TREASURY TRENDS

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Crafting a corporate payments strategy

Transactional banking is often regarded as a poor cousin to more exciting parts of treasury such as risk management and debt refinancing but, looking ahead, that may not always be the case. With the pace of change and disruption within the payments space starting to evolve rapidly, there appears to be more exciting times ahead. Few aspects of the global economy have progressed as quickly in recent years as payments, with growing consumer and corporate demand for faster transaction experiences causing a proliferation of payment platforms.

To underline the pace of change in the payments space, we highlight below two examples from the extreme ends of the spectrum — the end of cheques and the emergence of cryptocurrencies.

Cheques have been used in New Zealand and Australia since the first trading banks were established more than 150 years ago, but the use of cheques is fast declining. This demise started relatively recently — in the 1990s — and quickly accelerated in the 2000s. The 'end of cheques' is being debated in many countries. In New Zealand, Kiwibank took the initiative ahead of the major banks when it announced earlier this year that it would stop accepting cheques by February 2020. Parts of the NZ Government are also moving with the times with the announcement that both the Inland Revenue Department and Accident Compensation Corporation will no longer be accepting cheques from March 2020.

With the move to electronic transactions, cheques appear to be fast approaching their *"end of life"* and even cash used for payments is starting to occur less often. The Reserve Bank of New Zealand released a consultation paper earlier this year discussing the use of cash in society. The key points were:

- Use of cash for transactions is in decline (cash in circulation is actually increasing but evidence shows that this is largely being used as a store of value rather than for payments).
- The per transaction cost of providing cash infrastructure is increasing, but certain parts of society will be negatively affected if cash acceptance is reduced.

Key points

- **Technology is driving the payments space**
- **Organisations are having to adapt quickly to the fast changing landscape**
- **There are costs and benefits to any change in payment channels**
- **Ways of paying and receiving money in the most efficient manner must be reviewed regularly**

So, what are replacing cheques and cash in terms of payments? The obvious one is cards (credit and debit), which are promoted heavily by banks and are still showing strong growth in New Zealand and Australia, but also electronic transfers (slow growth) and mobile payments (fastest growth but from a small base) are increasing. However, this can look quite different in other countries.

China is the prime example, where cash and cheque use is falling but card payments are also in decline. The meteoric rise in e-commerce and mobile wallets has resulted in them now overshadowing all other payment types in China, with Alipay and WeChat Pay the dominant providers. It is estimated that more than 50% of all daily payments in China are via these two platforms, and there are many examples where businesses no longer accept any other payment methods.

In many developing countries, consumers have largely bypassed the use of credit cards and electronic banking. Mobile payments through non-bank providers dominate in many African and Asian countries due to the low transaction costs, user friendly checkout experience, and availability of smartphones / lack of banking infrastructure. Payments are typically for low value, sums such as for transportation and retail services.

At the other end of the spectrum from cheques and cash is the announcement earlier this year by Facebook that it is intending

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to launch a cryptocurrency called Libra for use through its social networking platforms. While this aims to replicate the success of the likes of China's WeChat Pay in a more global setting, it goes one step further in creating its own currency (a 'stable coin' pegged to major currencies using blockchain technology). This appears to be where Libra is likely to come unstuck, as regulators around the world have been quick to pour cold water over the idea with many believing that the regulation of a 'global currency' is near impossible. So, while Libra might fail, there will be others that will continue to disrupt in the payments space and keep organisations and financial institutions on their toes to meet consumer expectations for a frictionless payment experience.

Something that is currently disrupting the retail space in New Zealand and Australia is the Buy Now Pay Later ("BNPL") phenomenon. BNPL schemes have become incredibly popular in the last four years. So much so that, in Australia from 2018 to 2019, the rate of shopping via BNPL apps nearly doubled — up from 14% to 27% of all retail purchases — now accounting for over a quarter of every transaction in the retail sphere.

BNPL schemes allow the cost of purchases to be spread over four or more equal payments. Importantly, they allow the shopper to take the items home immediately. The retailer pays a fee to the BNPL provider (generally in the 3-5% range of the purchase price plus a transaction fee), while the scheme funds the retailer upfront and collects the money from the shopper over the next six to eight weeks. The shopper pays no fees, which has become a point of contention, and regulation to allow surcharging is being proposed (as was done with credit cards many years ago).

According to the Australian Retailers Association, BNPL schemes are squeezing the already razor thin margins that retailers apply. As a result, some retailers are increasing their prices to account for the lost margin, sometimes up to 7% of the purchase price. Russell Zimmerman, executive director of the Australian Retailers Association justified the move with *"I think you'd have to. I don't think you can take charges like that and just absorb it."*

BNPL schemes ban retailers from surcharging purchases made through their platforms, but the Reserve Bank of Australia ("RBA") has signalled that it is in the process of reviewing that stance with regulations potentially on the way. The RBA's concern is that customers who, for example, purchase using cash or a debit card, essentially subsidise the purchases made on a BNPL scheme. However, the benefit to the retailer is in offering more ways to entice shoppers to spend, and to spend larger amounts.

BNPL is changing the payments landscape. In a survey by Australian Financial Website, Mozo, more than 25% of BNPL users said they cancelled their credit card and a further 23% said that they no longer use them. In that survey, 36% of BNPL users reported their shopping was *"necessary"* purchases (such as appliances and functional household items) while 56% classified their purchases as *"luxuries"* (such as clothes and pet accessories). Just 8% of BNPL purchases were categorised as *"essentials"* (items necessary to survival, such as food).

Research by PaymentsNZ puts the number of New Zealanders who have signed up for BNPL at 228,000, but Mastercard believes the number to be closer to 800,000. PaymentsNZ's research shows that more than 70% of BNPL users are female and 80% are under the age of 45, which highlights the popularity of the schemes with the younger generations.

As always, treasurers must adapt to change in the best way possible – identify and learn about new technology, assess the suitability of that technology to their own organisation, and make strategic decisions about any opportunity or threat. Having an unbiased advisor to help identify and review these opportunities is just as important.

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BANCORP TREASURY
Phone +64 9 912 7600
AUCKLAND
WELLINGTON
CHRISTCHURCH

BARRINGTON TREASURY
Phone 1800 425 079
SYDNEY
MELBOURNE
BRISBANE
SUNSHINE COAST
PERTH

BARRINGTON ASSET CONSULTING
Phone 1800 425 079
SYDNEY

PMC TREASURY
Phone +64 9 912 7600
LONDON
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SINGAPORE

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