Cashless does not necessarily mean financial inclusion

By Vaughan Alexander

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The improvements in technology have resulted in opportunities for payment solutions and governments to offer more affordable transacting for the previously unbanked. However, that is not to say that a cashless society is a utopian one.

Vaughan Alexander, CEO at Innervation Pan African Payment Solutions

Cashless transacting enables organisations to engage with customers in more meaningful and personalised ways due to the data they generate about habits, preferences and other trends. As consumer adoption of digital technologies continues to accelerate, businesses have access to growing pools of customer data that can inform product development and customer interaction.

Going cashless is a Herculean task that's not as simple as implementing a new, secure system. However, if retailers are to deliver the personalised services required in the experience economy, pulling more people into electronic forms of payment and transacting is critical for growth.

Changing habits

Visit almost any startup pitching event and you'll be greeted by a handful of fintech companies with a new way to bank the unbanked – people who don't utilise any formal or informal forms of banking. It's become relatively easy to introduce a new way of paying for groceries or mobile airtime or other essential services, or - importantly in the African context - remittance. However, as the failure of other nations' cashless initiatives has proven, it's another thing altogether to get customers to give up their reliance on cash.

Cash – or physical pieces of money – is an easy concept to understand. If you want to buy something, you hand over a few bits of paper and some cylindrical pieces of metal for that item. Humanity has been using money since the first paper currency was used in China in 960AD.

Unlike the transaction of handing over physical money, electronic data is susceptible to breaches and unauthorised access. If the technology backing a cashless society cannot be correctly implemented, or fails, it could mean financial failure.

It is also in human nature to move cautiously when adopting new technology that effects everyday lives, though this can exclude social tech. A cashless society may mean that country borders and transactions are easier to use, but it will be decades, or longer for physical money to completely vanish, it ever.

A number of emerging market countries have already 'declared war' on cash. For the most part these attempts have failed. There is even a growing number of countries and cities, such as San Francisco, that have banned cashless stores. The emerging market countries that have attempted to go cashless are similar to South Africa in a number of ways. This may enable local policy makers and innovators to learn from their mistakes and avoid common pitfalls to succeed where their international peers have failed.

India's financial disaster

India tried to fast-track its cashless system by eliminating portions of physical currency. In an unprecedented event, in 2016, Indian Prime Minister Narendra Modi announced that all Rs500 and Rs1,000 banknotes would immediately be removed from circulation. Overnight, cash-intensive industries suffered major losses. More than a million jobs were lost in the aftermath.

Before this catastrophe, the country had been doing well in its digital sector. India introduced the Aadhaar system in 2009, which was a biometric identification system. After its roll-out, the system allowed the population to store addresses, tax filings, and bank statements. This massive amount of data collection helped the government improve the delivery of financial services to the unbanked.

However, the attempt to go completely cashless was an abject failure and the program today is clouded in uncertainty.

Nigeria's cash handling

In 2012, Nigeria piloted the 'cash handling charge' in Lagos. The government hoped this would accelerate its GDP growth. For those that utilised daily cash withdrawal, banks were required to charge individuals N500,000, and businesses N3-million. The system had a further roll-out in 2013, with a national launch in 2017. However, it was suspended soon afterwards without a reason.

While it was hoped the move would strengthen the economy, combat corruption, and bring about mass financial inclusion, it only added $640-million to the country's GDP between 2011 and 2015.

For cashless economies, education is Important

What these lessons have taught us is that the average person needs to be able to equate their physical cash to a digital number. There has to be a greater emphasis on educating the average person about money and the merits and pitfalls of different types of transacting before a truly cashless system can be realised.

In one shining example of cashless success in Africa, Safaricom's M-Pesa has done extremely well, accounting for 81% of mobile payments in Kenya. This has been helped by the fact that there are only 35 000 point of sale devices in Kenya, serving a total of 6.6-million cardholders. Part of M-Pesa's appeal is its ease of use and the very specific niche it fulfils within a very specific market. Safaricom has also done a commendable job of educating its customers about how to use the service.

The responsibility of education also falls to the government or business trying to re-invent banking: if the general population doesn't understand your product, then it may have already failed. Building this understanding is impossible without access to accurate data. And cash generates no data from which to work: the broad spectrum of electronic payments are far better able to produce accurate data that can be mined for insight.

Here, electronic payment providers can play an important contributory role by assessing the missteps of a cashless society and combining data with unique, innovative payment systems. Doing so would open an entire world of benefits and cost-savings to cash-strapped consumers.

ABOUT THE AUTHOR

Vaughan Alexander is the CEO at Innervation Pan African Payment Solutions.