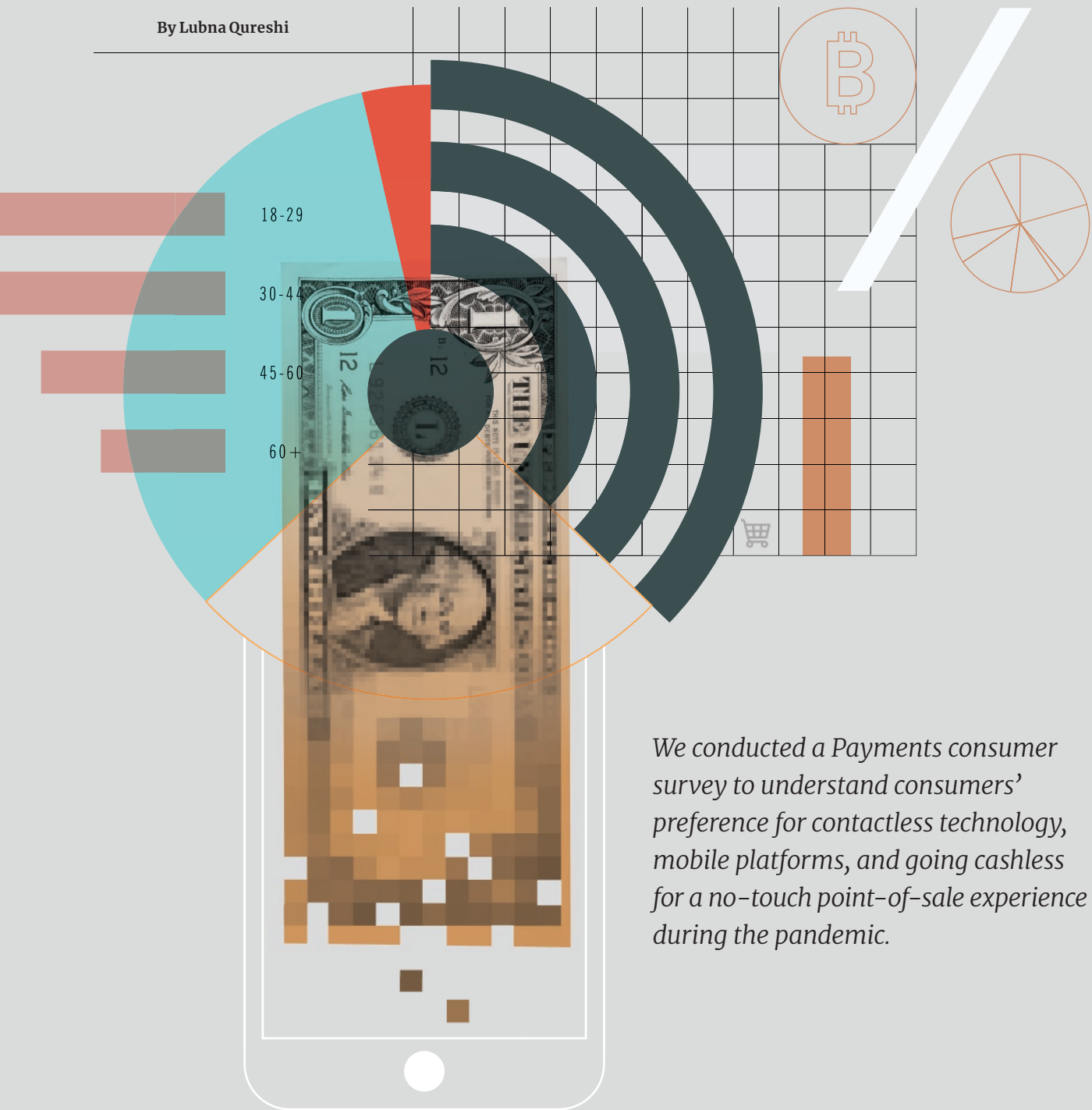


# Four Trends Modernizing the Payments World

By Lubna Qureshi



*We conducted a Payments consumer survey to understand consumers' preference for contactless technology, mobile platforms, and going cashless for a no-touch point-of-sale experience during the pandemic.*

For the last year and a half, COVID-19 has affected our day-to-day lives in ways that we were unaware of. Prior to COVID-19, there did not seem to be a hard push to use mobile applications to provide a no-touch checkout experience. We surveyed 250 US consumers (18-plus years of age across multiple socioeconomic groups) to understand the changing consumer behaviors across different demographics while they adapt to the new ways of digital transacting. The Results indicated a significant boost in mobile, contactless, and cashless payments, but was not consistent across all demographics. Our study spanned across areas of contactless payment adoption, preference for mobile banking, going cashless, and virtual currency perceptions. We identified trends, gaps, and recommended paths forward across each of these dimensions.

**TREND #1:**

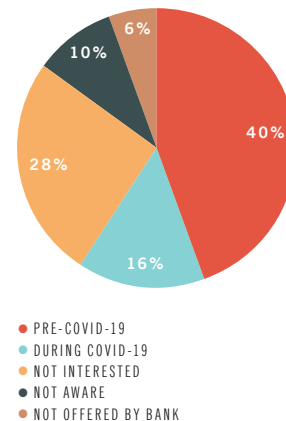
**COVID-19 STEERS CONTACTLESS PAYMENTS ADOPTION**

Contactless payments offer the capability to pay at checkout by tapping your chip credit card, mobile phone, or other digital wearable device (also called digital wallets). Our survey indicated that contactless payments were at an adoption trajectory pre-COVID-19 with merchants already offering this technology at their point of sales.

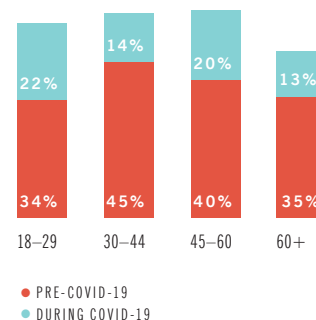
There is an underlying misconception that contactless technology took off only during the pandemic, but the data shows us a different picture. Almost 40 percent of consumers were already using contactless technology pre-COVID-19 to make in-store payments. During the pandemic, we saw a 16 percent adoption rate which is a significant increase as it represents almost a third of the remaining consumers. Consumers wanted a safe POS experience and preferred contactless digital experiences with no-touch check out processes. This potentially led to an increase in adoption of the contactless technology both for the merchants in terms of offering the capability and for the end consumers requesting tap cards and digital wallets from their banks.

Reviewing these responses across demographics, we found that adoption rates for contactless payments were lowest among those 60 years of age and above. For the rest of the age groups, more than half of the respondents preferred contactless technology. A potential rise in contactless adoption is likely to happen in the future as the more digitally savvy Generation Z enters the workforce, opens bank accounts, and becomes buyers and consumers. Surprisingly, those above 60 years of age did not see a high adoption rate even though this demographic was the most vulnerable to COVID-19. One of the reasons could be limited engagement outside of home as a protective measure.

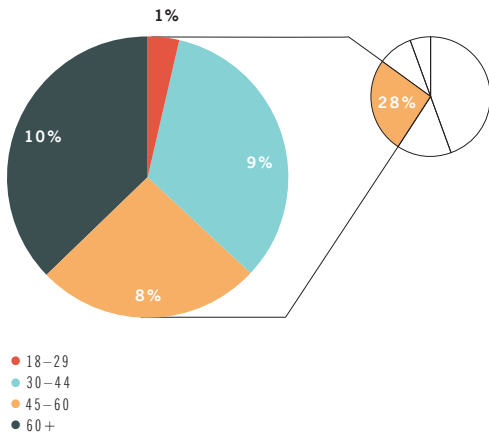
**WHEN DID YOU START USING CONTACTLESS PAYMENT TECHNOLOGY?**



**USAGE BY DEMOGRAPHIC**



"NOT INTERESTED" BY DEMOGRAPHIC



### Lack of consumer interest and awareness:

- Reasons for the lack of contactless adoption included lack of interest, lack of awareness, or bank's inability to offer the option. About a third of respondents did not use contactless payments because of a lack of interest — most of these falling within the age groups of 60-plus and 30-60 years. Not surprisingly, only 1 percent of the younger generation (18-29) were not interested in adopting the contactless way of transacting.
- About a tenth of respondents were not aware of contactless technology.
- A small group of respondents were interested in contactless technology, but their banks did not offer the capability. Banks that are lagging on the technology curve are at a crossroads to losing key customers who prefer the new digital way to transact.

### Path forward

An untapped market of older consumers needs to be educated on the efficiency, safety, and security of contactless payments. For merchants, contactless payments offer better customer experience — improved efficiency for the checkout process, enhanced security, and convenience to pay (if customers forgot their wallets at home). Merchants and banks need to market the new capability for the following benefits:

- Experience seamless transaction flow using contactless checkout, not requiring signature or PIN entry at checkout.
- Avoid transaction delays when facing card swipe or card chip errors.
- Pay conveniently via your mobile applications and/or digital wallets (phone, wearables).
- Utilize enhanced security and fraud protection using tokenization to pass credit card information between the different parties (like EMV chip and PIN).
- Prevent fraud by not sharing your physical credit card with a person at checkout.
- Enjoy a safe no-touch checkout process as a safety measure during the pandemic.

**SURPRISINGLY, THOSE ABOVE 60 YEARS OF AGE DID NOT SEE A HIGH (CONTACTLESS PAYMENT) ADOPTION RATE EVEN THOUGH THIS DEMOGRAPHIC WAS THE MOST VULNERABLE TO COVID-19.**

**TREND #2:**

**SIGNIFICANT USE OF SMARTPHONES FOR FINANCIAL ACTIVITIES**

During the pandemic, we expected a large population of consumers to go digital and embrace convenience, flexibility, and security via the cashless form of transacting.

We found that about eight out of every ten consumers used their smartphones for financial activities such as money transfers, check deposits, bill payments, and online purchases. Other key financial activities that were carried out using a phone included checking account balances, purchasing online, and depositing checks. A marginal fraction of consumers also used their smartphones to pay for loans, invest in stocks, and donate to charities.

Reviewing these responses across demographics, we found that younger generations were the heaviest users of smartphones for financial activities. Overall age groups 18–29 and 30–44 were the heaviest users of smartphones for financial transactions. The oldest generation (60+) did use their smartphones for money transfers but were behind on the adoption curve for other transactions, such as paying for online purchases.

**Hesitancy to use mobile for financial activities:**

About one-fourth of the respondents did not use smartphones for any financial activity. We see an interesting trend when we split this group among the demographics. About half of respondents were aged 60-plus years, and a third were 45–60 years. Affinity to mobile use for financing tends to decline as we moved up the age groups. Following are some of the reasons that were shared:

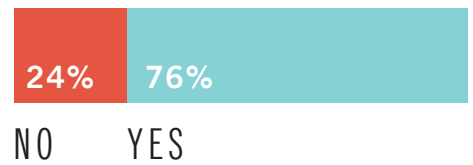
- Respondents preferred using their desktop computers to manage financial activities.
- Respondents did not think smartphones were secure to carry out financial transactions.
- Respondents preferred in-person transactions as opposed to digital transactions.

**Path forward**

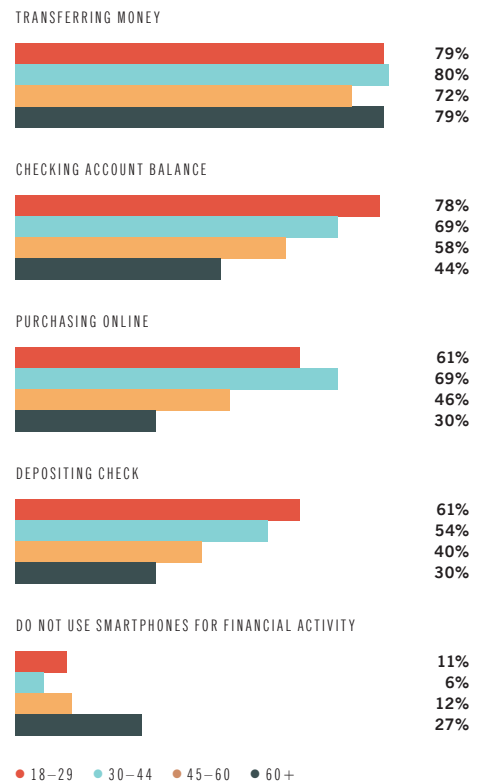
To increase the adoption of smartphones for financial activities, banks and merchants need to make sure that a mobile application is available for the customers. As consumers become more digitally apt and prefer convenient processes, merchants and banks need to be ahead on the innovation curve to offer the latest mobile offering. Below are a few areas for merchants to review:

- Are you marketing mobile capabilities across the relevant channels that will reach the key demographics, including the older generation, which is slow on the adoption curve?
- Is your mobile application user friendly and does it provide easy-to-use interfaces for all age groups?
- With regulations and security compliance (e.g., PCI, PII, PSD2) in place for digital transactions, are merchants educating consumers on the security of digital transactions and what efforts are being taken to prevent fraudulent transactions and security breaches?

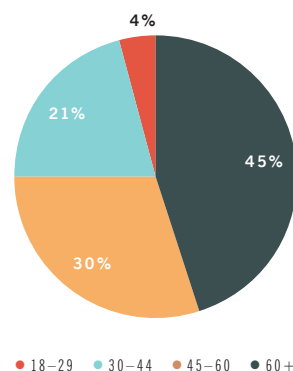
**DO YOU USE YOUR SMARTPHONE FOR FINANCIAL ACTIVITIES?**



**SMARTPHONE USE FOR FINANCIAL ACTIVITIES**

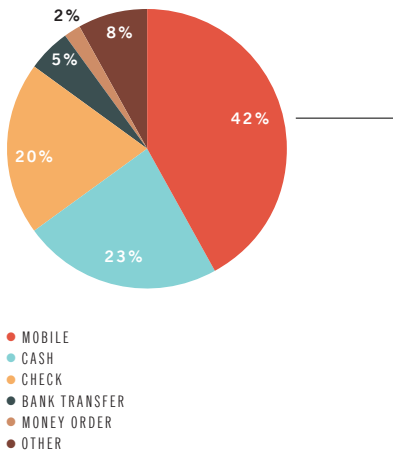


**DO NOT USE SMARTPHONES FOR FINANCIAL ACTIVITY**

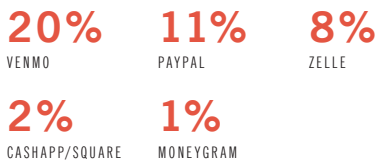


### TREND #3:

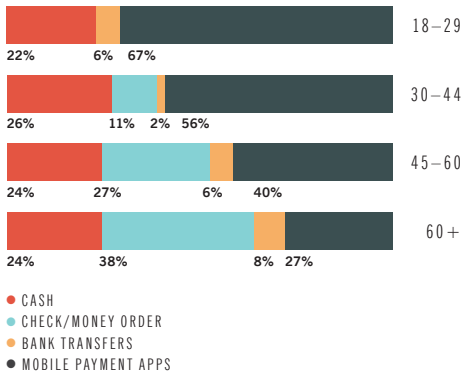
#### PREFERRED WAY TO SEND/RECEIVE MONEY



#### PREFERRED MOBILE APPLICATION



#### PREFERRED WAY TO SEND/RECEIVE MONEY BY DEMOGRAPHIC



### CASHLESS PREFERENCE OVER CASH TRANSACTIONS

With the advent of contactless solutions and mobile banking, we wanted to assess where people stood with their preferred way to send and receive money. When asked about their preferences, more than 40 percent preferred mobile applications to make the transfer. On probing further, we found that mobile application preferred for money transfers was Venmo, followed by PayPal, Zelle, and CashApp.

Reviewing the results across demographics, it seemed that as we moved up the age groups, the preference for mobile banking narrowed.

- Almost three out of four people aged 18–29 years preferred mobile applications to cash for money transfers.
- People aged 60–plus years did not show a strong affinity to mobile banking and still preferred cash, checks, and money orders as a form of payment. Possible explanations for using cash are limiting overspending, protection against fraud, and real-time payments with no lag for settlements.

#### Path forward

1. Real-time settlements and instant payments:

Going completely cashless may take more time than we think, as cash is still a preferred means of payment for a quarter of those surveyed. One area that can improve mobile adoption is offering a way to settle electronic payments in real time as opposed to a lag in settlements. The US has been behind a few countries to offer real-time payment and settlement capabilities, although the Federal Reserve is projecting to launch its anticipated real-time solution “FedNow” by 2023, which is currently under pilot. This solution will enable instant payments across various payment channels.

2. Omnichannel for financial inclusion:

Merchants should continue to offer omnichannel payment capabilities that are inclusive of all payment methods, including cash. One reason for being inclusive of all payments is that there is still a significant percentage of the US population that is unbanked and underbanked. According to a 2019 Federal Reserve report, about 22 percent of American adults (~63 million) are either unbanked or underbanked.<sup>1</sup>

- Unbanked are people who either have no access to a traditional bank or do not use a bank in any capacity. These individuals use cash and/or prepaid cards.
- Underbanked individuals are those who do have a bank account but rely on traditional forms of payment such as money orders and/or checks. These individuals do not hold a credit card due to their low credit scores, high-risk profile, or preference for other forms of payment.

Sources:

<sup>1</sup> <https://www.federalreserve.gov/publications/2019-economic-well-being-of-us-households-in-2018-banking-and-credit.htm>

TREND #4:

## VIRTUAL PAYMENT CURRENCIES FACE A SIGNIFICANT ADOPTION CURVE

Cryptocurrencies are at the forefront when people think of the next big wave in the payments world. Although people in the payments and banking world have a clear idea of how crypto works, we used this survey to gather a consumer’s viewpoint on Bitcoin. We asked consumers how familiar they are with Bitcoin and found that more than 70 percent had heard of Bitcoin but had no idea how it worked.

We probed the respondents further to get a sense of their take on Bitcoin being the future form of payment. About half of the respondents indicated that they will not use Bitcoin, the other half were not sure of using Bitcoin, and only six percent of respondents were likely to use Bitcoin.

Reviewing the responses across demographics, we found that the younger generations aged 18–29 and 30–44 seemed to be better aware of digital currencies and how it worked. As we moved up the age groups, the awareness levels dropped — with a higher percentage of people sharing that they have heard of Bitcoin but are not sure how it works. We also saw that the preference for using Bitcoin as a future form of payment declined as we moved up the age group. This is in line with other findings when we see the older generations sticking to the traditional forms of payment as opposed to adapting to innovations such as contactless pay.

### Path forward

When it comes to cryptocurrencies, there are a lot of strong opinions from merchants, banks, and industry influencers. A challenge exists to ensure that these currencies are used for legitimate purposes. Problems arise due to the sheer anonymity of transactions, leading to illicit activities that are hard to trace. Strong regulations are needed around this ecosystem, but since these currencies span countries and borders, enforcing a regulation globally is a challenge.

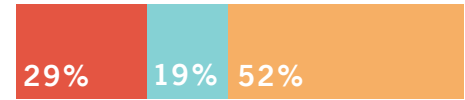
Another aspect is the public nature of the distributed ledger, which can make people uncomfortable having their transactions visible to the public even though their identities cannot be directly tied to these transactions.

Among consumers, the sheer lack of education will be the biggest roadblock to adoption.

- Do consumers know how they can purchase virtual currencies? What are the genuine channels where Bitcoin can be purchased? What products do consumers need to be aware of to protect their crypto credentials? How do they make sure that their transactions are secure and private?

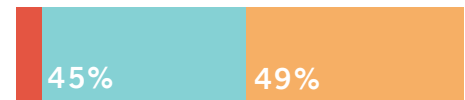
**Conclusion** As of today, we are at a turning point in the payments landscape, with capabilities such as mobile application, contactless pay, and virtual currencies all available to consumers over the past decade. As we move into these innovative forms of payment, we will continue to see a trend with the younger generations leaning toward the digital, innovative forms of payment and moving away from the cash form of transaction. However, that does not mean we completely retire the traditional forms of payment. Digital adoption among the older generation is low, and these groups will most likely continue to trend toward the traditional forms of banking and payments. 🌐

### HOW FAMILIAR ARE YOU WITH BITCOIN?



- I AM FAMILIAR WITH BITCOIN AND HOW IT WORKS
- I AM NOT FAMILIAR WITH BITCOIN
- I HAVE HEARD ABOUT IT BUT DON'T KNOW HOW IT WORKS

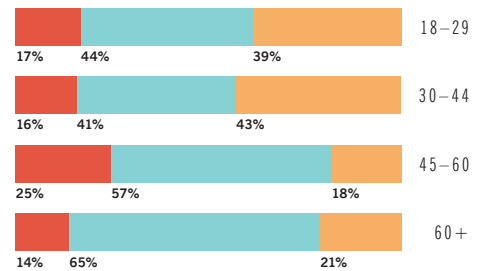
### WILL YOU USE BITCOIN IN THE FUTURE?



6%

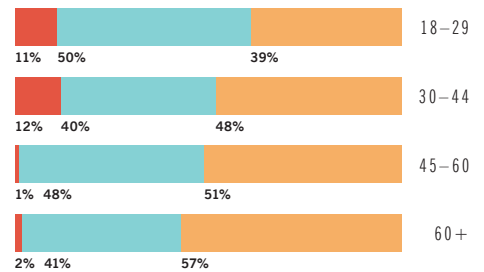
- YES
- NOT SURE
- NO

### BITCOIN KNOWLEDGE AND AWARENESS



- NOT FAMILIAR
- FAMILIAR BUT DON'T KNOW HOW IT WORKS
- FAMILIAR AND KNOW HOW IT WORKS

### WILL YOU USE BITCOIN IN THE FUTURE?



- YES
- NOT SURE
- NO

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