How Digital Payments are Transforming Businesses

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Technological advancements have supercharged how digital payments are made. The rapid evolution of money and decentralised payments have changed how the economy functions, and society can be truly cashless.

Digital payments have rapidly transformed the way companies conduct business.

About 85 per cent of small businesses in Singapore accepted digital payments in 2020, a 20-percentage point increase from 2018, according to a CPA Australia survey on small businesses.

People are also withdrawing less cash from automated teller machines (ATMs). The ratio of ATM cash withdrawals to digital payments fell to 17 per cent in 2020, compared to 47 per cent in 2016, noted the Monetary Authority of Singapore (MAS).

Meanwhile, MAS data also shows that QR (quick response) codes have become ubiquitous at retail outlets. In 2020, there were less than 80,000 SGQR codes deployed at retail. One year later, the number of SGQR codes deployed jumped to 200,000.

PwC predicts that global cashless payment volumes are set to increase by more than 80 per cent from 2020 to 2025, from about 1 trillion transactions to 1.9 trillion, and to almost triple by 2030. The Asia Pacific region will grow the fastest in this area, with cashless transaction volume growing by 109 per cent until 2025.

We often say, "Cash is king", but clearly, digital payments are swiftly ascending the throne.

Many businesses can benefit by adopting digital payments, and more importantly, they will thrive by understanding how to deploy it effectively.

The Plus Business story

Think of digital payments as a "Plus Business" story.

According to a study by MIT Sloan, people tend to spend more when using credit cards instead of cash. They are more likely to buy something at a higher price, and they are more prone to make impulse buys. Similarly, if a business enables digital payments, the available data shows that people tend to spend more per transaction. Also, transaction values are likely to be bigger since customers are not limited by the amount of cash in their physical wallets.

This "Plus Business" story works well with almost every retailer today.

All merchants have to meet the customer's needs. Whichever way the customer wants to pay, merchants must make that payment method easily available to them.

Reduced transaction times can help clear the queue at the cashier and drive up transaction volumes. Digital payments relieve retailers of the need to handle physical change or coins, streamlining transactions and enhancing convenience for everyone.

Putting the customer first

A change in the user experience can alter a business model, particularly when it benefits the consumer. New business models like ride-hailing and food delivery have evolved to meet consumers' changing expectations and needs. In turn, these disruptions have introduced new ways to pay.

Online payments allow consumers to buy a meal at the food court through orders made at a self-service kiosk or a phone. Similarly, ride-hailing can take you to your physical destination via an app.

It is becoming increasingly common to consume goods and services in the real world while making payments through an app or browser on your mobile device. In other words, the physical transaction and the payment no longer need to occur in the same space.

Implementing digital payments

When it comes to payments, whether face-to-face or online, consider the concept of conversion. This means striving to guarantee the majority of transactions are approved by preventing instances of dropped or blocked payments. This way, merchants can successfully close sales and satisfy customers.

For face-to-face transactions at the point of sale (POS), it is essential to minimise customer friction to achieve 100 per cent payment conversion. At the same time, the safety and security of transactions for the customer should not be compromised.

Today, signatures and PINs (personal identification numbers) authenticate payment credentials as belonging to the correct person. The authentication is complete after the customer enters their PIN or signs on the receipt at the POS terminal.

However, tapping the card or device on the payment terminal to make a payment does not require authentication. These tap transactions are permitted for convenience and speed at the point of sale because there is little to no resale value of the goods and services purchased in this manner.

When a merchant enters the e-commerce space, it is important to ensure a convenient payment process for customers. An "omnichannel" approach requires the merchant to allow its consumer to pay on the web, in the app and face-to-face.

Merchants may offer a "click and collect" option, where customers can buy products online and pick them up in-store. This approach can benefit retailers by providing additional opportunities for cross-selling when customers visit to collect their purchases. As brick-and-mortar stores strive to compete with online marketplaces, the "click and collect" model is gaining popularity.

To provide the best user experience, merchants should keep their customer journey simple and effective. The fewer steps the customer takes to complete the payment, the more the rate of payment conversion improves.

Deploying QR codes

The Covid-19 pandemic led to the widespread deployment of the SafeEntry system (the national digital check-in system to log in visitors). This, in turn, familiarised people with scanning QR codes regularly.

Merchants can display the QR code either as a wall sticker (static QR) or a digital image generated at the payment terminal. With dynamic QR codes, the customer does not have to key in the amount as their banking app displays the price to pay. This often makes for a better

customer experience, as the customer just needs to confirm the payment amount shown in their phone banking app. "Scan-To-Pay" from a mobile app is gaining popularity in Singapore and other Southeast Asian countries.

Value-adding to merchants

Most retailers do not fully understand who their customers are, especially merchants with only a physical shopfront and no online or in-app platform. Digital payments generate valuable data, and payment companies can help merchants understand the profiles of customers who frequent their stores and thus, help merchants make better business decisions.

Merchants can utilise data to benchmark their store performance against industry standards, identify their strengths and weaknesses, and develop effective processes and marketing strategies to grow their business.

The emergence of services such as "Buy Now Pay Later" as well as location-based marketing, where promotional offers are sent to consumers near retail outlets, are aimed at driving consumer propensity to spend.

Reconciliation of payments is crucial, particularly when there is a payment dispute. Thus, merchants must be able to track exactly when and where the disputed transaction occurred. For example, a supermarket with many branches will need to reconcile payments across its different branch locations.

Reconciliation reports from payment companies can also provide merchants with rich data insights to understand the business better, such as which stores sell more items and which cashier lanes are more effective.

The future of payments

Technological advancements like 5G broadband will increase capacity and speed in the payments space, enabling a better customer experience when shopping online. The capacity that allows data to flow will affect the buying experience, leading to more targeted e-commerce transactions.

With a click on your phone, your *kopi siew tai* order arrives almost immediately in the coffee shop. From in-app payments to service kiosk transactions and mobile or web browser orders, the future of digital payments is growing.

Additionally, blockchain (not limited to crypto) will also change payments by decentralising money. MAS has piloted the concept of "purpose-bound money" that can only be sent to and be received by specific individuals or organisations for specific use cases via a stablecoin.

Today, money is used interchangeably, but that, too, is changing. A clear understanding of how money is evolving will allow us to embrace the new forms of digital payments and leverage them for the good of our industries and society. ■