



Digital Payments:

Thinking beyond Transactions

APAC Research Report

Foreword

Asia's social and economic landscape is being transformed by the proliferation of mobile technology and digitalisation of financial services, which have built and enhanced digital connections. These connections are driving E-commerce and social commerce across the region, which are in part enabled by digital payments.

The benefits for Asian economies, businesses and especially individuals can be profound and far-reaching. We have seen how digital payments innovations can improve lives when adopted.

Here in Asia, digital payments have been around for many years, which has helped increase awareness among consumers as well as merchants. Yet cash remains the preferred mode of payment across Asia, despite the fact that the region is becoming increasingly digitally connected as Internet penetration and smartphone ownership continues to rise.

The digitalisation of Asia, coupled with a relatively young population and rising income levels, presents a unique growth opportunity for the sector. PayPal commissioned a survey across the region to better understand the roadblocks to greater adoption and seek solutions that would allow digital payments to achieve their full potential and ultimately improve the financial health and economic opportunity of consumers and merchants.

The survey highlights that those who have adopted new payment methods recognise the benefits and are enjoying them. These range from convenience and ease of use, to saving money via discounts and lower processing fees. In addition, digital payments users also indicated they are better at managing their money.

This is a critical step to achieving better financial health and driving economic opportunity, enabling people to manage day-to-day financial obligations, prepare for the inevitable financial shocks that come along, and take advantage of new financial opportunities without compromising their standards of living and financial security.

And the conversation on this aspect is just beginning to happen. The proliferation of digital payments will lead to broader financial inclusion, one that will truly transform Asia's economies.

Rohan Mahadevan
Chief Executive Officer, PayPal Pte Ltd
Senior Vice President, APAC, PayPal Inc

About the study

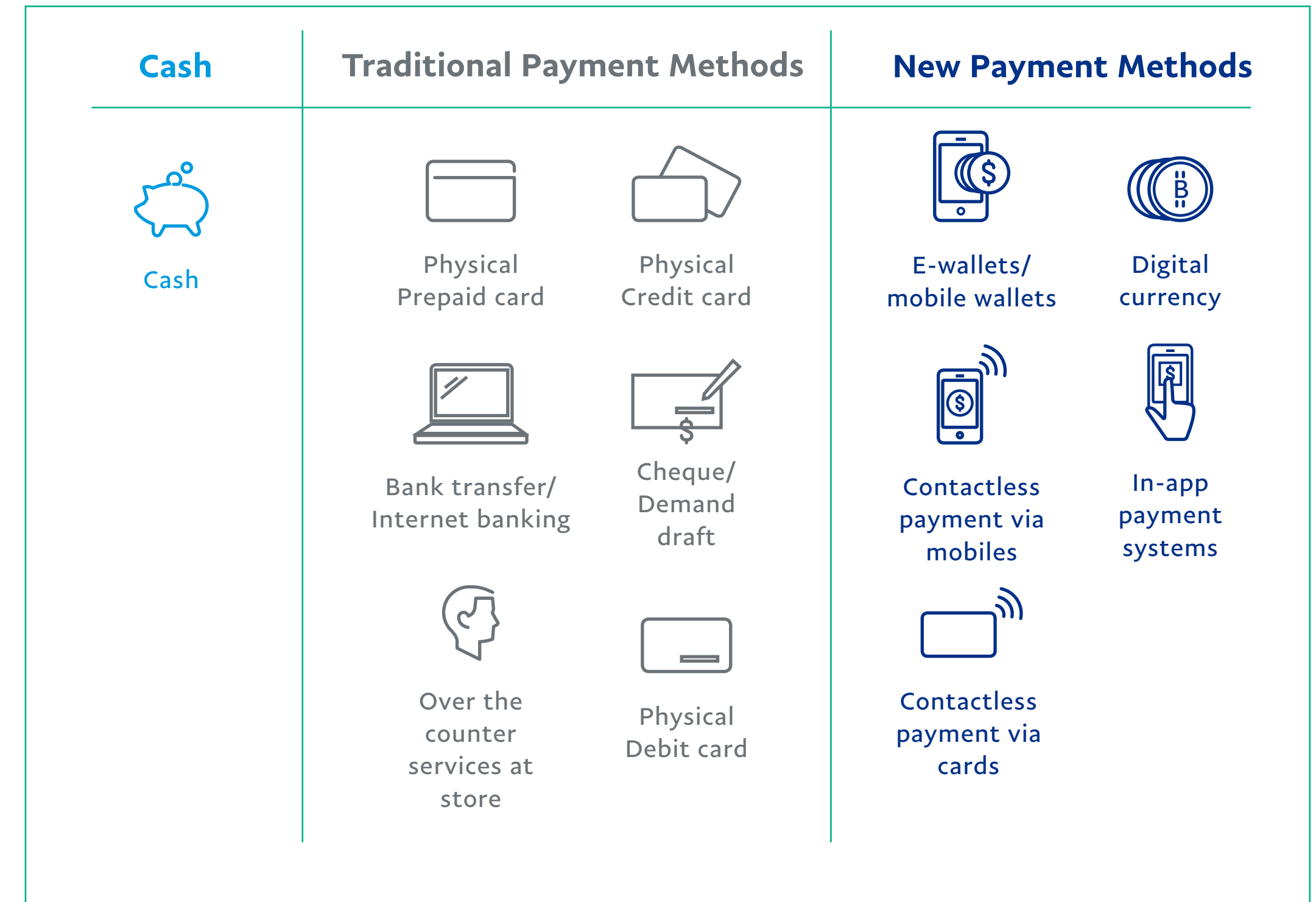
PayPal commissioned Singapore-based independent research agency Blackbox Research to assess attitudes towards new payment methods and to garner insights into the state of financial health and satisfaction in Asia. In doing so, PayPal hopes to identify opportunities and seek solutions that will better improve the financial health and economic opportunity of both consumers and businesses.

The survey was conducted with 4,000 participants in seven markets within the Asia region (China, India, Hong Kong, Singapore, Thailand, Philippines and Indonesia).

As new payment technologies offer enterprises (especially small and medium-sized businesses) the potential to transform their operations with new opportunities and solutions at scale, PayPal also spoke to 1,400 merchants across this region. The survey was predominantly distributed online as PayPal seeks to understand how a typical consumer and merchant in Asia with online access thinks about digital payments. For a more detailed demographic profile, please refer to the Appendix at the end of the report.

Across the region, consumers and merchants were familiar with and adopted a wide range of payment methods. For the purposes of analysis, PayPal has classified the payment methods into three categories: Cash, Traditional Payment Methods and New Payment Methods. Traditional payment methods include credit cards, debit cards and cheques and new payment methods include mobile-enabled payment methods and digital currency.

Classification of payment methods



Scope/Methodology

4,000 consumers

Seven markets: China, India, Hong Kong, Singapore, Thailand, Philippines, Indonesia

1,400 merchants

Especially small and medium-sized enterprises

Method:

Referencing the US's Center for Financial Services Innovation, PayPal adapted and developed subjective and objective indicators to provide an initial framework to assess financial health in Asia

Note: Japan and Australia have been excluded from the research as Japan is still largely a secular economy and Australia is more focused on mobile commerce

Asia invented cash and is not letting go, but for how long?

The first recorded use of paper money was in the 7th century in China. Centuries later, the presence of cash in everyday life continues throughout the region. Across Asia, 88% of those surveyed use cash as a mode of payment.

Increasing Internet penetration and smartphone ownership are making people more open to exploring new payment methods that can replace cash. Of those surveyed, 35% said they use e- or mobile wallets and 13% use contactless payments via mobile phones.

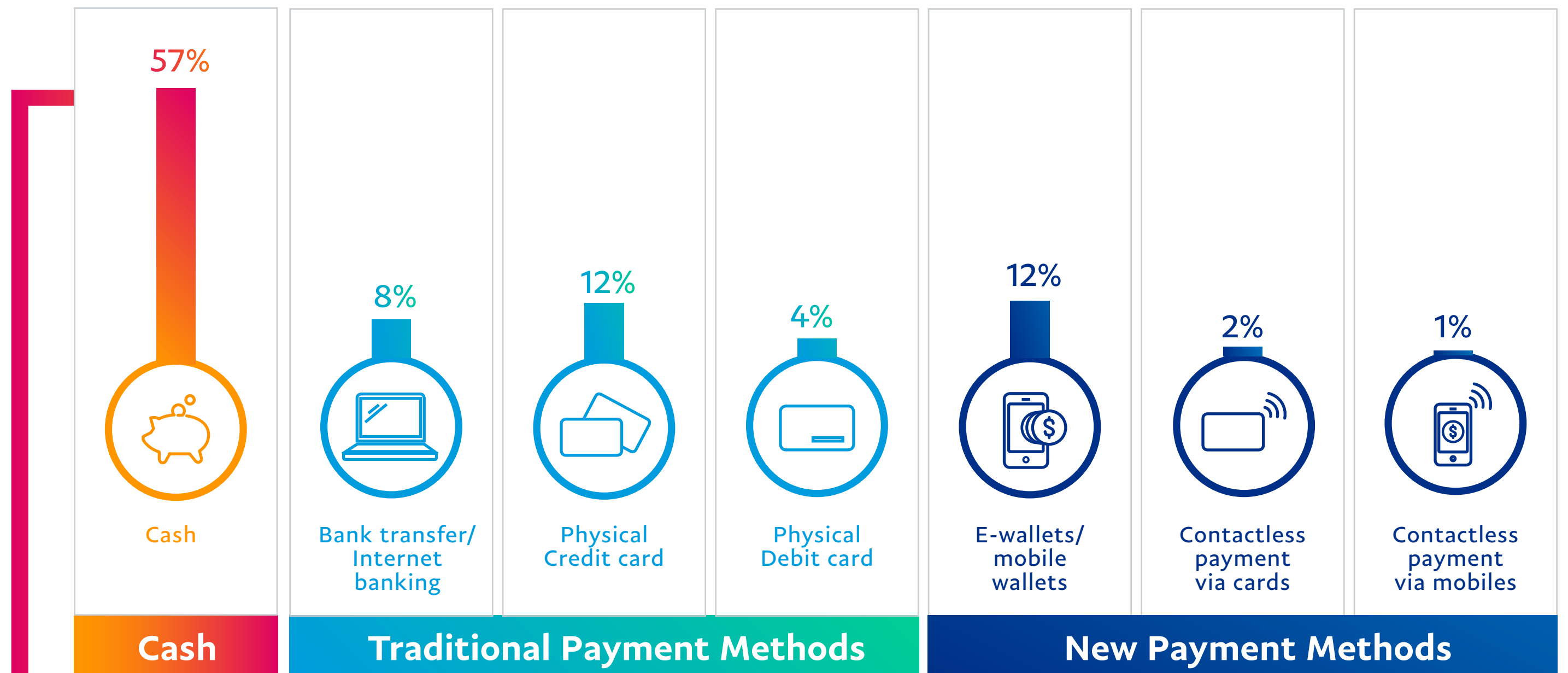
However, cash continues to remain the top preference. When asked which payment method they used most often, 57% answered cash, compared to 12% who said e- or mobile wallets and just 1% who cited contactless payments via mobiles.

This is in contrast to much of Europe where, for example, cash transactions made up barely 2% of the value of all payments made in Sweden in 2015, according to its central bank, the Riksbank. Sweden is so cashless that even Swedish parishes have started taking tithes via mobile apps.

Can Asia move in the same direction?

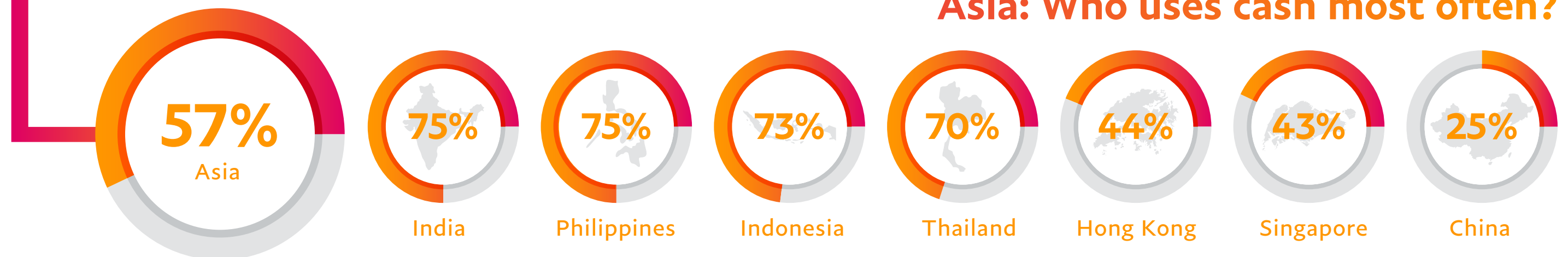
It might be early days, but there are some indications that digital payments have the potential to dethrone cash, at least in some countries. China is leading the way on this front. Only 25% of respondents from China cited cash as the most often used form of payment, compared to 48% who cited e- or mobile wallets as being their top preference.

Most often used payment methods in Asia



Q: Listed below are some of the popular ways to carry out financial transactions...which one do you use most often? (Please select one)

Asia: Who uses cash most often?



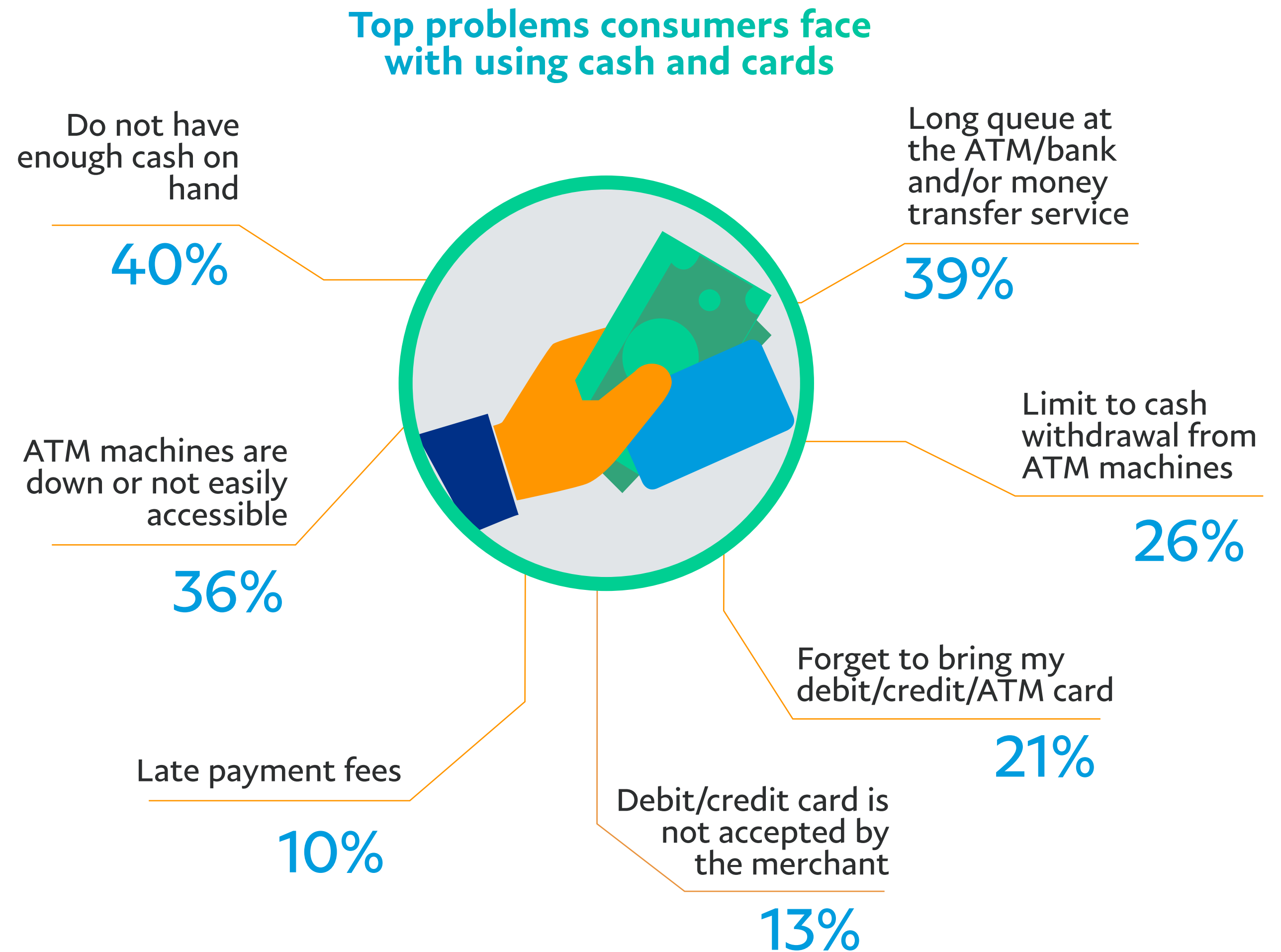
Two in five consumers have experienced issues with cash

About two in five consumers say they have experienced issues with using and getting cash. These issues include not having enough cash on hand (40%), facing long queues at the bank/ATM (39%), faulty ATM machines and not having ATMs nearby (36%).

While these issues have always been there, modern-day lifestyle has made consumers less tolerant of them. Consumers are accustomed to instant access to most things courtesy of highly advanced and increasingly powerful smartphones. That has created a shift in mindset, and raised the bar of expectations, which means consumers have less patience for things like long queues, faulty machines etc.

Consumers have also faced issues with credit and debit cards. The most cited issues were forgetting to bring cards (21%), cards not being accepted by merchants (13%) and late payment fees (10%).

Persistent pain points in traditional methods, coupled with governments' inclination to move away from cash for reasons ranging from it being costly, hard to track and powering shadow economies, as well as growing digital access across the region, present a great opportunity for innovation in the digital payments sector across Asia.



Q: Please tell us if you have experienced any of the following situations in the last 1 year.

Almost every one in two consumers are aware of a digital payment option

Digital payments providers should be encouraged by the fact that consumers across Asia are starting to take note of the various digital payments options available to them. Of those surveyed, almost every one in two are aware of at least one digital payment option.

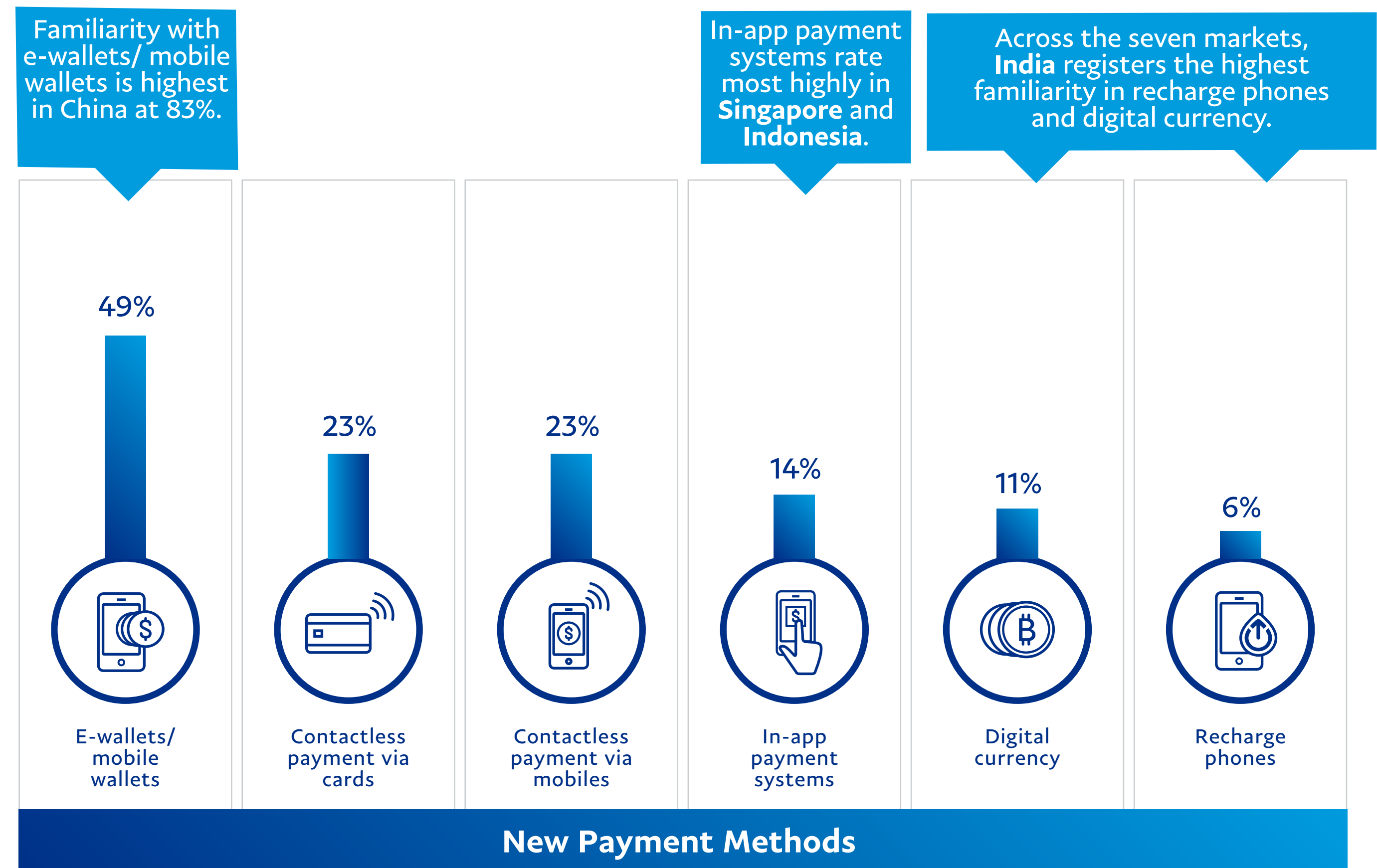
In China, awareness of e-wallets/mobile wallets is very high with 83% of respondents being aware of this option. That is second only to cash. The awareness in China is being driven by the ubiquity of homegrown Internet giants, as many of them have started to incorporate digital payment features as part of their offering to consumers.

Meanwhile, in-app payments rank most highly among respondents from Singapore, where 29% are aware of these, and Indonesia where 25% know about them. These countries are home to two of the fastest growing 'sharing-economy' start-ups Grab and Gojek, who are proactively educating their consumers about in-app payment options. With demand for such services rising, awareness of these options is growing as well.

In India, the demonetisation of Rs. 500 and Rs. 1,000 notes in November 2016 is expected to lead to the rapid adoption of new payment methods.

India also registers the highest awareness in recharge phones (32%) as being an option to make payments. A large chunk of India's 1.2 billion population uses pre-paid mobile phone connections as well as feature phones, many of which have the unique technology to allow the use of digital payments.

Asians are familiar with new payment methods



Q: Listed below are some of the popular ways to carry out financial transactions...which of the following methods are you familiar with?

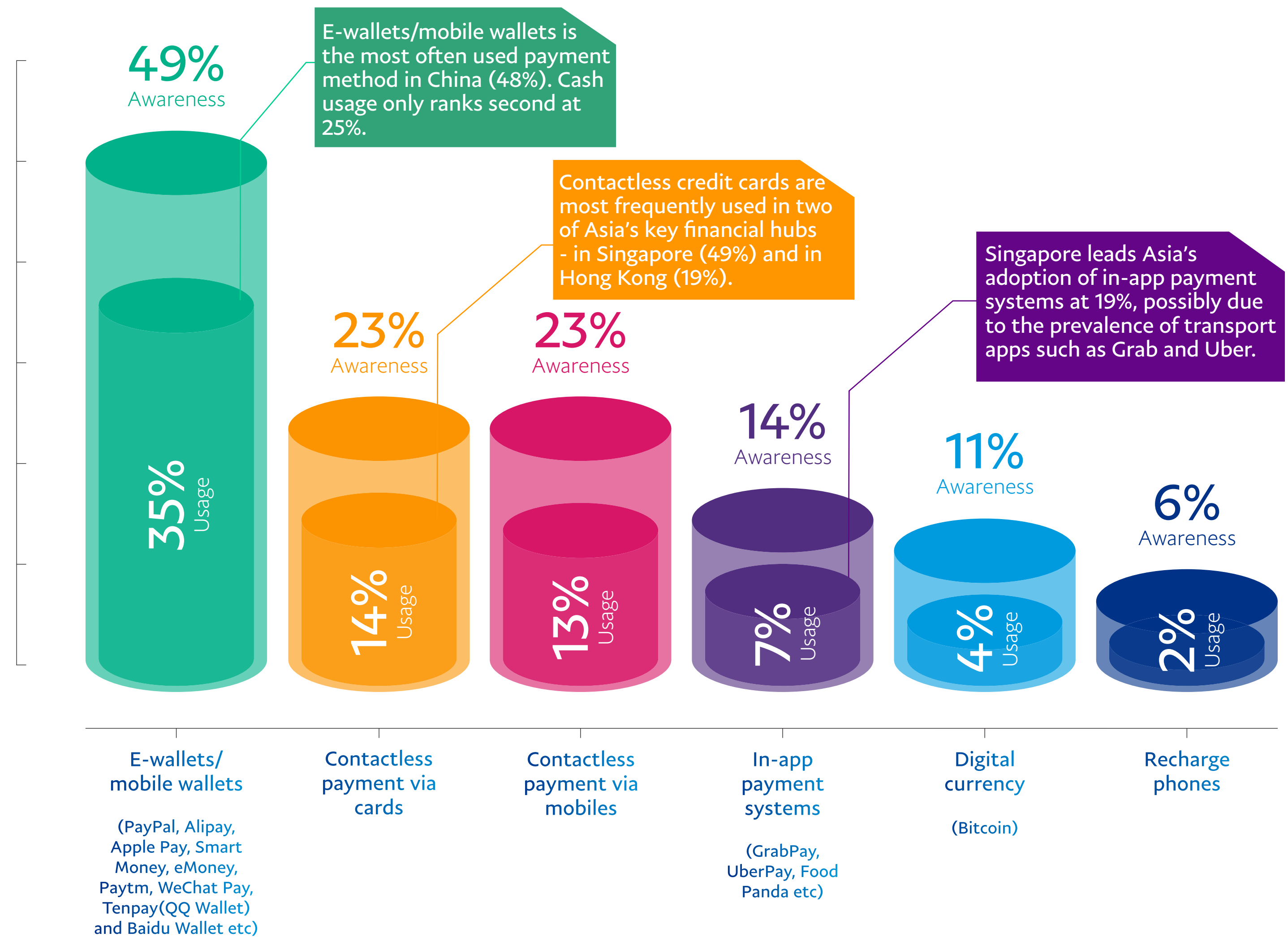
Awareness is not fully translating into usage

The survey highlighted that there is a consistent gap between consumer awareness and consumer usage. Not only does this trend exist across all payment modes, but also across all countries surveyed.

Take for example, e- or mobile wallets. While 49% of respondents said they were aware of this option, only 35% said they are currently using it and only 12% of respondents cited them as being the mode they use most often. However, China is the standout in this category as 83% of respondents said they are aware of e- or mobile wallets and 78% said they are using them.

The difference in adoption rates is similar in other newer digital payment options such as contactless payments via mobile phones and in-app payment systems like UberPay, GrabPay etc.

In countries like India, Indonesia and Thailand, less than half of those who are aware of contactless payments via mobile phones and in-app payment systems are actually using them.



Change requires change

54% of respondents who have not adopted the new payment methods cited it is because they are happy with their current modes of transaction, which with the exception of China, is dominated by cash.

China, Hong Kong and the Philippines, however, revealed slightly lower levels of contentment with current modes of payment in comparison to the regional average with 31%, 40% and 40% respectively.

This is an interesting paradox.

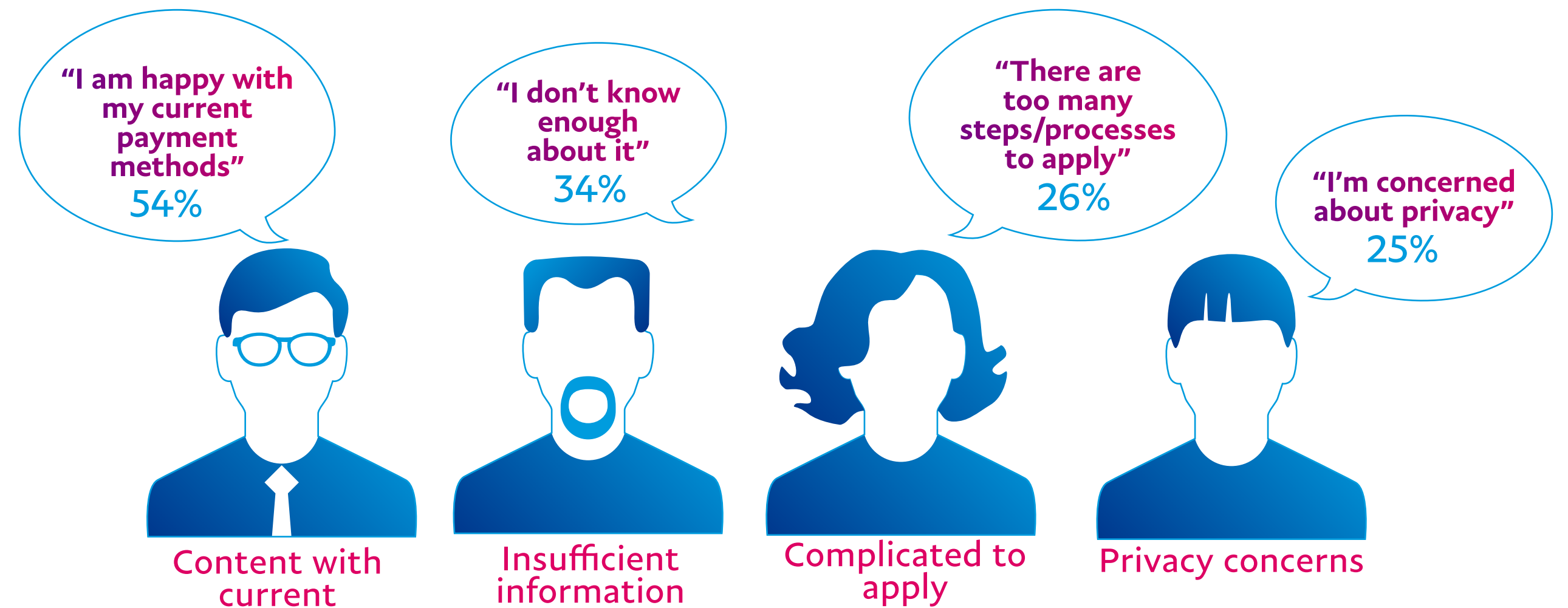
On the one hand, consumers have highlighted that they have faced issues while using cash and credit cards, yet they are happy to continue using it. This could stem from a range of factors.

Firstly, it is the age old adage: You don't know what you don't know. There seems to be a lack of knowledge, not just about the new options available, but also what these can enable the consumers to achieve. Of those who have not adopted the new methods, 34% said not knowing enough about them was a key reason.

It could also be a case of habit and aversion to change. All of these present an opportunity for digital payment providers to highlight the advantages their services have over cash, and what they can enable the consumers to do.

As we move towards ubiquity of digital payments across various markets, their adoption, both among consumers and merchants, is likely to increase further.

Concerns with new payment methods



Q: Why are you not currently using some of the new payment methods?



Even 10 years ago, having a device that would give you the Internet at your fingertips was unheard of. People were generally satisfied, maybe even fascinated, with their pagers and basic phones. Now, over 2 billion people own a smartphone and it is quite possibly their most prized possession. Considering the multiple benefits digital payments provide to our everyday lives, digital payments have the potential to become the next smartphone



- Rohan Mahadevan,
Chief Executive Officer, PayPal Pte Ltd
and Senior Vice President, APAC, PayPal Inc.

Opportunities: Creating value through innovation

There have been rapid advancements in digital payments in recent years, and a burgeoning of digital payment players entering the arena, offering a variety of options to consumers and merchants alike.

The increase in options forces companies to be innovative, brings down costs and improves the overall sector.

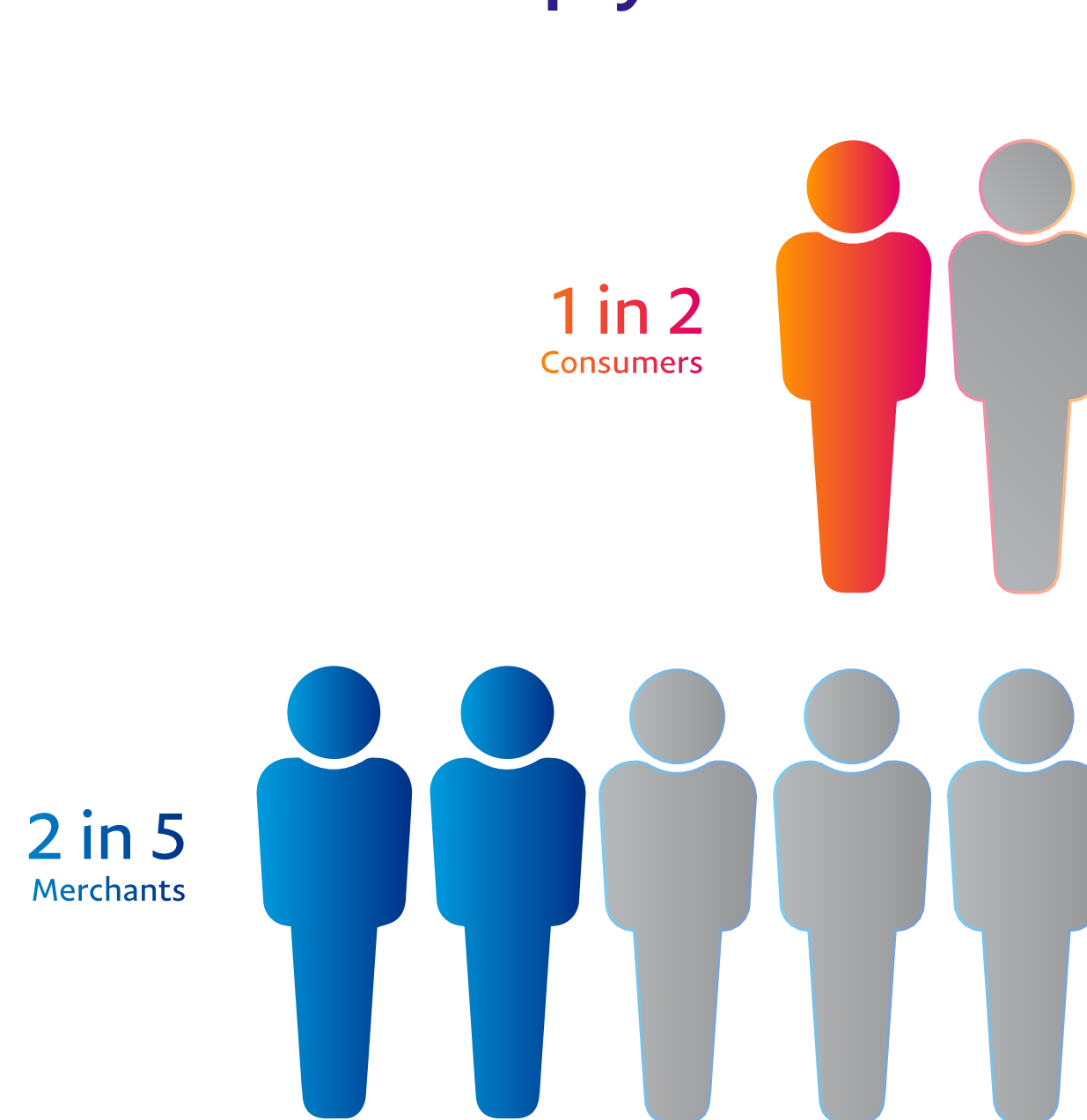
The continuous innovation in the sector is starting to have an impact on users at both ends of the spectrum. Among the consumers surveyed for the report, 83% said that more payment choices means more value for consumers.

It is a similar feeling among the merchant community, with 89% of those surveyed agreeing that more options means more value for consumers.

The study highlighted that consumers and merchants are increasingly aware of the new trends in the sector. Among the consumers, one in two said they are able to follow new trends in payment methods. Among the merchants, two in five said so.

Digital payment providers have an opportunity to boost the growth and adoption of these options by pushing the boundaries of innovation while educating and raising awareness of the value these offerings bring to various stakeholders.

Able to follow new trends in payment methods



Merchants
89%

Consumers
83%



Agree that more payment methods mean more value for consumers

*Q: There are now many new ways to pay for things which didn't exist a few years ago...
Please indicate the extent to that you agree with the following.
"It is getting increasingly difficult for me to follow the new trends in payment methods"
"More payment methods mean more confusion for consumers"*

Opportunities: Early adopters are seeing the rewards

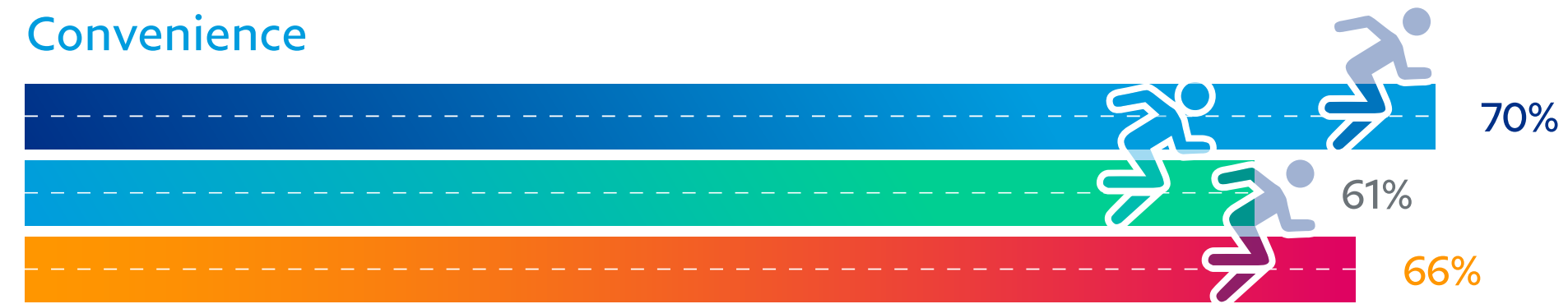
The consumers who have adopted new digital payment options are already reaping the benefits.

Consumers, especially those who said they use new payment methods most often while transacting, find them convenient, secure and easy to use.

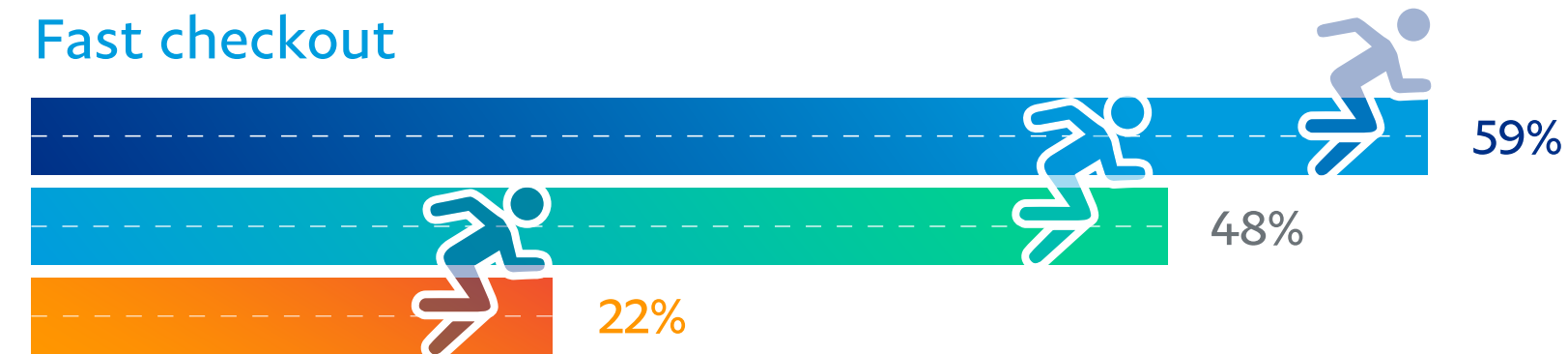
Additionally, 35% of those who use new payment methods most often said they get good offers and promotions, compared to 23% who use traditional methods and just 7% who use cash.

New payment methods take the lead in..

Convenience



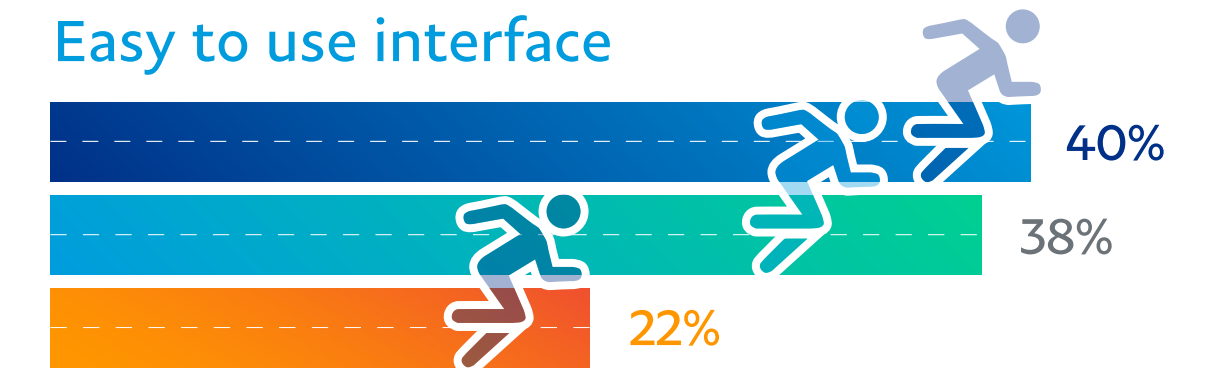
Fast checkout



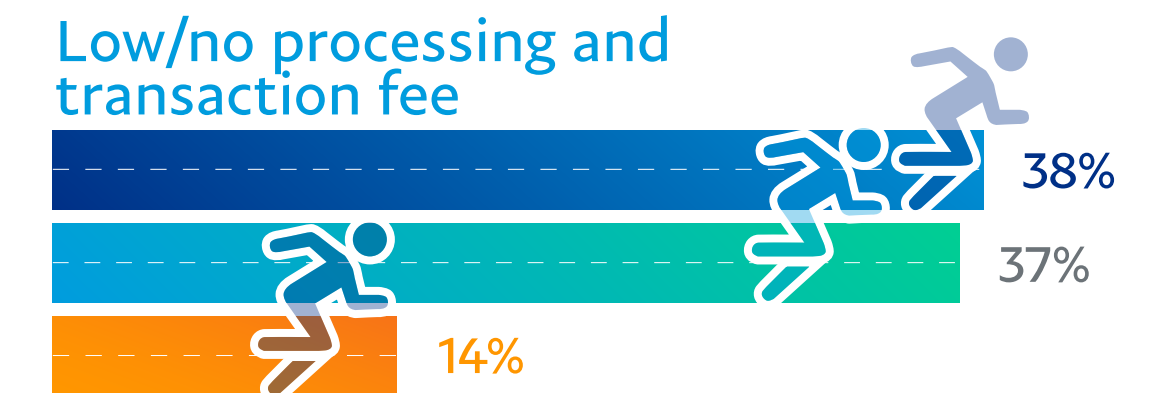
Secure transactions



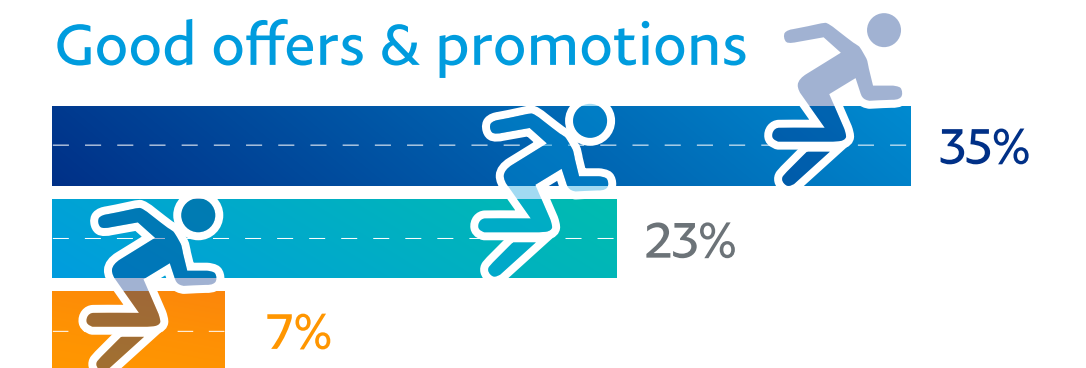
Easy to use interface



Low/no processing and transaction fee



Good offers & promotions



Q: You said you use _____ most often when transacting. Please tell us the reasons for your selection.

Opportunities: Investing in nurturing advocates

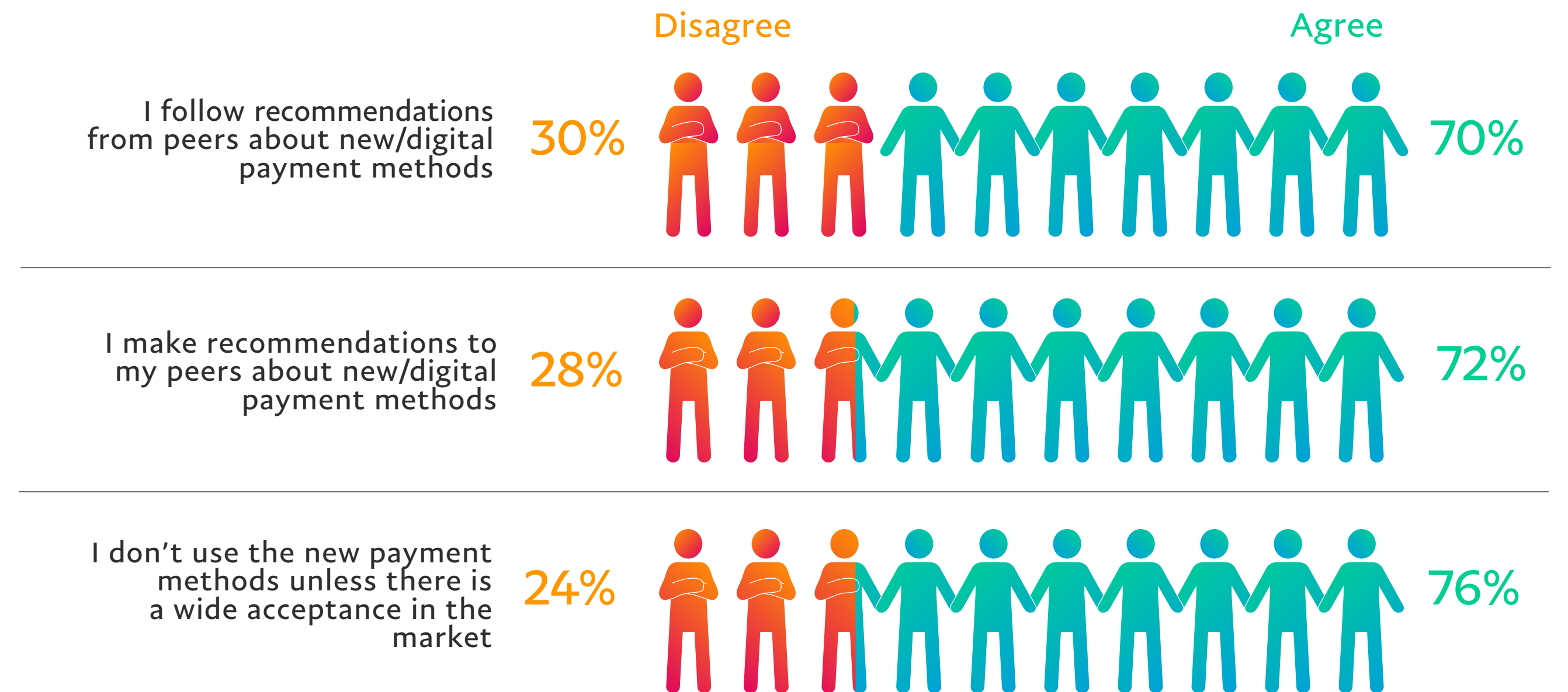
Consumers believe in the power of peer reviews, making them potential advocates or detractors. Among consumers surveyed, 72% of respondents said they make recommendations to their peers about a new payment option and 70% said they follow recommendations made by their peers.

It is clear that as consumers adopt new methods, and see the advantages for themselves, they are likely to be strong advocates. Correspondingly, creating strong advocates will drive further acceptance in the market with 76% of respondents agreeing that it is an important factor.

Companies need to ensure they are delivering value to those who adopt their technologies and harness these advocates to become part of the development of future innovations.

A key part of that is to ensure that consumers and businesses become an integral part of the innovation process. Products that will find relevance with businesses and consumers, are those that meet their needs and address specific issues they currently face.

Consumer attitudes towards new payment methods



Q: There are now many new ways to pay for things which didn't exist a few years ago...Please indicate the extent to which you agree with the following statements.

Opportunities: Increased digital connectivity and E-commerce growth

Among the respondents, 88% said they owned a smartphone, while 92% said they had access to the Internet.

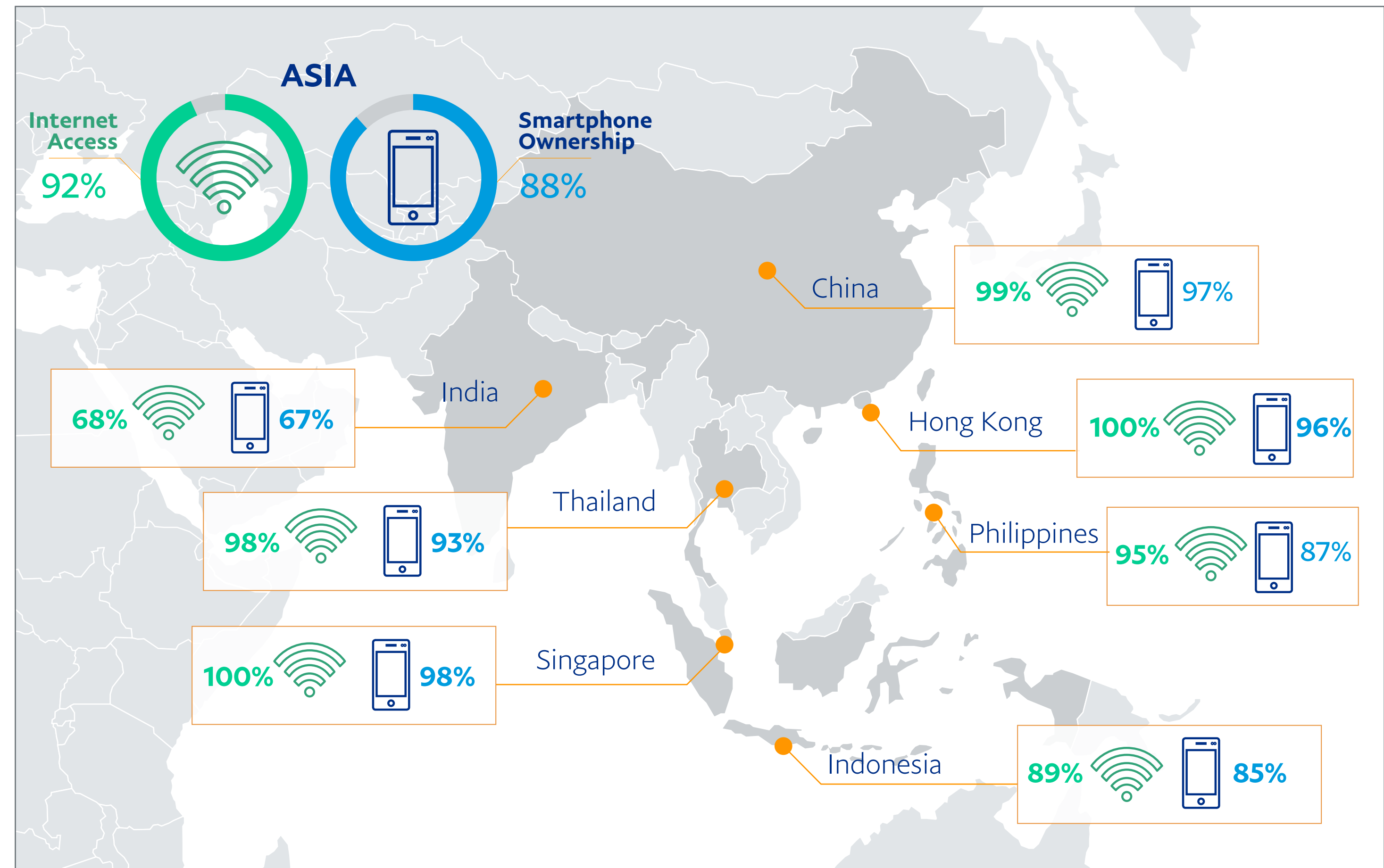
This is symbolic of the speed with which smartphone ownership and Internet penetration is increasing across the region, with countries like China, India and Indonesia now having hundreds of millions of people connected digitally.

Consumers across Asia are spending an increasing amount of time on their phones and online. The survey showed that 83% of respondents access the Internet everyday, with 60% doing so 'several times a day'.

This digital connectivity, coupled with the increased time spent online, has turned the region into one of the fastest growing E-commerce markets. 67% of the respondents across the region said they had bought goods or services online.

While China is leading the charge on that front, with 87% of those surveyed in the country saying they have bought goods or services online, other markets like Singapore, Indonesia, Thailand and the Philippines are also seeing growth in the sector.

Mobile and Internet connectivity in Asia



Q: Which of the following do you own?...Smartphone, laptop, tablet...?

Q: How often do you access the Internet?...Several times a day, every day, several times a week...?

Opportunities: Two in three merchants surveyed accept digital payments

The introduction of digital payments has led to a rise in the number of merchants selling online. Among the 1,400 online merchants surveyed for this study, 63% said they started selling goods online to make money, 51% said they did so to earn a living from their hobby or skill, while 48% said that online sales allow them to reach a wider audience.

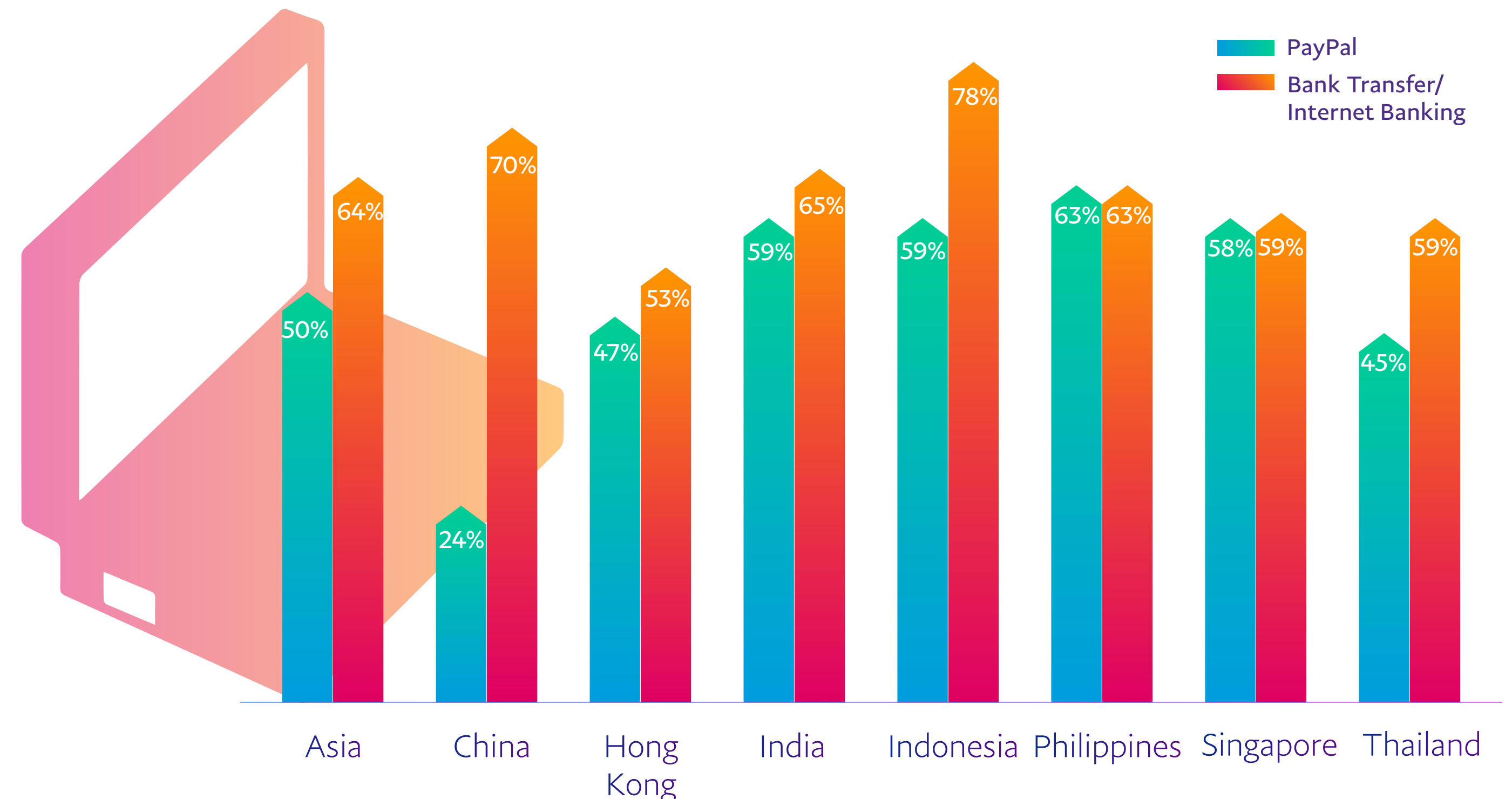
As online competition grows, merchants are trying to make it more convenient for consumers to buy from them. 89% of merchants agreed, or strongly agreed, that more payment options mean more value for customers.

Merchants are already adopting new payment methods, with two in three merchants surveyed saying they offer new digital payment methods, most commonly PayPal, for goods sold on their online platforms. Even though cash and bank transfer / Internet banking remain the top modes, digital payments are closing the gap in some countries.

In Singapore, 58% of merchants said they accept PayPal while 59% said they accept bank transfers. In the Philippines an equal number (63%) accept PayPal and bank transfers for online transactions. In China, Alipay (71%) ranks as the top digital payment mode accepted by merchants.

Merchants who see the benefits of new payment methods are likely to recommend it to their peers (88%). This will drive further adoption and therefore, consumer adoption.

How merchants are accepting payment from consumers online – via Internet banking and PayPal



Q: What payment methods do you currently use for your online business? - Accepting payments from customers

Social commerce: The big enabler?

Increased digital connectivity has also seen social media platforms become an integral part of peoples' lives across the region. India, Indonesia, the Philippines and Thailand are amongst the top 10 countries in the world when it comes to Facebook users. India and Indonesia are also among the top three countries with the most active Twitter users, according to Statista.

With social media moving beyond a networking platform to a digital marketplace, the adoption of digital payments is further boosted with its ability to offer seamless payments between businesses and consumers.

Merchants are increasingly moving away from traditional platforms and going into where consumers are to sell their products. 80% of merchants surveyed said they are selling via social media. Facebook (73%), Instagram (45%) and WhatsApp (43%) are the top three platforms for social commerce across the region, except in China where domestic players, like WeChat (90%) and Sina Weibo (51%) are the dominant players.

Merchants cited the opportunity to reach a wider consumer base (63%), ease of setting up business through social media (57%), easier marketing and advertising options (55%), and better return on investments (37%) as among the key reasons.

These platforms are delivering financial returns for merchants, through the enablement of new economic opportunities: 93% of merchants said social commerce helped them reach a wider group of consumers, 92% said it improved their financial condition and 92% said it helped grow their business. For merchants not yet on social media, most (86%) are inclined towards trying it out in future.



Q: Do you sell through social media platforms/messengers?
Q: Please indicate the extent to which you agree with the following statements. Social commerce ...
"Has significantly improved my financial condition"
"Plays a critical role in the growth of my online business"
"Helped me reach out to bigger markets"

Digital payments: Enabling better financial health and economic opportunity

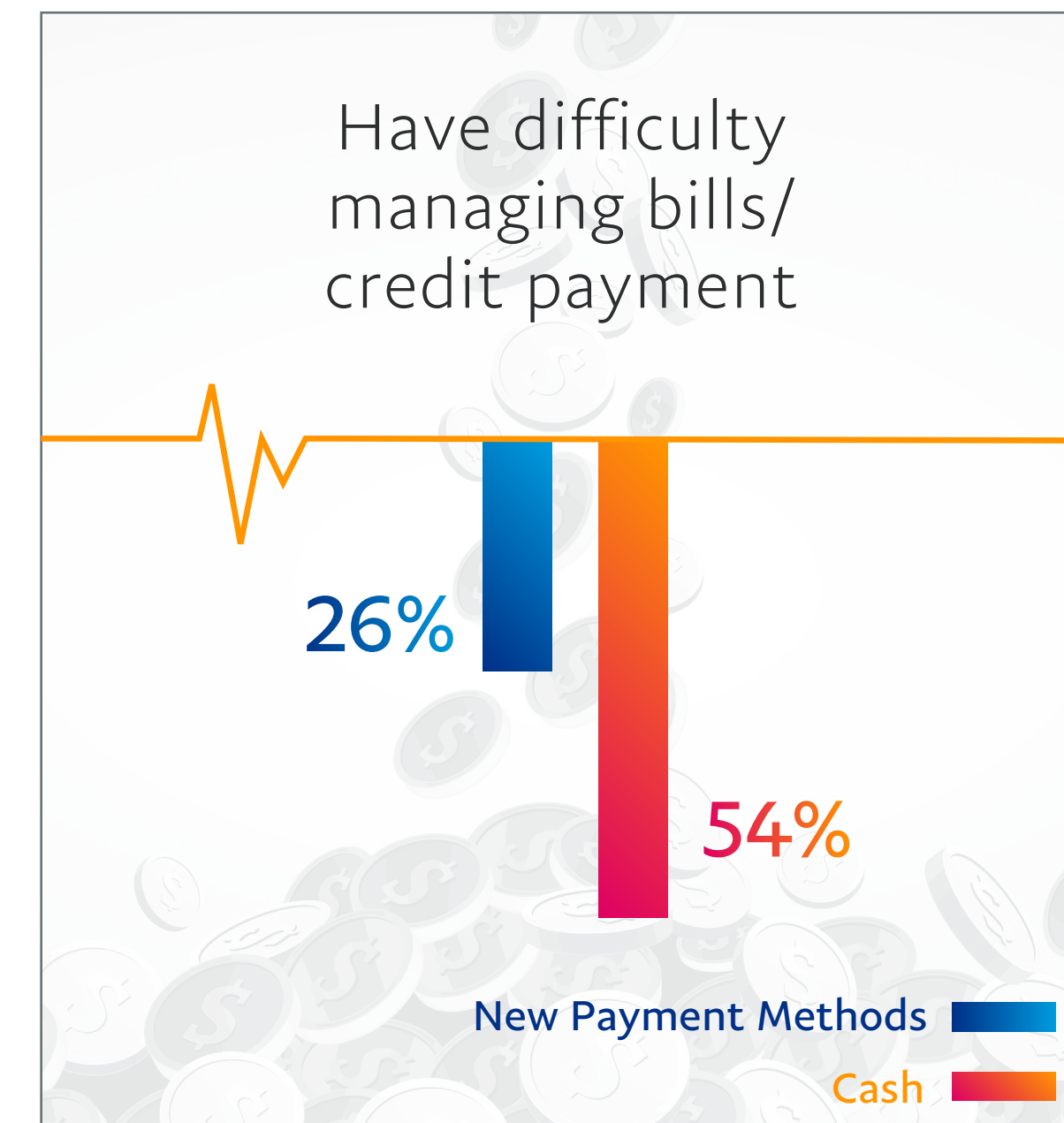
The role of digital payments in our lives is rapidly evolving. The survey highlighted that adoption of digital payments is having a big impact on one of the most important aspects of consumers' and merchants' lives: financial health. Among consumers surveyed, our research has shown that digital payment adopters enjoy the benefits of choice, convenience and security.

Convenience (70%) was cited as the number one reason for using new payment methods most often. Forty-six percent say the assurance of secure transactions was a push factor, while 35% said it was because of the increased offers and promotions that they received, compared to 23% who use traditional methods (e.g. physical credit cards, bank transfer/ Internet banking, cheque etc.) and just 7% who use cash.

Digital payments have been shown to provide consumers the tools to manage their bill payments. The ability to track your flow of money and pay instantly are some reasons that have boosted consumers' financial health. Among the consumers surveyed, 54% who rely on cash have experienced difficulties in managing their bills/credit payments compared to a smaller proportion of 26% of digital payment users who faced this issue.

The positive impact that digital payments can have on the welfare of individuals and businesses is palpable, but the ripple effect on the economy is even more prevalent. Financially healthy individuals spend their money at local businesses and start companies of their own. Financially healthy businesses create jobs that pay good wages and support the economic development of communities.

Digital payment companies, and the broader FinTech sector, must pay attention to this front. We are in a unique position to enable economic opportunity and financial participation for businesses and consumers of all economic standing. This can be achieved by ensuring a customer-centric focus on innovation. We need to create agile and relevant payment solutions that businesses, consumers and partners need, and partner with other innovative companies to unlock opportunities across the region, and globally.



Q: Please indicate your level of agreement with each of the following statements. "I..."



Digital payments offer users considerable benefits that cash struggles to deliver on. Transparent tracking of money flow, improved transaction efficiencies, unlocking new business models and the creation of more economic channels are just a few ways digital payments drive economic opportunity for both consumers and businesses.

- Rohan Mahadevan,
Chief Executive Officer, PayPal Pte Ltd
and Senior Vice President, APAC, PayPal Inc.

Turning insights into action

It is evident that consumers and merchants across Asia are increasingly aware of digital payment options. Convenience, ease of use, and secure transactions are among the key factors that are boosting the sector's growth across the region. As Asia becomes even more digitally connected, the sector is poised to grow even further in the coming years.

However, what is even more encouraging is that digital payments are starting to have a much bigger impact and more than just being an enabler of convenient and secure transactions.

Digital payment solutions are also opening up a slew of new economic opportunities, as they enable consumers and merchants to tap into social media to buy and sell goods and services. Social commerce, as this trend is called, is helping to improve financial health across the region.

Given the tremendous growth they have enjoyed in recent years, and the immense potential for future expansion, digital payment providers have a unique opportunity to play a key role in improving financial health and inclusion.

Industry-driven efforts

Asia's diversity and uneven levels of development will likely require a variety of innovative private sector-led solutions. Taking into account factors such as smartphone penetration, income levels, user preferences and privacy and security concerns, companies should innovate to cater to the needs of the customer.

Government-driven efforts

Adoption of any technology is driven by remarkable innovations. Governments and regulators are taking action to reduce the barriers to entry and implementing initiatives to boost innovation. They should build on this. Governments could lead by example by embracing digital payment solutions for payment of fees and other government-related fees to encourage adoption. They could consider passing the savings of adopting digital payment solutions to the consumers as an incentive.

Consumer incentives are another method that can drive adoption. Rebates and tax deductions are examples, but cash disincentives in the form of taxes and withdrawal limits could serve the same purpose as well. Regulators also need to ensure adequate controls are in place to protect consumers. With protection comes greater trust and therefore, higher adoption.

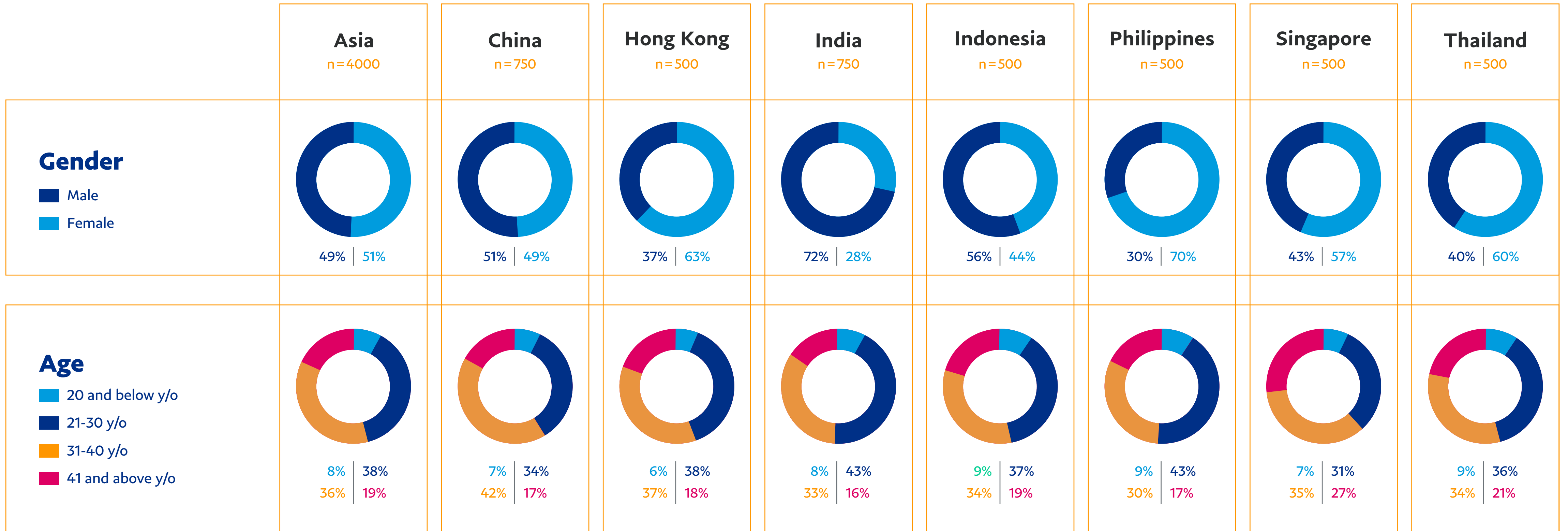
Partnerships

Various stakeholders are coming together to collaborate to unlock this potential. With the combined efforts of all the players, there is greater potential to plug the gaps and lift digital payments to greater heights. While there is a lot of room for partnerships, we need to align the interest and priorities of the ecosystem members before we are able to enact real change.

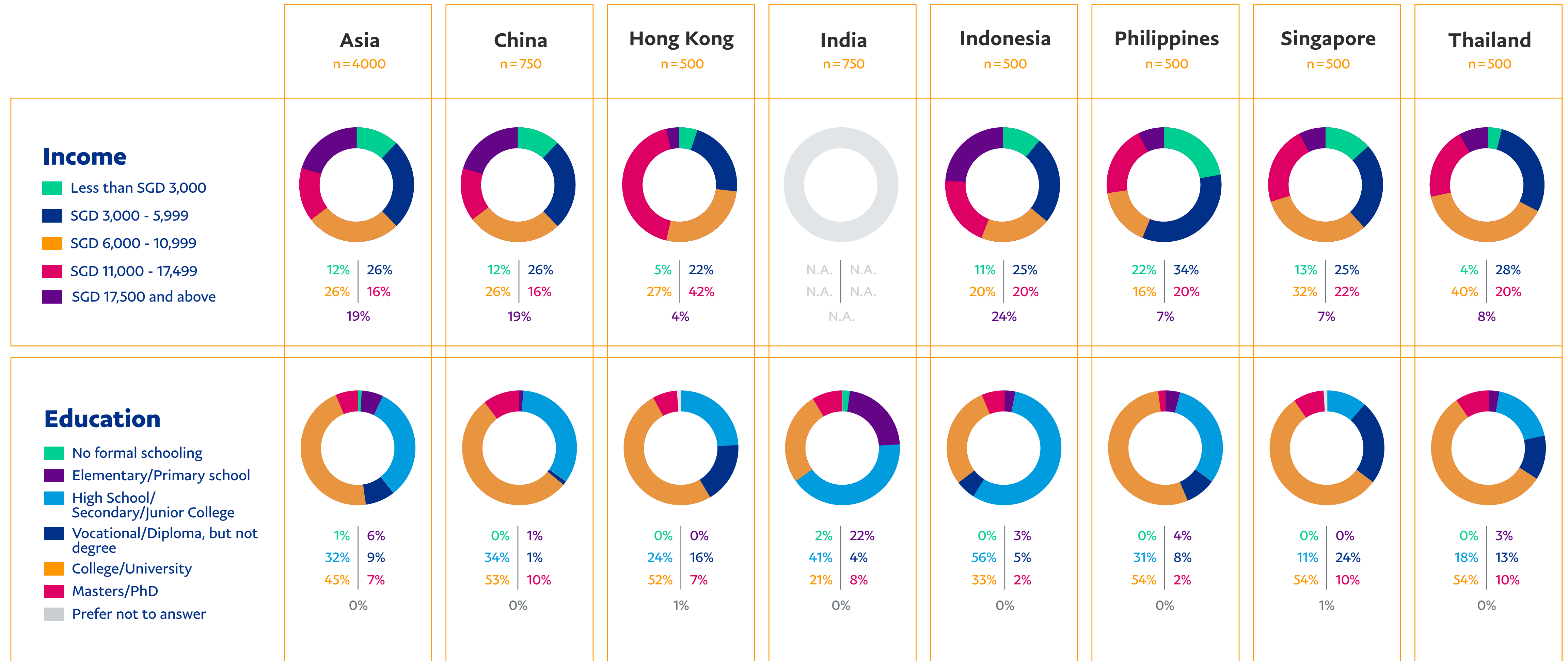
The big picture

What we need is a conversation around what digital payments enable users to achieve. This goes beyond the convenience of one transaction, to a more holistic topic of financial health and inclusion. The conversation on that has just started and digital payment providers like PayPal must highlight the role we can play on that front.

Participant Profile - Consumers



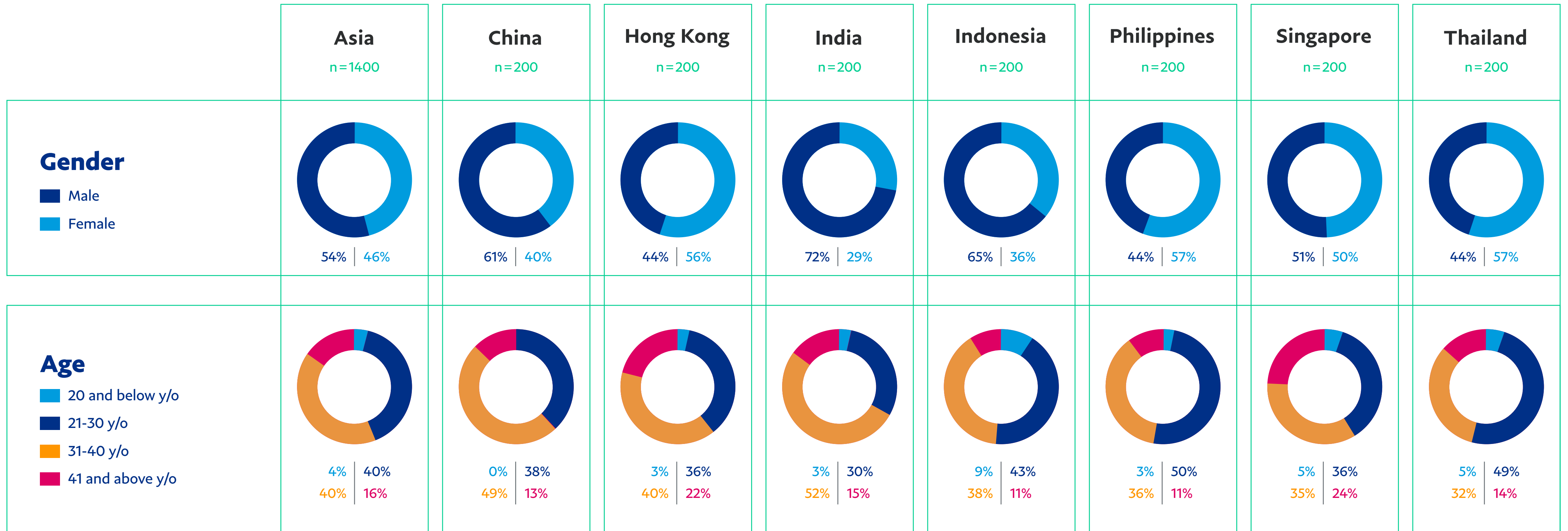
Participant Profile - Consumers



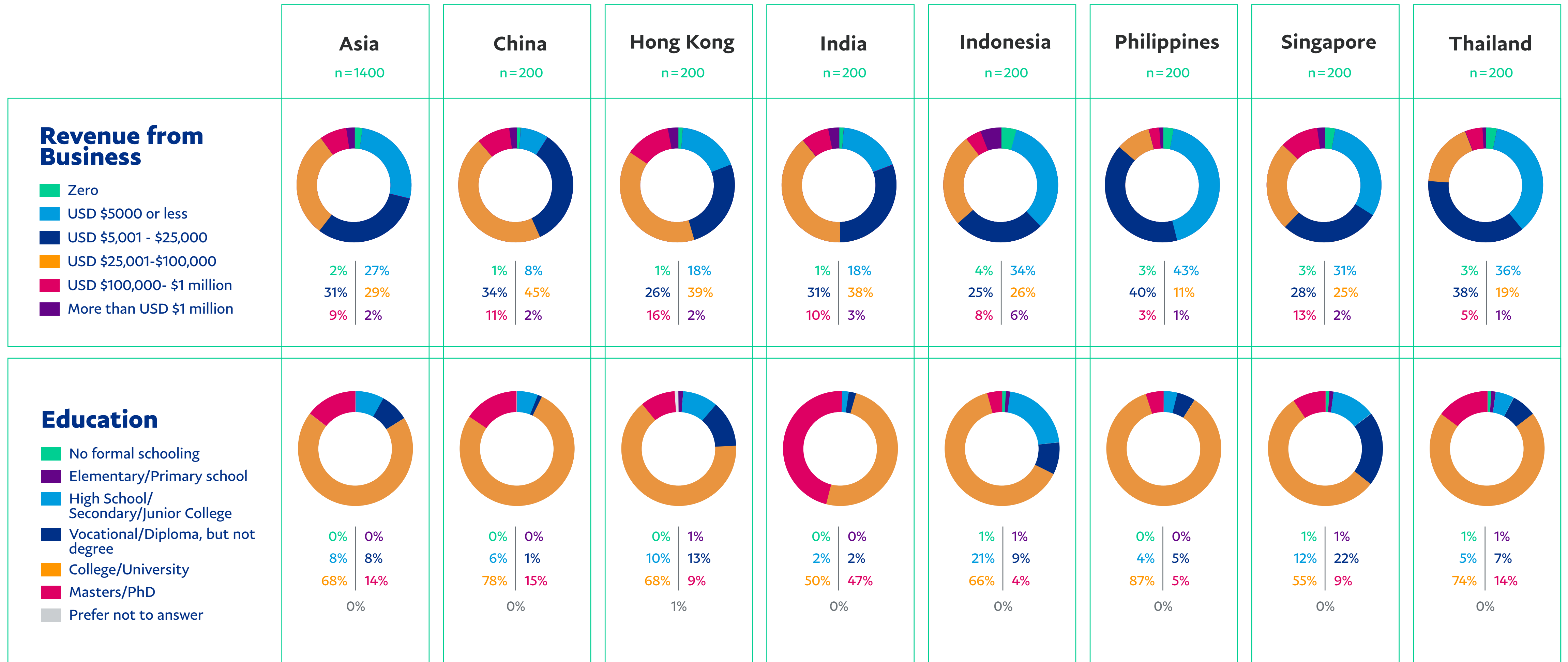
Participant Profile - Consumers

	Asia n=4000	China n=750	Hong Kong n=500	India n=750	Indonesia n=500	Philippines n=500	Singapore n=500	Thailand n=500
Employment Status								
Business Owner/Sole Proprietor/Self Employed	10%	6%	2%	6%	17%	21%	5%	17%
Senior Management	1%	3%	1%	0%	1%	1%	2%	0%
Middle Management	12%	17%	17%	8%	7%	5%	22%	5%
Junior Management	12%	13%	20%	12%	5%	7%	18%	7%
White Collar Non-Management	20%	33%	30%	11%	14%	11%	13%	30%
Professional	6%	6%	7%	2%	3%	5%	11%	6%
Part Time/ Freelance	7%	6%	8%	3%	12%	11%	6%	5%
Home Maker/ Home Duties	8%	2%	3%	13%	18%	11%	4%	2%
Retired	0%	0%	0%	0%	0%	0%	0%	0%
Student	7%	4%	7%	7%	5%	4%	12%	13%
Blue Collar	5%	4%	2%	17%	2%	3%	2%	4%
Blue Collar Unskilled	6%	1%	1%	14%	9%	6%	1%	6%
In between / looking for jobs	2%	2%	0%	3%	2%	3%	2%	2%
Unemployed	2%	2%	1%	2%	1%	9%	2%	1%
Prefer not to answer	1%	0%	1%	1%	1%	2%	1%	2%

Participant Profile - Merchants



Participant Profile - Merchants



Participant Profile - Merchants

	Asia n=1400	China n=200	Hong Kong n=200	India n=200	Indonesia n=200	Philippines n=200	Singapore n=200	Thailand n=200
Sector of Business								
Manufacturing	9%	22%	7%	8%	9%	4%	7%	7%
Wholesale	10%	5%	8%	11%	19%	13%	9%	7%
Retail	33%	29%	46%	21%	21%	44%	38%	35%
Transportation	3%	4%	3%	2%	4%	2%	3%	3%
Information Service	9%	10%	9%	18%	6%	7%	9%	5%
Finance and Insurance	4%	5%	3%	6%	4%	2%	4%	2%
Professional, Scientific and Technical Services	8%	11%	5%	10%	10%	8%	8%	4%
Administrative Services	3%	3%	5%	3%	1%	3%	2%	8%
Education	4%	4%	5%	4%	3%	4%	4%	3%
Health Care	3%	2%	2%	5%	2%	4%	3%	8%
Recreation and Food Services	4%	1%	3%	4%	6%	4%	6%	2%
Others	11%	6%	8%	10%	20%	8%	10%	18%