAN RETAILERS LEARN?

Despite the fraud reduction benefits a cashless society can provide to governments, UK retailers will need to invest further in fraud protection software as more transactions go digital. If personal data is compromised, consumer confidence can be quickly lost, with GDPR laws resulting in large fines too.



JAPAN

The Japanese government is seeking to double digital payments, meaning that 40% of all transactions would be made via this method by 2027, up from 20% in 2016. According to the report *Cashless Vision* – compiled by a panel of experts for the country's Ministry of Economy, Trade and Industry – cashless systems at retail stores will save manpower at a time when Japan needs to improve productivity amid a shortage of labour and a declining population.

The government also hopes shifting from cash usage to digital transactions will improve financial transparency and enable taxes to be collected more efficiently. Not only that, but a move to a cashless system will stem the increasing cost of handling cash for Japanese banks and retailers – which exceeds ¥1trn (£7.2bn) annually, according to Japanese investment bank Nomura.

Olympic opportunity

The Japanese government has a particular goal in mind; with the Olympic Games in 2020 set to take place in Tokyo, increasing cashless payments could stimulate spend from tourists visiting for the Games. The financial industry is already stepping up efforts to meet the target, with banks Mizuho, Mitsubishi and Sumitomo Mitsui agreeing to come together to provide standardised QR code specifications across the country for cashless payments.

QR code payment technology allows shoppers to purchase goods simply by scanning their phone – the QR code then carries the transaction information to the mobile device of the customer. The three banks hope that by working collaboratively they can avoid confusion or duplication for retailers and customers.

Retail giant Aeon is also hoping that by 2020 it will have rolled out 100,000 machines that automatically processes payments when credit cards are held over them. Meanwhile, Japan Post will accept cashless payments for postcards and parcel deliveries at its post offices from early next year.

WHAT CAN RETAILERS LEARN?

Create clear attainable goals for implementing cashless technology, such as Japan's aim for the 2020 Olympics. Working in partnership with external technology and banking suppliers can help achieve these goals by reducing the risk of implementing incorrect or outdated payment solutions.

CHAPTER 3:

THE IMPACT ON UK RETAIL

Studies as far back as the 1970s have suggested that people spend more when paying with plastic compared with using cash. This hypothesis implies that new mobile payment technology has the potential to increase retailers' in-store turnover, especially in relation to spontaneous purchases.

But, while plastic could encourage unplanned purchases, new fintech apps such as Monzo are also allowing customers to track and monitor their spending more closely than ever. And their usage is on the rise – industry analyst CACI predicts that 35 million people (72% of the UK adult population) will manage their main bank account via their phone by 2023.

The value of the global mobile wallet market is growing exponentially, with a recent Zion market research report valuing it at £2.35bn by 2022.

Tapping in to tech

There are signs that larger retailers are beginning to tap in to in-store mobile usage. A first for UK grocery, in August 2018 Sainsbury's began trialling new payment technology that enables customers to scan and pay for products in store using their smartphones, allowing them to skip the checkouts entirely.

Clodagh Moriarty, Sainsbury's chief digital officer, spoke to Retail Week during the pilot launch, saying: "Technology and changing customer shopping habits have transformed the way people buy their groceries. Our teams are constantly working hard to bring new convenient shopping experiences to customers."

> "We're transforming to become a digital-first retailer and this includes ensuring our stores are digitally enabled for our customers"
>
> **JIM CRUICKSHANK, MARKS & SPENCER**

She said the payment system would make it easier for customers to visit the store, enabling them to "scan, pay and go", saving them valuable time and freeing up members of staff to work elsewhere.

Following suit, in October 2018 Marks & Spencer added a capability to its app that it claims will allow customers to buy their lunch in as little as 40 seconds. The service – Mobile, Pay, Go – allows users to scan products as they go and then pay for items worth up to £30 via their iPhone using Apple Pay or a saved card on their M&S account.

"We're transforming to become a digital-first retailer and this includes ensuring our stores are digitally enabled for our customers," explains Jim Cruickshank, global director of digital product and user experience at M&S.

"We know that our customers – especially those who come to us for lunch – are so busy, so any tech that can speed up the shopping experience is a massive benefit to them.

"Crucially, it also means our colleagues can spend more time on the shopfloor serving and helping customers."

Amazon has pioneered checkout-free shopping with its Go stores in the US. The shops deploy technology such as cameras and sensors similar to those used in driverless cars to allow customers to pick up what they want from the shelves and leave the store without queuing to pay. Customers use a dedicated app to get into the shop and their accounts are automatically charged when they exit.

The ecommerce giant is now said to be plotting the first Amazon Go UK opening in London's West End.

CHAPTER 4:

PREPARING FOR A CASHLESS SOCIETY TOMORROW, TODAY

A cashless society could provide obvious benefits to the economy: frictionless trading encourages spending, limited use of cash means tighter controls over tax fraud and crime, and further investment in technology that streamlines work processes could help improve productivity.

But the transition to digital payments will create hurdles to overcome too, particularly as some consumer groups still rely heavily on cash.

Preventing fraudulent transactions will also need to be high on the retail agenda. The UK Government's 2018 *Cyber Security Breaches Survey* found that 65% of medium to large businesses had identified cyber-security breaches or attacks in the previous 12 months.

Retailers can rely somewhat on banking institutions to prevent fraud. Fraud losses on cards may have totalled £281.2m in the first half of 2018, according to UK Finance research, but a further £493.5m of card fraud was stopped by banks and card companies. However, consumer trust in a retailer can be immediately lost if payment data is compromised through a security breach, whether it's the retailer's fault or not.

There are solutions available for bricks-and-mortar retailers that can help reduce the likelihood of fraud, such as point-to-point encryption (P2PE), a solution that encrypts cardholder data at the point the payment is taken. By removing clear text data from a retailer's network, P2PE prevents the data from being abused in the event of a breach.

For ecommerce businesses, preventative measures such as tokenisation can reduce the fraud impact. By substituting a sensitive data element with a non-sensitive equivalent, referred to as a token, this process ensures the data has no exploitable meaning or value.

Continual investment in security systems and fraud detection tools will need to be a priority for all retailers as digital payments continue to advance.

Obstacles to overcome

James Daley, managing director of Fairer Finance, says retailers and banks will need to think fast if they are to keep their systems up to date with the changes that are afoot.

"Britain is not ready to go cashless, but the wheels are in motion and are pushing us in that direction quite rapidly," he warns, adding that even where the necessary technology exists, rolling it out in some areas could be difficult.

"In order to make cashless payment work, you need things like high-speed broadband and that's just not available in some places.

"We also need to support customers who rely on cash, such as the elderly or vulnerable." Overall the move is a good thing, he says, but adds: "There is a lot of work that needs to be done."

Retailers may also find the cost of handling cash increases, and eventually consumers might be subject to charges for withdrawing cash, Daley warns.

However, retail expert Richard Hyman has a more measured view. "In the current retail climate, we are unlikely to see retailers turning down footfall just because shoppers are paying in cash," he says.

"Where we do see changes, it is because retailers are looking to reduce costs – bringing in checkout-free shopping or self-checkouts, as Zara has done, reduces the need for staff."

Physical retail is relying increasingly on technology to streamline the customer experience and, with cash use in Britain only set to decline further, the investment is a necessary one.

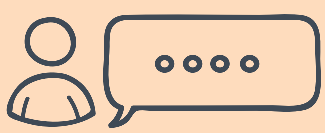
By implementing digital payment strategies now, UK retailers will be in a strong position to compete in the digital economy of the future.

NEXT STEPS FOR RETAILERS

Worldpay strategic sales director Vivek Singh highlights four key ways retailers can embrace cashless payments and drive in-store sales, ultimately providing consumers with the digitally enabled store experience they expect.

Ensure digital strategies account for declining cash usage

With debit card payments overtaking cash usage for the first time in 2018, retailers need to evaluate the different methods they accept and develop a strategy that improves efficiency for both the merchant and the consumer.



Consider what the customer wants

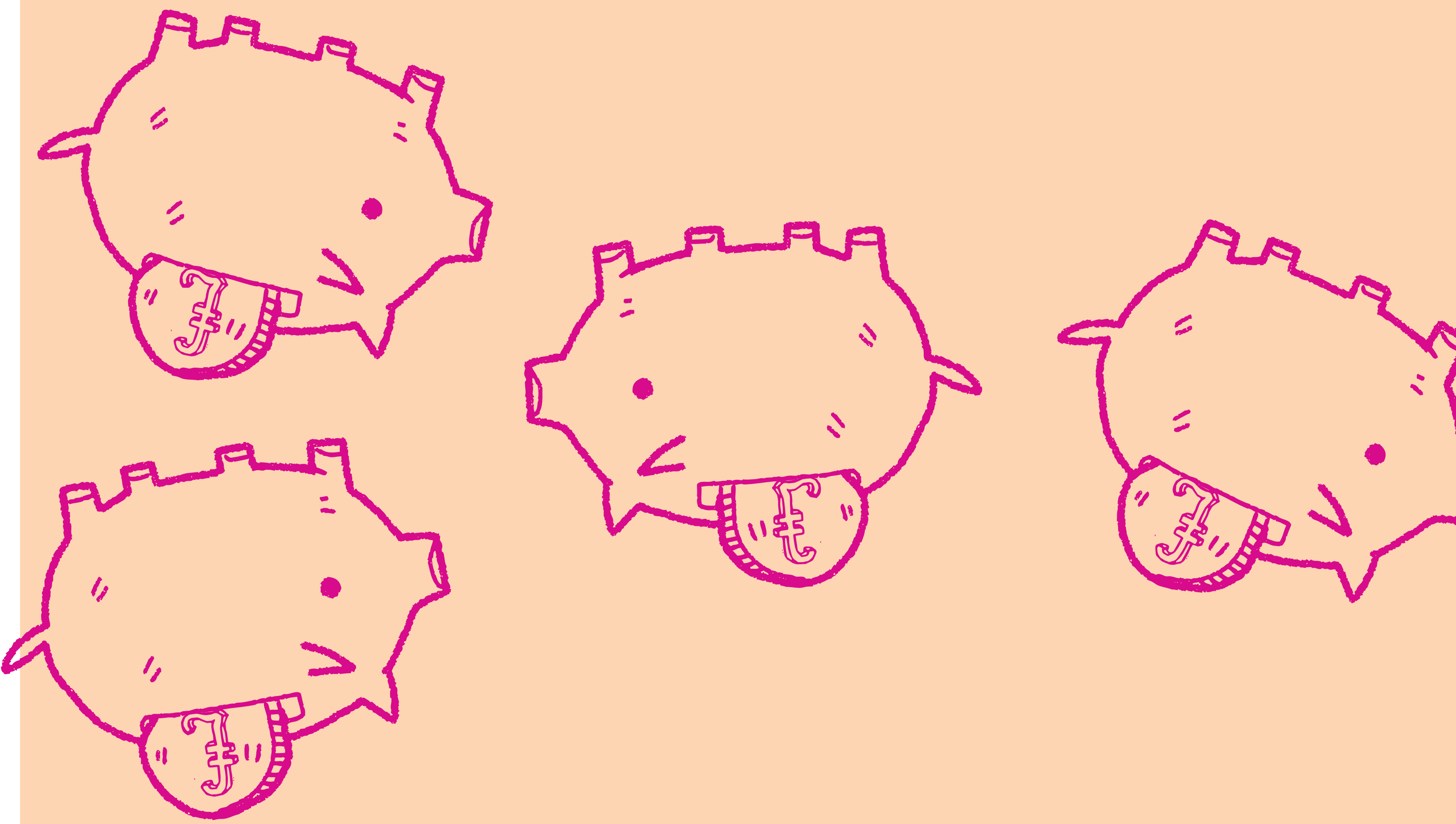
The shift to cash-free purchasing is driven by consumers' desire for faster, frictionless shopping. But, with a multitude of technologies to choose from, UK retailers must ensure they're implementing the right solution for their specific customer demographic.

Strengthen existing capabilities

An increase in digital payments will create greater reliance on the technology to support it. Retailers need to make sure their wider IT networks, such as high-speed broadband in store, are in place, as well as the necessary IT workforce to roll out and run their new payment tech.

Take responsibility for safety of customer data

Fraud detection systems are essential to ensuring consumer trust isn't lost through security breaches or fraudulent actions. With security breaches rising year on year globally, retailers need to take some responsibility for the safety concerns around digital payments.



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