Blog

Contactless payments replace both chip and pin along with cash

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AUTHOR

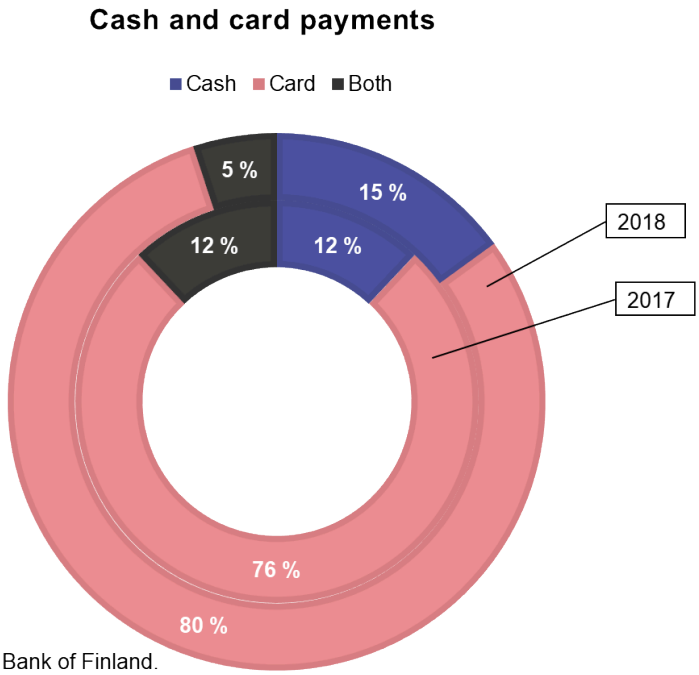


Päivi Heikkinen
Head of Department

Contactless payments seem to be taking off. However, cash is still used for many purposes and more information is needed to understand all aspects of cash usage.

Contactless payments seem to be taking off – finally, one could say. The near field communication (nfc-) technology has been available for quite some time, and we have predicted its triumph already for years. Introducing new technology in two sided markets is tricky. Two sided markets mean that both sides of the market – in this case the consumers who make the payments as well as the merchants who are the payees, must have sufficient preparedness to use new technology before its adoption becomes profitable. In Finland, some retail chains had latent nfc implemented in their payment terminals, but hesitated to start accepting nfc payments as the penetration of nfc-enabled payment cards was still too low. As there were very few nfc-enabled payment terminals, payment card issuing banks didn't have the incentive for a big bang renewal of plastic, but provided nfc-chip cards to their customers gradually, in accordance with the normal renewals. Hence, the high expectations took 4–5 years to realise. Year 2017 shows, that nfc is really taking off in the Finnish market.

Chart 1.

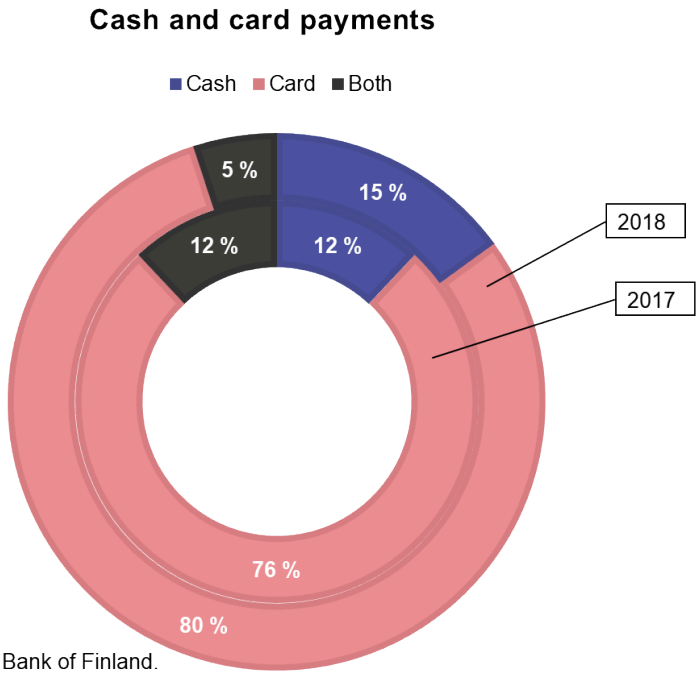


Source: Bank of Finland.
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Some people thought that contactless payments is the final blow to kill cash. According to Bank of Finland statistics, the over-all number of cash payments has indeed been decreasing. However, if one presumes a linear growth of card payments, the above table shows, that contactless has mainly replaced card payments with chip and pin. To a lesser, but significant amount, contactless has also replaced cash or other means of payment.

Bank of Finland has collected data by surveys about the preferred payment instruments and the motivations behind the consumer choice. The doughnut below shows the dominance of card payments as the main payment instrument. The biggest change between 2016–2017 has been the decrease in respondents, who say they use roughly as often cash as cards. Their number has decreased from 12% to 5%. For consumers who use cash mainly for convenience, the introduction of contactless has made card payments so much easier, that many of them seem to have gone over (the black part of the doughnut).

Chart 2.



Source: Bank of Finland.
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Perhaps surprisingly, the amount of people who mainly use cash seems to remain constant. Their number has been between 12-15% of the population. The new technology doesn't seem to have affected people, who mainly use cash for payments (the blue part of the doughnut). Number of these people even seems to have grown, though percentages in surveys must be taken with a pinch of salt. Anyway, we have a part of the population, close to 15% of all, who for various reasons mainly use cash. This means still over 700.000 people in Finland.

Reasons for cash usage vary. Most important motivation for cash usage that comes up in the surveys is convenience, especially in smaller payments. Cash is fast, easy and it always works. Also the control aspect is often mentioned: it is easier to keep track of one's consumption and make the money last when it is concretely in the wallet. One important reason for obtaining and using cash is travelling: 62% of respondents stated that they usually pay cash when travelling. Finns realise, that card payments are not as common elsewhere in Eurozone as home. Cash is still king in many places in Europe. However, people don't say that they use cash because they cannot use anything else.

Cash usage is often linked to elderly people or people who may have difficulties with digital devices either due to physical or cognitive reasons. Age is one of the explanatory factors, but there are also other groups who mainly use cash. There are people who don't have access to sophisticated payment instruments or who appreciate privacy so much that they want to stay out

of big data collected through payment cards. There is also indication about holding cash as liquid asset for the rainy day, and the stocks are then recirculated. More information is needed to understand all aspects of cash usage. This has proven to be challenging, as use of money in our culture is considered very private.

Keywords

card payment, cash, cash payment, contactless payment, instant payments , payments