

Digimentality

Fear and favouring of digital currency

Towards a cashless society

Going cashless offers societal benefits. Among them are lower costs due to reduced production and handling of coins or banknotes and better financial tracking that can resolve tax gaps and expose shadow economies, as noted by the Institute and Faculty of Actuaries (IFoA) in a 2018 report.¹ International exchange and remittance could also be simplified as digital economies hold promise for unbanked or underserved populations. But as the IFoA also observes, “the topic is divisive due to clashing stakeholder interests,”² not to mention risks around data privacy or cyber security.

A 2020 survey from The Economist Intelligence Unit sought to uncover more granularity on what those divisive issues are from a user-base perspective. The trend of going cashless is well established. Platforms such as Alipay and WeChat in China, for example, have allowed businesses and individuals to exchange funds via mobile devices with increasing simplicity. American firms such as Apple and Google have aimed to follow suit. And according to research from the Swedish Central Bank, 40% of the country’s population still used cash for payments in 2010; by 2018 that figure had dropped to 13%.

Defining digital payments

For the purposes of the survey the term “digital currency” refers to financial assets that exist electronically with no physical form and are accessible via computers or digital devices. These include but are not limited to cryptocurrencies such as Bitcoin, Ether and XRP. More broadly, we use the term “digital payment” to include any and all of the following:

- Online banking (direct payments from a

bank account to a person or business via electronic means)

- Mobile payment or e-wallet (typically via smartphone, including WeChat Pay, Alipay, Google Pay, Apple Pay, etc)
- Online money transfer services (PayPal, Venmo, TransferWise, etc)
- And the aforementioned digital currencies

¹ “Cashless Society in 2018 The Cashless World in Motion review”, IFoA, 2019.

² “A Cashless Society: Benefits, Risks and Issues”, IFoA, 2017.

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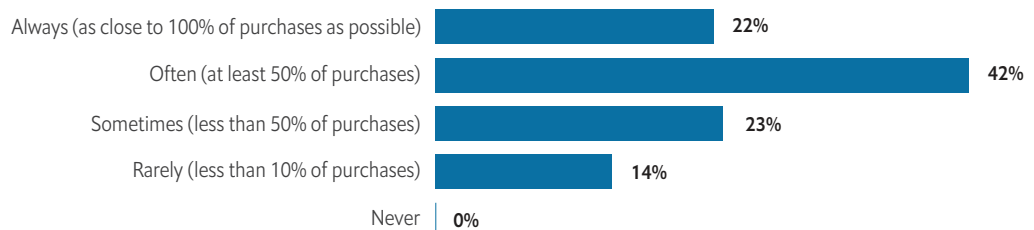


"We see that the trend is strong," says Eva Julin, deputy head general secretariat at Sveriges Riksbank, Sweden's Central Bank, who leads the country's evaluation of issuing a digital currency. "Paying with cash in Sweden can actually be difficult; our legal system gives businesses the right to refuse physical payments." As a result, the country's hotels, restaurants, stores—and, ironically, bank offices—are becoming "cash free".

Overall, 64% of survey respondents report using digital payments for over half of their purchases instead of physical banknotes, coins or credit cards in the past 12 months. Almost one in five (20%) said they had not used a digital payment in the past year but plan to do so over the next 12 months, indicating further growth.

Figure 1: Often digital

Frequency of making digital payments instead of using physical banknotes, coins or credit cards (% respondents)



Source: The Economist Intelligence Unit.

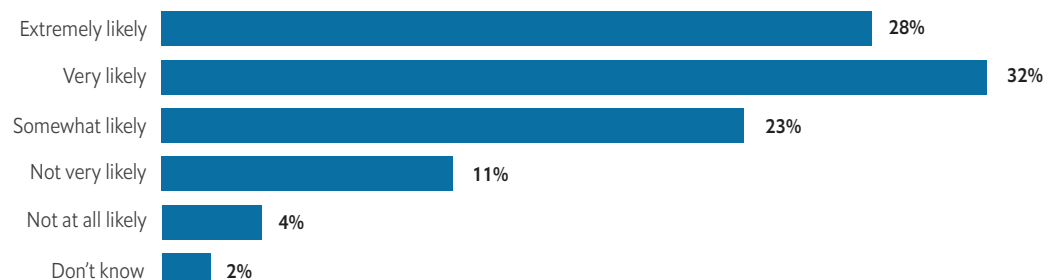
Cash out

Results of our global survey of over 3,000 users of digital payments show that 10% of respondents believe their own country is already cashless (defined as predominantly using digital instead of physical payment methods). Trends of mobile penetration rates³ and tech innovation indicate there is still much room for these numbers to increase.

In the next 12 months, almost a third (28%) of survey respondents believe they are "extremely likely" to use digital payments for most or all of their daily transactions instead of cash. Another third say they are "very likely" to do so. On average only 4% say they are "not at all likely". Isolating results to respondents in developing economies cuts that rate to 1%.

Figure 2: Digital progress

Respondents' likeliness to use digital payments for daily transactions instead of cash (% respondents)



Source: The Economist Intelligence Unit.

³ 5.1bn people around the world subscribed to mobile services, accounting for 67% of the global population as at 2019, according to GSMA Intelligence

Our survey indicates greater resistance to going cashless in developed economies. More respondents in these countries predict their society will never become cashless than those in developing ones. The latter also expressed more optimism that cashless systems would develop faster. Similarly, younger people (aged 18 to 38) are more inclined than older peers (aged 39 and above) to expect a cashless society. The emerging trend of who fears and favours digital transactions is

not surprising when compared with mobile internet usage. According to the Pew Research Centre, younger generations (aged 18 to 34) are far more likely to own a smartphone.⁴ And studies from Statcounter, an analytics firm, show developing economies such as India, Indonesia, Turkey and China are world leaders in terms of internet usage from mobile phones.⁵ As transacting digitally becomes more of a norm, these stats are likely to be key factors in how digital currency will evolve.

Digital Currencies: Growing choice of options

Government-backed cash (also known as fiat currency) has long dominated the payment landscape. But rapid technological change has led to a host of alternatives led by credit, then digital (including online banking or smartphone apps) and finally cryptocurrency options.

Central-bank digital currency (CBDC) and commercially backed digital options are the next development.

Cryptocurrencies based on Blockchain with no backing from commercial or government entities (such as Bitcoin) are perhaps the best-known decentralised systems, but different players are starting to pile on. A range

of new cryptocurrencies based on similar underlying technology are being developed by financial and technology organisations—most notably Libra, social media company Facebook’s market offering. However, these have yet to be implemented in practice.

Governments see an opportunity to issue digital currencies that fill a void, ensuring trust by virtue of their backing while retaining the advantages of crypto-like systems. Therefore, Central Banks around the world have started tinkering with digital versions of their existing physical currencies. CBDCs are still in trial stages and currently unavailable to the general public.

Fear and favouring of digital currencies

Despite many new digital ways to pay, survey respondents still report the most common form of payment they use is a physical credit

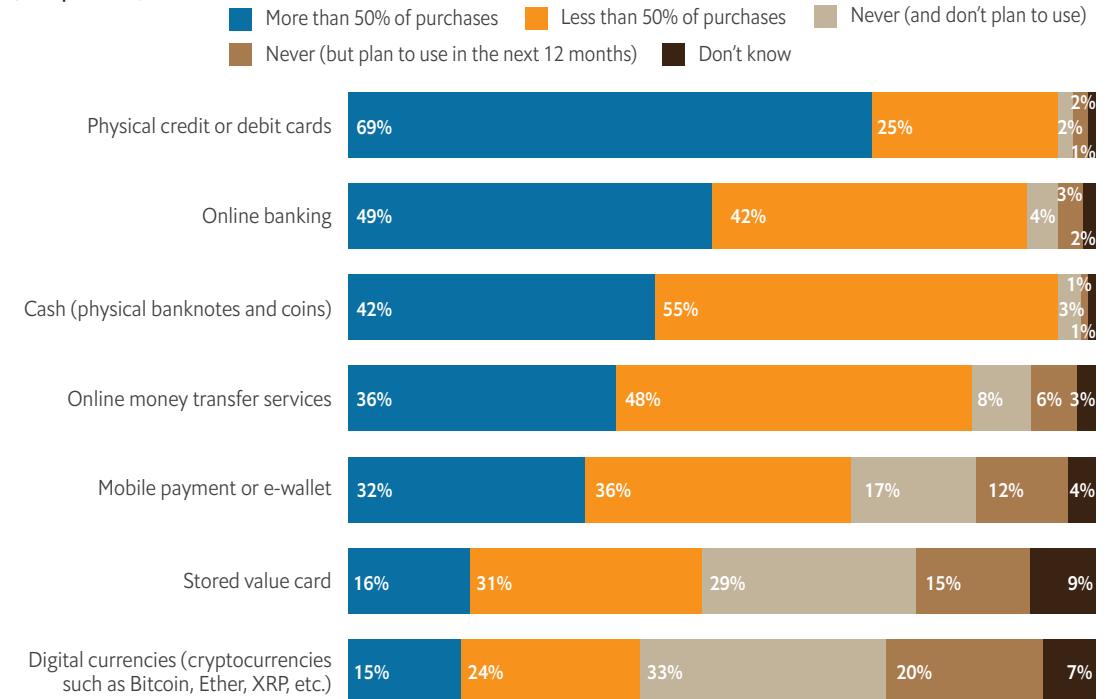
or debit card. The second most-preferred option is online banking, with cash coming next. Cryptocurrencies, reflecting the aforementioned divisiveness, come last. Only 5% of survey respondents say that they “always” use them; 10% say they do so “often”.

⁴ “Smartphone Ownership Is Growing Rapidly Around the World, but Not Always Equally”, *Pew Research Centre*, 2019.

⁵ “India amongst world leaders in use of mobile to surf the internet”, *Statcounter*, March 2017.

Figure 3: Cash uncrowned

Use frequency for payment methods
(% respondents)



Source: The Economist Intelligence Unit.

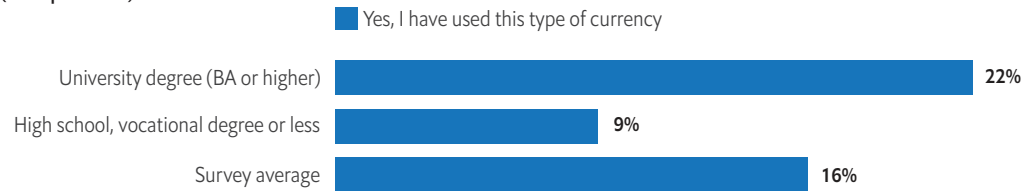
Yet digital currencies are capturing media headlines with China proposing a CBDC pilot programme in 2020 and tech and financial firms floating new concepts in the space (such as Facebook's Libra or the blockchain-based JPM Coin from J. P. Morgan, a large investment bank). However, for survey respondents, cryptocurrencies are still the most commonly recognised form of digital currency. Cryptocurrency awareness in developed economies reached 79% (92% in developing ones, with an overall survey average of 85%). But developing economies show greater affinity: 41% claim ownership and 23% usage. In developed markets, only

19% claim ownership and 9% usage—all in, the average is 16%.

"Digital currencies are preferred over physical cash by some population groups," says Antony Lewis, author of *The Basics of Bitcoins and Blockchains: An Introduction to Cryptocurrencies and the Technology that Powers Them*. "You need some fundamental skills and competencies to deal with digital currencies, and not everyone has these." Survey results tend to reinforce this view. Respondents with university or higher degrees were more than twice as likely to report having used cryptocurrencies than those with a high school diploma or vocational training.



Figure 4: Byte smart
Cryptocurrency use by education level
(% respondents)



Source: The Economist Intelligence Unit.

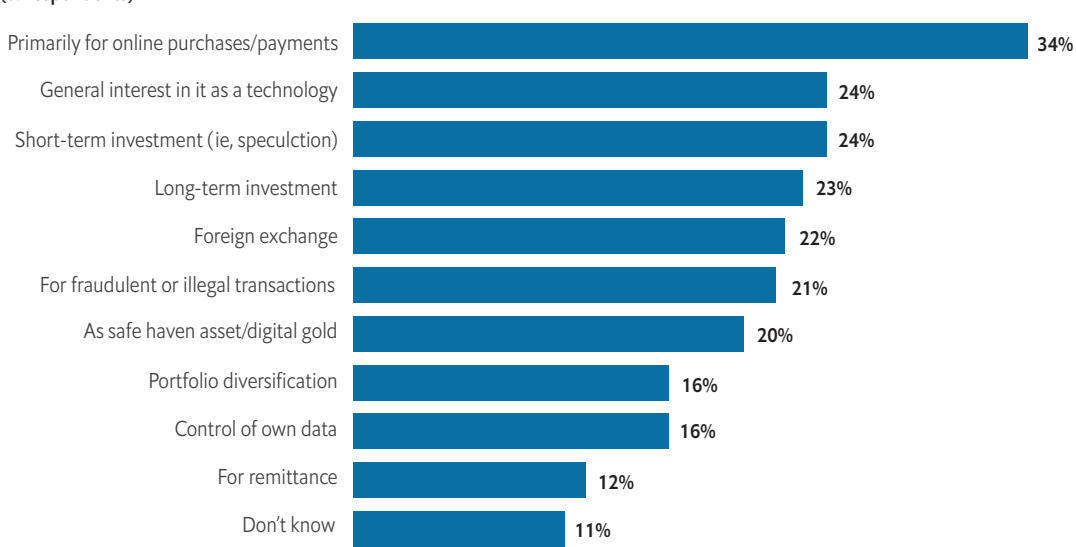
In terms of cryptocurrencies specifically, Ms Julin also holds that they "are volatile and can be seen as high-risk," commenting that cryptocurrencies may be used as speculative investments rather than for daily purchases. About a quarter (24%) of survey respondents concur, seeing short-term investment as a central use. "Traders like cryptocurrencies because of their volatility," agrees Mr Lewis. But he adds that using them for payment holds promise for the financial inclusion of people who are currently unbanked given that traditional financial institutions may limit access due to reputational risk.

"Cryptocurrencies mean greater volatility but also greater acceptability."

Survey respondents came closer to siding with Mr Lewis with the largest share (34%) considering online payments to be cryptocurrency's main function. Another 24% cited "general interest in it as a technology" as a reason for its use. On the lower end of the scale, only 12% considered remittance payments to be a main driver for the use of cryptocurrency. As both Mr Lewis and Ms Julin note, this could be explored further in terms of financial inclusion of the unbanked. This, of course, raises the issue of trust.



Figure 5: Purchase primacy
Reasons for using a digital currency
(% respondents)



Source: The Economist Intelligence Unit.

Even cash doesn't score 100% on trustworthiness in the survey. Among digital currencies, 54% of respondents cited that government issuance could be a trust factor. "CBDC are very different beasts," explains Mr Lewis. "CBDC is the least risky form of electronic payment," yet he points out that a publicly available one doesn't yet exist.

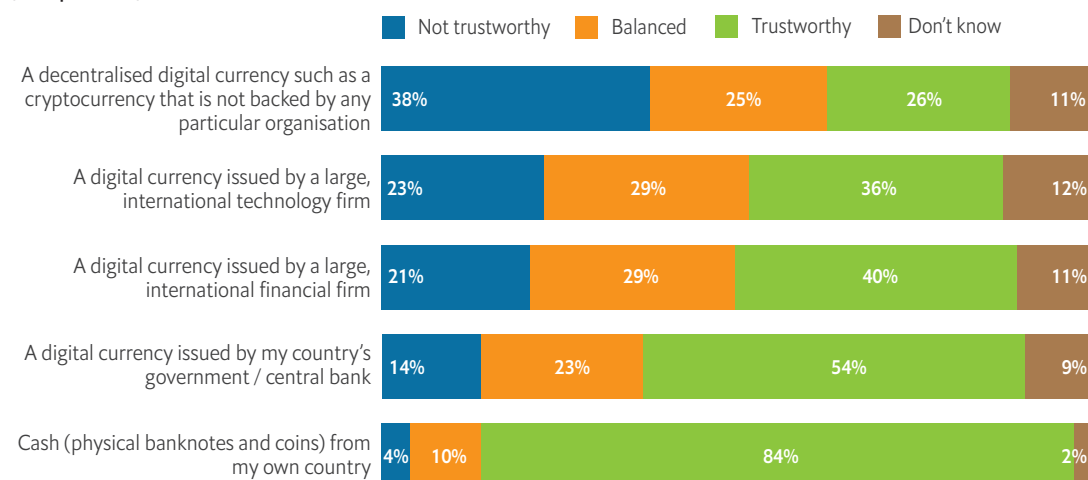
"We see people want digital payments and we have to follow this trend," Ms Julin says. To that end, the Swedish Central Bank launched an initiative in 2017 to evaluate potential for introducing the e-krona.⁶ "It is important that the government remains in the market to ensure equal access to a trusted payment

option," Ms Julin adds. She believes CBDCs decrease financial vulnerabilities in society and can act as supplements to physical cash.

Sweden may be an outlier but it's not entirely alone: other central banks are considering following suit. As previously noted, China announced a pilot programme to test its CBDC during 2020.⁷ And in January this year the world Economic Forum announced a global consortium to develop governance frameworks for digital currencies.⁸ The International Telecommunications Union (ITU), a UN agency, also established a focus group on digital currency in 2017.⁹

Figure 6: In Gov we trust

Survey respondent rating of trustworthiness
(% respondents)



Source: The Economist Intelligence Unit.

Hurdles ahead

In March 2020, the Louvre museum in Paris banned cash at its ticket gate due to fears that banknotes could be covid-19 vectors.¹⁰ The same caution has been taken globally

as China, South Korea and the US have all taken steps to quarantine or remove cash from circulation. The central bank in South Korea has even burned banknotes in an effort to slow the virus outbreak.¹¹ And a related stimulus package debated in the US Congress

⁶ Sveriges Riksbank Payments and cash notice; accessed March 20, 2020

⁷ "China's new digital currency isn't bitcoin and not speculation", *South China Morning Post*, December 22nd 2019.

⁸ "Governing the Coin: World Economic Forum Announces Global Consortium for Digital Currency Governance", *World Economic Forum*, January 2020.

⁹ ITU Focus Group on Digital Currency including Digital Fiat Currency.

¹⁰ "No money for masterpieces: Louvre bans cash over virus fears", *Associated Press*, March 4th 2020.

¹¹ "S.Korea's central bank burns, quarantines cash in coronavirus precaution", *Reuters*, March 6th 2020.

has provisions to create a digital dollar. Covid-19 has unexpectedly presented a whole new incentive to digitise money.

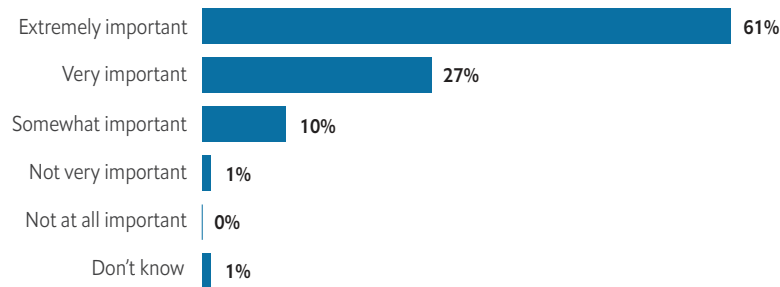
But that doesn't mean there aren't still barriers. "Stakeholders have different motivations, and sometimes these compete," says Mr Lewis, explaining that one's gain can be another's loss. "The card networks try to say cash is bad," but the reason for that, he says, is that "they don't make any money from cash transactions."

In the survey, the top challenges hampering wider adoption include the simple habit of

using cash and data-privacy concerns. Data privacy also plays a major role when it comes to deciding whether to make any kind of digital payment: 61% of respondents rate it as "extremely important" while only 1% saw the issue as unimportant.

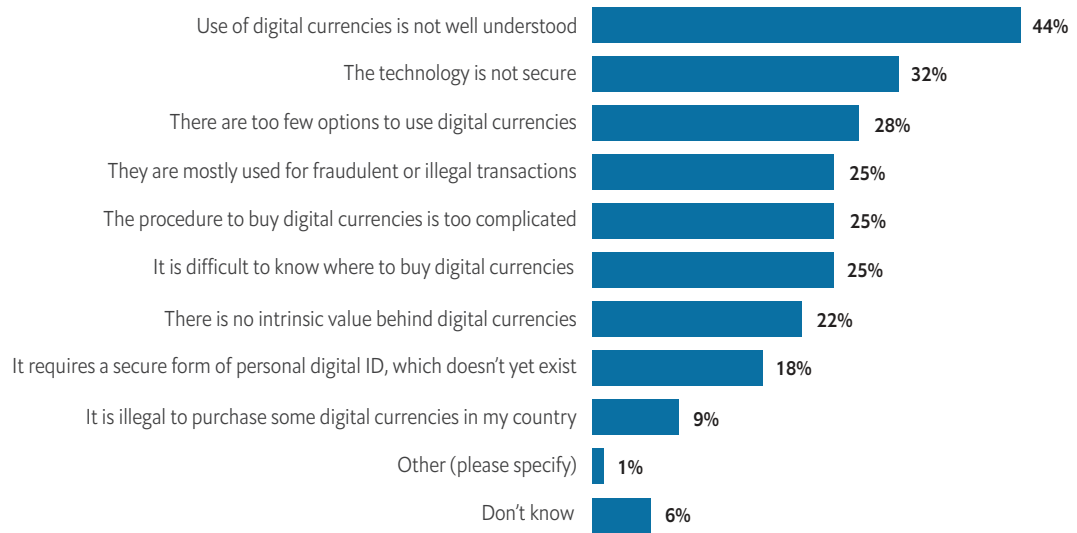
Security, too, is a worry. One-third (32%) of respondents cite it as a concern, while Ms Julin highlights cybercrime as the key challenge. But basic obstacles still exist, such as low understanding of the technology (cited as the main barrier to adoption in the survey), as well as there being too few options for actually using a digital currency.

Figure 7: Access control
Importance of data privacy in purchase decisions
(% respondents)



Source: The Economist Intelligence Unit.

Figure 8: More understanding needed
Barriers to greater digital currency adoption
(% respondents)



Source: The Economist Intelligence Unit.

Moving forward

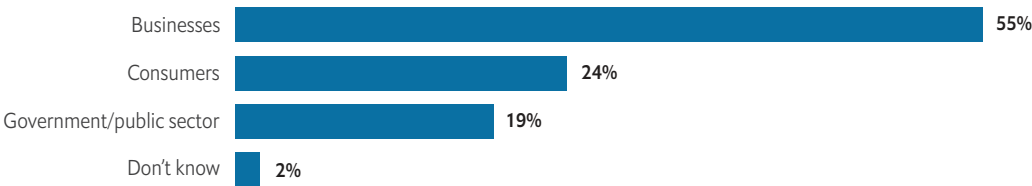
Broadly, survey respondents see businesses rather than governments leading the way. Among those who say their country is already cashless, more than half (55%) believe businesses have had the biggest influence, followed by consumers (24%). Governments get the least credit (19%). Among those who say their country is still on the way to becoming cashless, about a third (36%) also

predict that businesses will have the biggest influence; an equal number cite consumers (36%). Again, governments come last (24%).

The overall trend points to greater acceptance as well as more options in digital payments. “I expect more innovation coming out over the next ten years,” says Mr Lewis. Users seem to have growing favour for cashless options, such as digital currencies, while businesses are obliging and governments are catching up.

Figure 9: Big for business

Survey respondents' ratings for which sector has the most influence on a country becoming cashless (% respondents)



Source: The Economist Intelligence Unit.

Conclusion

In summary, favour seems to outweigh fear. Survey results show that the concept of going cashless is already broadly embraced with a variety of technologies taking the place of physical banknotes and coins—cash is only the third most popular means of payment. What is yet to be seen is how currencies will evolve digitally. A decade ago mobile payments were mostly theoretical as smartphones themselves were still new; now 32% of survey respondents say they use the platform for at least half of their purchases. Digital currencies

are currently undergoing a heightened period of public awareness (85% overall according to the survey) and innovation as governments from China to Sweden experiment and businesses from tech to finance try new offerings.

Support levels for digital currencies appear higher in younger and developing-economy populations paving the way for wider adoption ahead. As a parallel, it was these same populations that pushed mobile devices to become the dominant way the world goes online today.¹²

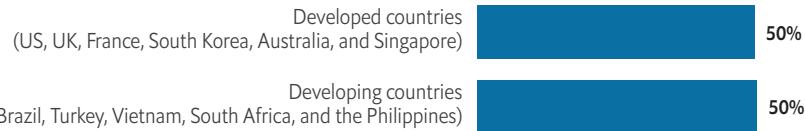
¹² J Clement, “Mobile internet traffic as percentage of total web traffic in January 2020”, Statista, February 13th 2020.

Key takeaways

- Benefits of digital currencies include improved financial tracking, increased financial inclusion and cost reductions from reduced production and handling of banknotes.
- The cashless trend is strong and businesses are seen as key drivers. More innovation is likely as central banks, tech firms and financial firms enter the digital currency field.
- Risks derive from issues of cyber security and data privacy.
- Familiarity with cryptocurrencies as the first digital currency are high, yet matters of trust, use options, and understanding persist.

Appendix

D1. In what country are you personally located? Select one. (% respondents)



Source: The Economist Intelligence Unit.

D2. In what year were you born? Select one. (% respondents)



Source: The Economist Intelligence Unit.

D3. Which best represents your gender? Select one. (% respondents)



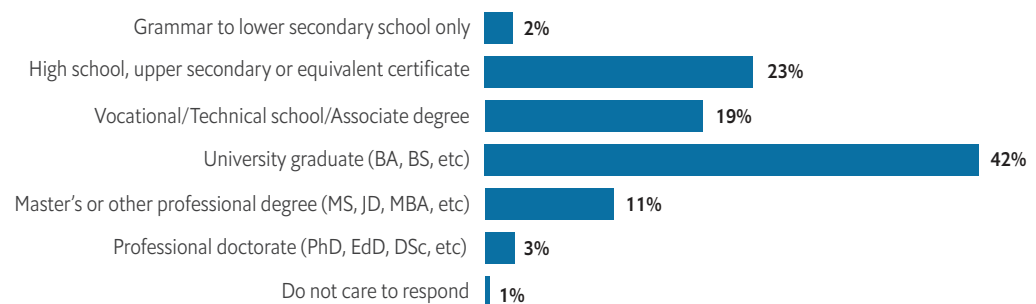
Source: The Economist Intelligence Unit.

D4. Which range best describes your annual salary? Select one. (% respondents)



Source: The Economist Intelligence Unit.

D5. Which of the following best describes your educational background? Select one. (% respondents)



Source: The Economist Intelligence Unit.

About the report

Digimentality—Fear and favouring of digital currency is a report from The Economist Intelligence Unit, commissioned by Crypto.com, exploring the extent to which digital payments are trusted by consumers and what barriers may exist to basic monetary functions becoming predominantly electronic or digital.

Kim Andreasson is the author and Jason Wincuin is the editor of this report. The analysis is based on a survey of 3,048 people conducted in January and February 2020. About half of the respondents came from developed economies (US, UK, France, South Korea, Australia and Singapore) and half from developing ones (Brazil, Turkey, Vietnam, South Africa and the Philippines). About six in ten respondents were between 18 and 38 years old with the remaining aged 39 years or older. Roughly six in ten respondents were male and four in ten were female. About half reported an above-median annual salary and half said it was below. Various educational backgrounds are

represented, with the largest numbers of respondents (four in ten) having a college degree. All respondents had bought a product or service within the past 12 months using some kind of digital payment. Complete demographics can be found in the appendix.

The following executives gave their perspective for the report (listed alphabetically by surname):

- Eva Julin, deputy head general secretariat at Sveriges Riksbank (Sweden's Central Bank)
- Antony Lewis, Fintech advisor to The Securities and Futures Commission (SFC) of Hong Kong; author of the book *The Basics of Bitcoins and Blockchains: An Introduction to Cryptocurrencies and the Technology that Powers Them*; and blogger at bitsonblocks.net

We would like to thank all interviewees and survey respondents for their time and insight.

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