Making Payments Better

We need a stronger value proposition for digital payments for small businesses and consumers so we can bury burying cash for good.

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To Tasiu Abdurrahman, burying cash feels more secure and easier than keeping it with a formal financial service provider. “My business partners need cash,” he said. So he stopped putting money into the bank and closed his account eight years ago. Now he **buries money** several times a week, usually at night, and digs it up to transact in person and in cash when he needs to pay suppliers for his spice shop.

Mr. Abdurrahman’s example illustrates the need for a stronger value proposition for digital payments for small businesses and consumers worldwide. Otherwise, the promise of digital financial inclusion may fall short of its full potential for social impact.

We know digitizing money flows has positive effects for society as a whole. According to Moody’s, digital payments **add $983 billion** in global economic growth and 0.8 percent to GDP in emerging markets every 5 years. If the people in the world’s 100 largest cities **all used digital payments** as often as the most active 10 percent of users today, the uptick would generate $470 billion annually in net benefits to consumers, businesses and economies. These benefits would come from reduced cost, time saved, curbed crime and greater transparency.

However, despite the past decade’s excitement, innovation and investments, digital payments are spreading unevenly and overall more slowly than one would hope. Nearly two-thirds of adults in emerging markets have a bank account, according to the **World Bank**. Yet in 2017 just 22 percent made a payment through a mobile phone, and only 25 percent made a payment with a credit or debit card. In short, Tasiu’s story from Nigeria is a story with global relevance. With all the potential benefits to society, what keeps businesses and consumers loyal to cash?

To some extent, closing the digital payments gap depends on big global trends. The long arc of history points toward accelerating digitization of our lives, more travel, and larger social and business networks, all of which drive the need for safe, secure remote payment. Many industries will increasingly rely on digital payments, some with great potential for social impact.

Solar home systems, for example, are safer, cleaner and cheaper than kerosene and also enable extended hours for productivity for adults and children doing schoolwork. But the bulk of targeted consumers also tend to be un- or underbanked and also need a convenient and reliable means of paying. It is not hard to imagine a future where innovation in adjacent industries – health, education, power, entertainment – become the engine pulling financial inclusion forward.
While we wait for those trends to bear fruit, what opportunities do we have to accelerate toward a world where digital payments work better for everyone? What is to be done? I see five areas of need.

1. Proving identity is still troublesome for many businesses and consumers.

Worldwide, 1.1 billion people lack dentification, including one in three in low-income countries, creating an absolute barrier for them to access formal financial services. Proving who you are after account opening is a separate kind of challenge. PINs, passwords, signatures are clunky and forgettable. I have one friend who finds it easier to reset his passwords every time he accesses his bank's online platform rather than remember it. How much harder is it for lower income consumers with less exposure to technology, and probably a lower margin of error for making mistakes with their finances?

Biometric solutions hold a lot of promise. There is buzz around "smile to pay" facial recognition technology, with high profile launches **in China** and **in Brazil**. And no biometric initiative is more ambitious than Aadhaar, the Indian government's identity database, which holds fingerprint, iris and other bio-data on 1.1 billion citizens. Aadhaar aims to make proving identity – for a financial account, mobile phone, basic government services, etc. – universally accessible. And, with a series of potential data breaches, Aadhaar also highlights the universal concerns around security, and the heavy and continuing investments required to get it right.

2. Keeping money in an account is often unappealing.

Despite decades of mass-market banking in developing economies, basic bank accounts often fail to beat informal money management tools. I remember meeting **a man in Uganda** who was so averse to saving in a bank or mobile money that he turned his motorcycle into a piggy bank. He dropped plastic-encased cash into the gas tank where he knew he couldn't get at it until he truly needed to "withdraw". Although his self-created deposit product was quite effective at protecting his money from temptation to spend, when the tank was destroyed to get at the money he effectively cut his own return on savings.

Consumers and business owners want bank accounts to be more than an empty vessel for funds. This kind of thinking enabled OXXO, a convenience store brand, and Banamex to become the **leading suppliers of bank accounts in Mexico** with an integrated saving-payments-transfers product accessible at 14,000 corner stores. We could leverage insights from the academic world of behavioral economics to better design products, using **nudges**, user-set limits, differential pricing and gamification to make a bank account or mobile money wallet more appealing than keeping cash under the mattress or in a jar at home.

3. Stop thinking about payments as only a way to pay for products and services.

As mentioned earlier, paying digitally yields a number of benefits for society and can potentially enable even more. For the billions of consumers and business owners without a credit score, the data associated with their payments to merchants, property owners, and utility companies already exists as proof of their ability and willingness to pay on time and in full. When digitized, this data becomes easily aggregated. And with enough data to analyze, innovative lenders can enable a first time or radically improved offer of credit. A growing cohort of emerging market fintechs are scrambling to explore this space. We should be careful to avoid over-indebtedness and other risks that can come with rapid credit expansion to the poor – the 2010 crisis in the Indian state of **Andhra Pradesh** comes to mind. Hopefully, the fintech revolution takes advantages of lessons learned.

4. Governments have more of a role to play than they often take up.

Creating a balanced, broad payments ecosystem intrinsically lends itself to public-private collaboration. The private sector's technical expertise and deep investments in secure and stable platforms compliment government not only in setting the rules of the road but actively encouraging the shift from cash. In **Uruguay**, the government introduced a temporary reduction of value-added tax for purchases made digitally and a related set of tax incentives aimed at expanding the country's network of POS terminals. Debit payments increased by a factor of eight in less than 24 months. **South Korea** spurred the digitization of payments beginning in the 1990s with tax rebates to consumers and businesses if more than 25 percent of their income/revenue was spent via non-cash methods, and offered a weekly lottery based on invoice and card numbers, split between the consumer and merchant.

And let's not forget government's opportunity to be a market maker with its own payments: what would happen if presidential offices directed government agencies to actively seek opportunities to digitize their transactions on a commercial basis? The ensuing step change in consumers and businesses making and receiving payments – and the network effects to follow – would be a significant spark to help the digital payments engine fire on all cylinders.

5. We need to ramp up our collective focus on small businesses.

For a start, we will never "get payments right" for the poor and underserved if one-half of the two-sided market do not readily see value in accepting digital payments. There will not be enough places for consumers to pay digitally. **Hundreds of millions of small businesses** account for 98 percent of businesses in developing economies and handle 4.5 billion transactions daily worldwide, yet fewer than 10 percent currently accept digital payment.

Beyond the critical role they play in the payments ecosystem, small businesses deserve more attention for their impact on the wider economy. They contribute 60 percent of GDP in low-income countries, according to the OECD. Looking forward, the World Bank estimates small business will generate 80 percent of new jobs in the developing world.

It's time for more focus on solutions that help small businesses thrive and be more resilient. The Visa Foundation's first $20 million grant went to Women's World Banking to **improve the supply of financial products aimed at female entrepreneurs**. Digitizing supply chains above small businesses will help them have the inventory they can sell when there is demand, not what they can buy with cash on hand when the delivery truck comes round. A recent deal with fintech **Behalf** will help small businesses grow via easier-to-access capital (as part of a ramped up Visa commitment to partnering with fintechs, including a $100 million fintech investment fund).

Conclusion

Let's come back to Mr. Abdurrahman and the hole in the ground. The challenges he faces in his spice shop are more typical than they should be. More than ever before the technology exists to build better solutions. There is deep expertise, rising government attention, growing flows of private and public capital aimed at making payments better. The know-how and resources exist.

To some extent, we have solved the easier problems and are left with more challenging hurdles: easy and secure ways for everyone to prove identity; defeating the mattress and other informal mechanisms as a place to store funds; leveraging alternative lending to broadly but safely expand credit; governments taking more of a role to encourage the shift from cash; and last but not least putting small business solutions more at the center of our collective efforts.

Tackling each of these will help us get to a place and time where the notion of burying cash in the ground is an antiquated tale Mr. Abdurrahman tells his grandchildren, saying "Can you believe we used to...?"

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