FINANCIAL LITERACY FOR YOUTHS

The Next Stop – A Cashless Era
Milestone for Economic Growth?

The concept of a cashless society is being increasingly adopted by more countries whereby the economy’s financial transactions are conducted virtually rather than physically by transferring funds digitally. The usage of the conventional types of cashless transaction such as cheque, online transfer, credit or debit cards have increased over the years along with the emergence of new cashless payment methods such as Mobile Wallet (aka E-wallet) and Gift cards. The rapid advancement of digital economy prompted Bank Negara to enhance and promote the e-payment platform in Malaysia by waiving off online instant transfer fees and increasing cost of cheque fee in the process of moving the country towards a cashless society. From a recent report by the Star, electronic funds in Malaysia have increased from 66 mil transactions in 2011 to an estimated 329 million for 2017. Cashless transactions is also deemed to be a more efficient and cost-effective way of transacting that potentially boosts an economy’s growth in the international scale. The transition of an economy towards a cashless economy could be one of the biggest challenges for Malaysia, but it is a milestone that must be achieved to ensure a sustained economic growth of this country. That being said, the following article will discuss and weigh on the pros and cons that a cashless society will face.

Pushing for Long-Term Sustainability

The trend towards the use of non-cash transactions began when the major e-commerce services provided by Ebay, Amazon, and TaoBao started gaining recognition from the public mainly due to the convenience and simplicity when purchasing an item. The concept of cashless is quickly adapted in the physical markets by various store retailers such as Walmart, HomeDepot not long after and it proved success. A cashless economy reduces the inconvenience from carrying physical cash, eliminates risk of receiving counterfeit, and improves the productivity of transaction. This is mainly due to the security features available from utilizing cashless payments via mobile wallet where user’s security authorization is compulsory whenever a transaction is to be made. Additionally, criminal acts such as theft and usage of fake currency that is evident when using physical cash can be evaded as every transaction is performed on a centralized online legal platform by
all parties. Alipay (Zhifubao), a third-party mobile and online payment platform introduced by Alibaba Group in year 2004 as a means of online e-commerce transaction is also gradually expanding into the local and worldwide retail stores as an alternative of physical cash payments. For example, 7-Eleven is the first Malaysian retailer to accept Alipay as a method of transaction along with an online e-commerce platform, Lazada MY, shortly after recognizing the reliability and sustainability of replacing physical cash with e-wallet.

One of the primary concern when being introduced to going cashless is the reliability, or more specifically the security and privacy issues when utilizing cashless payments in various occasions. Riskiness of cashless transaction via credit or debit cards involving identity fraud, data theft is still prevalent which causes some to lose confidence when stepping on board. However, the advancement of information technology in cashless transactions, particularly via mobile payments, or even digital currencies (eg. Bitcoin) runs on a monitored secure platform that essentially puts an end to such criminal acts. Mobile payment platforms via Alipay for example protects buyers by monitoring every transaction and utilizing the best encryption technology in securing the user’s financial information. Digital currencies such as Bitcoin on the other hand operates on an incorruptible digital ledger of economic transactions called Blockchain. For simplicity sake, Blockchain technology is basically a new form of technology transfer on the internet whereby digital information (transaction-wise) can be distributed and tracked, but impossible to be altered or copied. Authorities or responsible parties should keep themselves constantly updated on the advancement of financial information technology and implement suitable systems in developing the security of cashless transactions. A secure database of financial information should be established so that potential cyber theft and hacking risks can be mitigated.

Besides, a complete withdrawal of paper money will also enable the government to exercise full control over the banking system where central banks can eliminate countless amounts of economic problems associated with currency fluctuations. Direct control over all forms of cash in the economy allow the government to impose monetary policy (adjusting money supply, interest rate) to control inflation, unemployment and consumer spending as opposed to imposing fiscal policy for which its effect can only normally be seen in the long-term. As
mentioned earlier, the government will be able to track and record essentially every transaction that takes place across the centralized financial platform, and thus the major business loopholes such as tax evasion could be eradicated in a fully digitalized financial system. This will yield the government necessary additional revenue which was previously non-existent that can be invested or injected into the economy for further developments.

**Loopholes in The System**

On the other side of the coin, the implementation of cashless transactions is prone to problems as well. The most obvious impact would be on those whose income is highly dependent on physical cash. Small local retailers, such as those who merchants in wet markets as well as local small restaurants, would have to fork out a sum in order to implement the new payment system. This adaptation may be more than what they can afford and might eventually be forced to shut down due to the failure in keeping up with the transition. Besides that, labors in the service sectors who rely on tips, donations, and sponsors would be facing more adversities in their earnings. When tips are being paid via credit card, these payments are only received with their paycheck and often, the amount is reduced by tax and processing fees, which causes a serious dent in their already low income. Digitized tips are also vulnerable to exploitation by internal managers as they can easily take advantages by nipping off a small percentage before distributing them to the fellow workers.

As for consumers, cashless transactions has indirectly made tipping become more expensive. When payment is now made through specialized app or system, customers often have restricted options whereby the tipping choice was set to be either by percentage or a flat-dollar amount. In some cases, businesses will make use of their digitized payment system to set a new norm in tipping, by raising the percentage or tips amount in the choices. For example, when Big Apple’s taxis began implementing credit card readers, customers were presented with 20% being the smallest option in their tips choices, which is 5% higher than the norm when tips were paid in cash. Through this, a new norm is set and “20% is now the new 15%”, and consumers must fork out a minimum of 5% extra in their tip expenses. Alternatively, customers will have to consciously choose the “no tip” option before
proceeding to their final payment. Consequently, this form of “tip shaming” will leave customers to resort to paying extra tips than intended.

Moving to a cashless society is also challenging in terms of self-control. A member in a cashless society demands high discipline when it comes to spending. Money is less appreciated and precious when it is just lines of on-screen figures as compared to a physical representation of guilt; people tend to spend excessively when they shop online as compared to shopping in a physical store. The convenience of virtual money has resulted in many entrepreneurs to seize this opportunity by shifting their focus to an online selling platform which further encourages the public to spend unnecessarily. This is supported by a survey which shows that about half of Malaysian respondents buy online at least monthly and only 7% have never shopped online. Hence, it is crucial for an individual to remain rational and to realize that spending virtual money is actually the same as spending money from your wallet!

The transformation to become a cashless society is also prone to resistance and rejection by the public mainly due to a lack of knowledge and concern on its reliability. Particularly for older generations, cashless transactions are often rejected as virtual transactions are perceived to be prone to scams and frauds; suspicion will arise from transactions when the effect of a transaction is not immediate (such as shopping online). Furthermore, the sudden transformation to a high use of technology requires time for users to familiarize with the new transaction methods, especially for non-tech savvy users. Also, in order to effectively transform into a cashless society, speedy internet, as well as smartphones and broadband subscriptions are some of the prerequisites which unfortunately is still lacking in Malaysia. According to the Department of Statistics, Malaysia, only 70.1% of households have access to the internet in the year 2015. While the figure may be favorable from the general view, it is still insufficient if Malaysia is to transform into a cashless society like China. Neglecting this would also mean that about one-third of households would be left behind during the transition process.

In addition to the problems mentioned above, the transition to a cashless society further widens the income gap as a result of unbanked citizens being left behind during the changes. This is especially true for those who are too young or too old to open up a bank account and to comprehend the mechanics involved in cashless
transactions. Hence, the economic growth and advancement are achieved by sacrificing the welfare of these group of people in the society. It is therefore essential for the government to realize this issue and ensure that the welfare of all classes of people in the society is taken into consideration when deciding for such transition.

With the implementation of digital currency, the government will have full control and withdrawal of money would no longer be possible, consumers’ liquid assets are thus dependent on the economic policies implemented by the government. For instance, if government wishes to trigger an economic growth, an expansionary monetary and fiscal policy will be implemented in order to encourage spending. Unfortunately, this will often bring about inflation and in such cases, consumers will be unable to withdraw physical cash for safekeeping or to preserve its value in times of inflation.

An Era of Digital Currency

Upon analysing the respective pros and cons of the transition into a cashless society, some may have an inner judgment as to whether or not Malaysia should go along the transition. It is, however, important to note that this transition is not in our control as globalization ensures that the whole world is affected by the uprising trend in the use of digital money. As for Malaysia, we may be slow or less responsive to these trends but we are definitely heading there and we may be pushed into a cashless society before we know it!

WeChat Pay will be implemented in 2018, seen as the biggest rival to Alipay which was introduced in Malaysia in June 2017. The cashless system from China (Alipay, for instance) has successfully collaborated with large local banks such as PBB, MBB, CIMB and Genting. While the existing Alipay is currently available for tourists visiting from China only, WeChat Pay is bound to become a big hit in terms of digital payment the services will be integrated into the WeChat messaging app, which has a large existing user base of 20 million users in Malaysia. In terms of influence, WeChat Pay is viewed to be gaining attention and influence especially when Tencent has recently surpassed Facebook in terms of net worth immediately after becoming the first Asian technology firm to reach USD 500 billion net worth.
This shows that Malaysia is not far from becoming a cashless society under the influence of China.

Besides that, the government is establishing a digital payment system like those of Alipay and WeChat Pay in the effort to strengthen our local influence on a cashless system. Sarawak for instance, has contributed to the local cashless movement by developing its own payment system known as Sarawak Pay, a digitized system which allows Sarawakians to pay for all local government services. According to the local government, Sarawak Pay will take gradual advancement to be integrated with F&B outlets under the Sarawak Economic Development Department as well as enabling this e-wallet system to be linked with other neighboring countries such as Indonesia, Thailand and China.

**Inclusivity in a Cashless Society**

To conclude, the use of virtual money and digitalized transactions are becoming more popular among Malaysians in the recent years. Especially for generation Z, where most of them multitask through multiples screens daily are favoring this form of transaction while cash transactions are generally popular among generations X and Y, who still prefer high street shopping method. Whether or not Malaysia will gradually transform into a cashless country like Singapore, France and Sweden, is still debatable but it is important to note that while the transition is favorable in terms of economic growth and advancement, there are also costs associated with such changes mainly through forgoing the welfare of the minorities. Therefore, it can be argued that an ideal society would be one which combines both transaction methods in order to maximize social welfare of the citizens.
References:


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