BARCLAYS

The future of cash

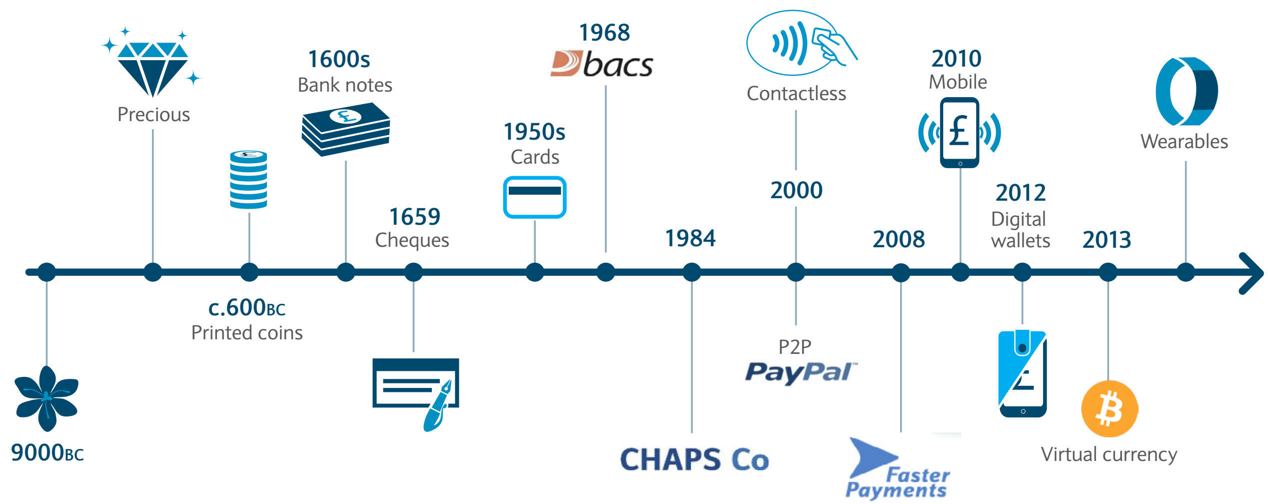
The case for digital payments

As cash management discussions turn digital, to what extent does cash remain king? In this article we hear from Sameer Dubey, Head of Transactions Product Management, and John Berghout, Digital COO, who share their thoughts about disruption in different industries, advocating the need for a business strategy fit for the digital age – not just the frequently praised 'digital strategy'.

The role of physical cash

With cash intrinsically linked to the customer experience, the role of physical cash remains integral to treasury management, bearing in mind cash handling costs in particular. However, with digital solutions providing increasingly seamless customer journeys, is the significance of physical cash dwindling? The rise of digital transactions does not necessarily come at the demise of cash, yet the role for physical cash may need to be redefined.

There has been – and always will be – a need to have a way to transfer value from one person to another. In our increasingly digital age, a range of solutions to this customer need are provided, from internet bank transfers to payment apps like Pingit. The preferred way to transfer this value may vary, depending on consumer choice and the nature of the transaction. In recent years disruptive FinTech firms have begun to provide consumer-centric payments which could fundamentally change the process of a transaction. Despite this, and despite regulatory and taxation challenges, sole traders continue to show a preference for using physical cash. Additionally, anonymity is a USP for physical cash and some consumers will likely always wish to retain their anonymity. Future technological advances could also increase the desire for anonymity; imagine a doctor advising a patient to cut back on drinking, but their card purchases of alcohol are linked to their medical records. Physical cash would become significantly more appealing.



The history of cash

Cash and the fundamentals of transactions have had a very steady history. For many years, there wasn't a fixed store of value; the introduction of bank notes in the 1600s marked the start of physical cash, and the introduction of cheques – giving consumers the opportunity to future date the transfer of value – soon followed.

For the next 300 years, despite the rise of automation in so many areas, there wasn't any material change to the way in which value was stored and exchanged. Even the introduction of electronic payments such as FPS, Bacs and CHAPs didn't fundamentally change the nature of a transaction. The last 15 years have seen a monumental shift in how transactions occur; bitcoin, Facebook credits and mobile payments have all contributed to the disruption of physical cash and in 2014, non-cash transactions outnumbered cash transactions in the UK for the first time.

The generation gap

There is a higher business cost associated with accepting cash, so does it come down to a question of business need versus consumer choice? To give some flavour, ferry operators and gaming companies would struggle to impose a mandate against physical cash. Cruise operators can issue cards linked to a customer's debit card, but on short ferry crossings this wouldn't be feasible. But can you actually change consumer behaviour and create a digital relationship?

Generation bias is a key factor in the use and attitudes toward physical cash; it's been shown over time that some consumers, for some transactions, just won't engage digitally – for example, older generations who still prefer to use cash for small purchases, despite the ease and simplicity of contactless. A recent US study revealed that millennials do not save; as a generation that has grown up with technology, they have a far greater tendency to view currency as data; they do all their banking via their mobile, and ultimately have little need to go to an ATM. Innovations such as Apple Pay are even leading to the redundancy of the purse and wallet.

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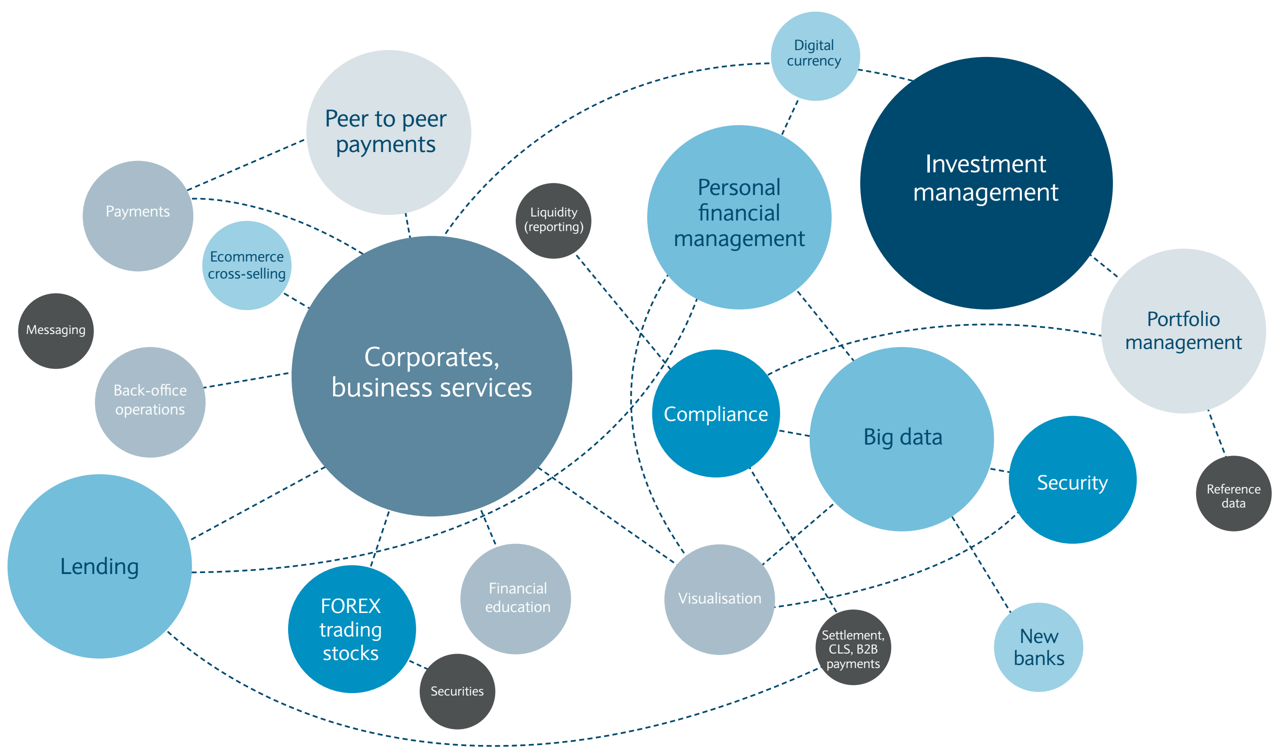
This does lead to speculation as to whether the younger generations will embrace the services of the incumbents or if they will shun long-standing institutions in favour of disrupter firms who have focused fully on their digital offering and customer experience.

The power of mobile

There are two billion smartphones in the world. Ecommerce sales are three and a half times higher than traditional retail sales; this starts to raise questions not only about cash but also cards. Mobile banking has been shown to be more secure than desktop, and making payments via Apple Pay requires a fingerprint to release the payment, mitigating the risk of making unauthorised NFC payments. The introduction of contactless payments in transport, for example on TfL in 2014, has further boosted this transition away from traditional cash payments for small ticket items, as well as providing cost efficiencies through issuing fewer physical tickets.

Many say that it is likely that we will soon see a blending of physical and digital payments. For example, despite efforts to phase out cheques, they remain a popular payment device, particularly by corporates.

The financial services industry is therefore innovating to improve the process: the introduction of cheque imaging demonstrates the merging of old paper-based transfer value with the convenience and efficient customer journey that is expected in the digital age. And some have suggested that this technology could in fact lead to a resurgence in the use of cheques. Only time will tell.



The risks of cyber transactions

Despite the benefits offered by digital transactions, arguably the biggest risk associated with the demise of physical cash is the rise of e-crime, and the increased use of digital currency has increased the speed and scale of cybercrime. Until recently, the largest loss from fraud was US$10m; this occurred in the days when people would physically rob a bank. Now the cost of cyber fraud is valued at US$22bn a year to the global economy.

To summarise, some industries and businesses will continue to have a preference to transact in cash and cheque, to avoid cyber risks and to provide for customer preference. Just as financial disruptors cater to one client need, physical payments will continue to cater to another client need. As I see it, the business case to not accept cash is weak, and for me, it's unlikely that cash will ever go away.

Disrupt or be disrupted

The media is flooded with talk of digital disruption and its impact on long-standing institutions. I am convinced that digital services are integral to the client experience and necessary to maintain our place as a leading financial services provider. 92% of transactions through Barclays are online and 82% of Barclays' online traffic is via mobile devices.

In addition, a recent survey revealed that as humans become more involved in a transaction of any kind, the more the Net Promoter Score (NPS or the likelihood the customer will advocate the service to others) drops – a trip to a physical branch reduces the score by 10 points, for example. Despite this, mobile solutions are not currently widely available for corporates; they are not being empowered to transact as they want and this negatively impacts client satisfaction.

FinTech can thrust banks forward in the digital age, while leveraging the banking brand's established trust and security.

The human element

To enable clients to transact as they please does ultimately mean that a human channel has to be included in an omni-channel proposition. There will always be some clients who do want to interact with a human, a choice which is magnified if a company has a poor digital offering but a good quality or bespoke human service. The obvious barrier to this is cost.

The digital revolution is making one thing apparent – if you don't disrupt yourself, someone will do it to you.

The impact of PSD2

The best way for a corporate institution to disrupt itself is to reveal its vulnerabilities. When PSD2 comes into effect in 2017, banks will be required to open up their payment APIs to all that request the functionality. The primary beneficiary of this data is likely to be FinTech firms – those ready to challenge the status quo and focus on the customer experience – although there will be plenty more challengers than just FinTechs who are ready to access and benefit from this opening up of data. It will be interesting to see how this change impacts the market, particularly as it's the consumers who will ultimately decide whether they wish to access their sensitive financial information through non-banking institutions.

The opportunity to leverage the trust and security that people associate with banks must be combined with a strong client experience for the incumbent institutions to remain relevant. It's an exciting challenge for the banks to ensure that they can offer their clients a value-added partnership.

A balance has to be found between human and digital. Digital disruption means more than automation; the whole journey needs to be re-engineered.

In a world of Airbnb and Uber, where the largest cab firm doesn't own a single car and the largest provider for overnight stays doesn't own any real-estate, can Barclays aim to be the largest bank without a balance sheet? There is potential that, through collaboration, FinTech can accelerate banks into the digital age, while leveraging the banking brand's established trust and security.

The challenge for banks will be that they do not simply become a commodity provider – this is where a strong partnership with clients will be the differentiator.

To date, FinTech firms have shown themselves to be good at spotting opportunity to innovate and provide a good experience, but have then struggled to achieve the scale needed for mass role out; this is what the banks can offer back.

Getting the basics right

What is clear is that the customer user journey must be right. The Barclays mobile app may be the primary interface for customers, but if the branch experience is lacking, then the client perception of the bank overall is weakened. A balance has to be found between human and digital. Digital disruption means more than automation; the whole journey needs to be re-engineered.

Companies need to rethink their business strategy and turn the business model upside-down to avoid digital disruption reducing their market share. It used to be thought that companies needed a digital strategy – what they need is a strategy fit for the digital age and to be prepared to disrupt themselves.

About the authors

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Sameer joined Barclays in 2008. Initially, he held roles in Marketing & Business Development with Barclays in Paris and London. He joined the world of payments in 2010 and is currently responsible for the Transactions Business for our UK-based clients – creating products and solutions using a variety of transaction instruments. Sameer is actively engaged in the payments industry and serves as a Non-Executive Director on the board of one of UK Payments' schemes (C&CCC).

His transition into banking followed a number of roles across several industries. In his last role before he took a career break for studies, he was a part of the Product & Marketing leadership team for Asia Pacific for Goodyear. Sameer is a Mechanical Engineering graduate and an MBA from INSEAD.

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John Berghout is the Head of Digital Products and Propositions for Business Banking where he leads the digital strategy for online and mobile banking. Prior to joining the Business Banking team, John was the Chief Operating Officer for Digital Banking providing digital oversight to Change Delivery, Operations and Risk across Personal and Corporate Banking. John's previous roles include Head of Transformation for Barclays Europe leading the digital transformation across France, Spain, Portugal and Italy, as well as Programme Director leading enterprise-wise systems integration programmes for JP Morgan Chase.

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