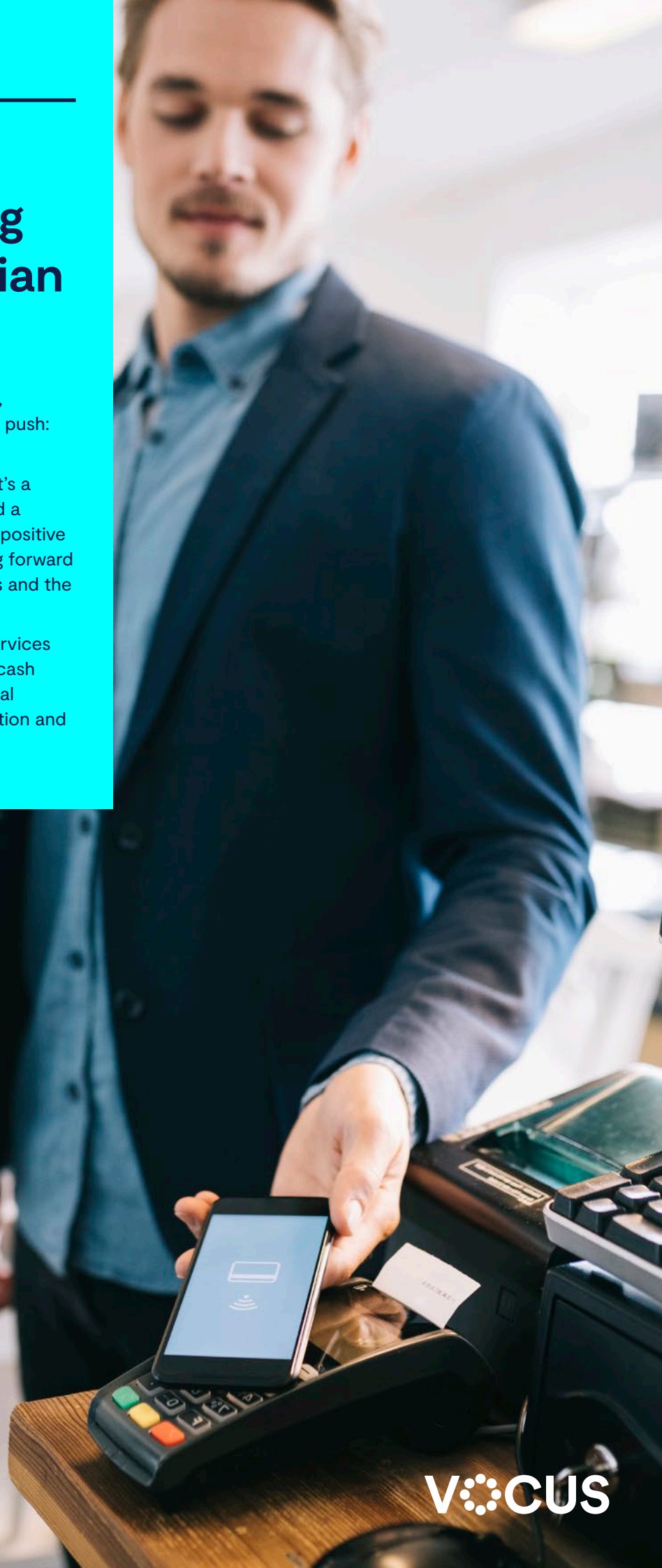


# The COVID-19 push: Accelerating change in Australian industries

As part of Vocus' Industry Intelligence program, welcome to our second piece in The COVID-19 push: Accelerating change in Australian industries.

Created with The Economist Intelligence Unit, it's a series that looks at how COVID-19 has provided a powerful impetus to accelerate innovation and positive change in key industries, enabling them to bring forward significant benefits for customers, communities and the industries themselves.

In our second piece, we look at the financial services sector. We look at how the gradual move from cash to credit cards and now a growing array of digital payments services, has gained remarkable traction and is providing new choices for consumers.



# Ushering in the next era of payments

Diversity in today's payments landscape is greater than ever before. While cash is still the most popular payment method at points of sale worldwide, the rise of e-commerce and smartphone usage in Australia is seeing a proliferation of alternative payment methods, a trend that has only accelerated since the emergence of COVID-19.

The payments sector is becoming increasingly sophisticated, and with that comes a myriad of opportunities to innovate, accelerate growth, and deliver more convenience and a better experience for consumers.

*Underpinning this revolution in payments is the need for secure, reliable, and scalable high-performance connectivity, on which to deliver brilliant network solutions for business and consumers in a modern digital economy.*

With a network that's purpose-built for business and government, backed by world-class expertise and solutions, Vocus is uniquely positioned to support digital transformation in the financial services industry.

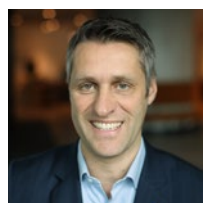
For many organisations, the response to COVID-19 has required an acceleration of their digital transformation, in some cases to survive, but in others to unlock new and emerging opportunities.

Digitising legacy infrastructure, adopting distributed cloud platforms, and establishing data hubs to capture information across multiple customer touchpoints, are among the new kinds of capabilities driving future success.

In payments, this has seen rapid growth in new technologies, services and competition for the attention of increasingly savvy consumers, who are embracing a variety of payment methods at remarkable speed.

For businesses, it provides an opportunity to grow relevance and differentiation in a crowded market, and ultimately, avoid being left behind.

As the payments sector continues to innovate and change, finding new ways to disrupt the status quo and provide a seamless user experience will be critical to success.



**Andrew Wildblood**  
Chief Executive, Enterprise & Government  
Vocus

# Digital payments in Australia: No turning back

Almost 90% of Australia's 25m population uses the internet. <sup>1</sup> According to the World Bank, all Australians over the age of 15 have a bank account, about 76% of the population makes online purchases and/or pays bills online, and about 60% of the population owns a credit card.<sup>2</sup>

These numbers indicate an already mature payments market. "People are banked, and therefore very familiar with various banking tools to make payments," says Filippo Giachi, managing director – APAC & MENA at DOCOMO Digital, the global mobile payments solutions provider.

## Current payments landscape

In many ways, traditional banks have led innovation in the adoption of digital payments in Australia, as they have sought to address competition from within the sector as well as new digital players.

For example, Bankwest, a division of the Commonwealth Bank of Australia, reduced its number of physical branches in 2018 to focus more on digital banking channels. It has also been offering digital wallet services such as Google Pay and Apple Pay to its customers since 2016 and the start of 2019<sup>3</sup> respectively. Other major Australian banks also jumped onto the digital payments bandwagon a while ago.

Darren Thayre, head of digital transformation, Asia-Pacific, Japan and China at Google, says that Australia has been an early adopter of new tech, including digital payments. Mobile shoppers have enjoyed Visa and Mastercard digital wallets for some time now and there is also an increasing trend towards PayPal for online transactions, he says. In fact, he adds: "Most of the incumbent banks have a digital wallet application now in an effort to stay central to the consumer spending and the data that this generates."

Australia also has neobanks, digital-only banks offering a world-class, in-app customer experience, and different functionalities for payments, says Mr Thayre.

Additionally, the country has in place a New Payments Platform that provides a common secured platform for consumers and businesses to receive and make instant payments,<sup>4</sup> a major catalyst for the growth of a digital payments ecosystem.

*Owing to these factors, cash use had already reduced substantially from 18% of household purchases in 2016 to 10% in 2019, prior to the COVID-19 outbreak.<sup>5</sup> In fact, Australia is not far from its government's goal of becoming a cashless society by 2022.*



## The COVID push

Australia's digital infrastructure system proved essential in the context of new realities dictated by COVID-19. At the same time, the pandemic has proved to be a catalyst for increased digitalisation.

"I think it would probably be the accelerated reduction in the use of cash," Steven Ooi, chief operating officer at Quest Payment Services, Australia's largest payment solution and payment terminal hardware supplier, says, when asked about the lasting change of the pandemic on payments. "Cash will disappear more quickly than it was going to," he says.

The relevance of cash has declined further in Australia due to fears of contracting the virus through the physical handling of currency notes and coins, despite health experts not having found any evidence of the virus' transmission via cash changing hands.

Mr Ooi adds that the population is being conditioned to not use cash, which will become the norm.

Following the onset of the pandemic, shop owners have been encouraging the use of cashless payments among their customers. Woolworths and Coles—the two largest supermarkets in Australia—were the first to raise their contactless payment limit from A\$100 to A\$200 to reduce the number of physical touchpoints in the customer journey and encourage more cashless payments.<sup>6</sup>

"One of the main effects of COVID is the push towards contactless transactions. A lot of retailers—although it is not mandated—decided to not accept cash any more or to discourage the use of cash," Mr Ooi says.

Lockdowns and restrictions on movement meant that frequent offline shoppers were encouraged to lose their inhibitions around online shopping and digital payments.

E-commerce sales increased 7.1% to more than 11% of total retail sales between March and April 2020 alone,<sup>7</sup> as more and more shoppers resorted to making their daily purchases online. With food sales excluded, the number increased from 13% to just over 20%. This isn't surprising, given that a behavioural change survey found that 49% of respondents have increased their online spending since the pandemic began.<sup>8</sup>

Online purchases of medicine and medical equipment have increased drastically – an obvious outcome of a health crisis. But not all industries have enjoyed the same experience. For example, Australia's fast-fashion industry took a huge hit amidst the pandemic. A recent survey by Australia's Fashion Council found that more than 80% of retail companies in Australia were left with overhead inventory. Almost a quarter (23%) were certain they would never recover from the impacts of the COVID-19 shutdown, and 43% were not confident of rebounding financially.<sup>9</sup>

Digital transactions using buy now, pay later payment options (BNPL) have become more popular through the pandemic,<sup>10</sup> with fintech payment behemoth Afterpay currently accounting for 87% of market share in the country. <sup>11</sup>BNPL services allow consumers to purchase anything without paying



for it upfront. The payment is made by the BNPL at the point of purchase, and customers repay it in instalments. Mr Thayre expects BNPL to continue as a trend and remain “a key method of purchase”, particularly when consumers decide to make expensive purchases.

According to Mr Ooi, it is usually the younger generation using this payment method; because they often don't have a credit rating, it can be difficult to get approved for a credit card. “It is less onerous to get these accounts than a credit card,” he says.

*Already about 2m Australians are using BNPL services, and this number is expected to double to 4 million by 2023.<sup>12</sup>*

This market confidence is reflected in the share performance of ASX-listed BNPL companies in the past few months. Afterpay, for instance, has seen its share price soar from A\$30.63 at the start of the year to more than A\$80.00 at the time of writing.<sup>13</sup>

Other alternative payment systems, such as mobile payments, are also witnessing strong growth due to support from large banks and owing to purchasing habits shifting online due to COVID-19. Both Apple Pay and Google Pay have seen their markets grow by 4.1% and 3.6% respectively during this pandemic.<sup>14</sup>

Additionally, electronic funds transfers at points of sale (EFTPOS) provide users with a fast and secured payment system by either using tap-and-pay options or linking their EFTPOS cards to Apple Pay and Google Pay apps, enabling mobile payments.<sup>15</sup>

Direct carrier billing (DCB) is a payment alternative that has largely benefitted from “digital content consumption,” says Mr Giachi. DCB gives the ability to pay for goods and services with one's phone bill, either pre-paid or post-paid. The end user's purchase is charged to the phone bill.

Mr Giachi says all major telcos in Australia have big plans for DCB, including content partnerships, 5G bundles with content and the like. This payment trend is going to continue and become more important, he adds.

Besides the ease in making payments, it is also increasingly easy for individuals and retailers to receive payments digitally. Quest has developed a tap-on-phone solution that is expected to be in the market soon that allows users to take contactless credit card payments on the phone and requires only software installation

## Consumer drivers

The ease of payments and personalisation will drive the growth of digital payment systems in Australia, according to industry specialists. Consumers will demand a seamless user experience that is available around the clock without any interruptions. Concerns around data security are already largely addressed, but continue to remain of paramount importance in enabling the greater adoption of digital payments.

Another key aspect of the complete consumer experience is convenience. Mr Giachi says that for a payment method or an app to gain more traction among users and to assume a larger share of payments, it must offer convenience and be available at a relevant moment. This means there must be a clear use case. “Are you there when the user needs you most?” he asks.

One example of this is wearable modes of payment. For example, Westpac offers a wearable payment device, PayWear, a chip that comes inside a wristband. This chip can be linked to a Westpac bank account and used to make contactless payments when on the move, even without a credit card linked.<sup>16</sup>

The ease of use of a payment method also goes a long way in determining its adoption rate. There needs to be clarity in terms of how a payment method is understood by consumers, as that results in familiarity and greater buy-in.

The presence of a large number of Chinese migrants, students and tourists in Australia is another factor influencing the evolution of the alternative payments ecosystem in the country. As of December 2019, there were 212,000 Chinese students in Australia.<sup>17</sup> China is also the source of the largest number of international tourists into the country, with 1.5 million incoming travellers in 2018-19.<sup>18</sup> Additionally, Australia is home to more than 650,000 Chinese-born migrants (comprising

2.6% of Australia's total population).<sup>19</sup> This international presence has been a key driver of popular Chinese payment services such as Alipay and WeChat Pay in Australia; <sup>20</sup> there are now more than 10,000 merchants across Australia that accept these payment methods.<sup>21</sup>

## Broader implications

Going forward, how payments are made will also be dictated by what is being paid for. For instance, it is likely that a greater share of payments for the digital consumption of services and media content will be made using DCB, as that offers consumers the most user-friendly experience in that context.

However, for the purchases of other physical goods and services, credit cards are already well-entrenched in Australia, making it difficult for other payment means to create a significant dent in their market share.

While the means used to make payments could change, the underlying payment method will still likely be a credit card or debit card in most instances, given their penetration levels.

The changing payments landscape poses some challenges for businesses already struggling to make ends meet. “Businesses in many areas have already had an incredibly tough time in some cases, with revenue entirely drying up,” says Mr Thayre.

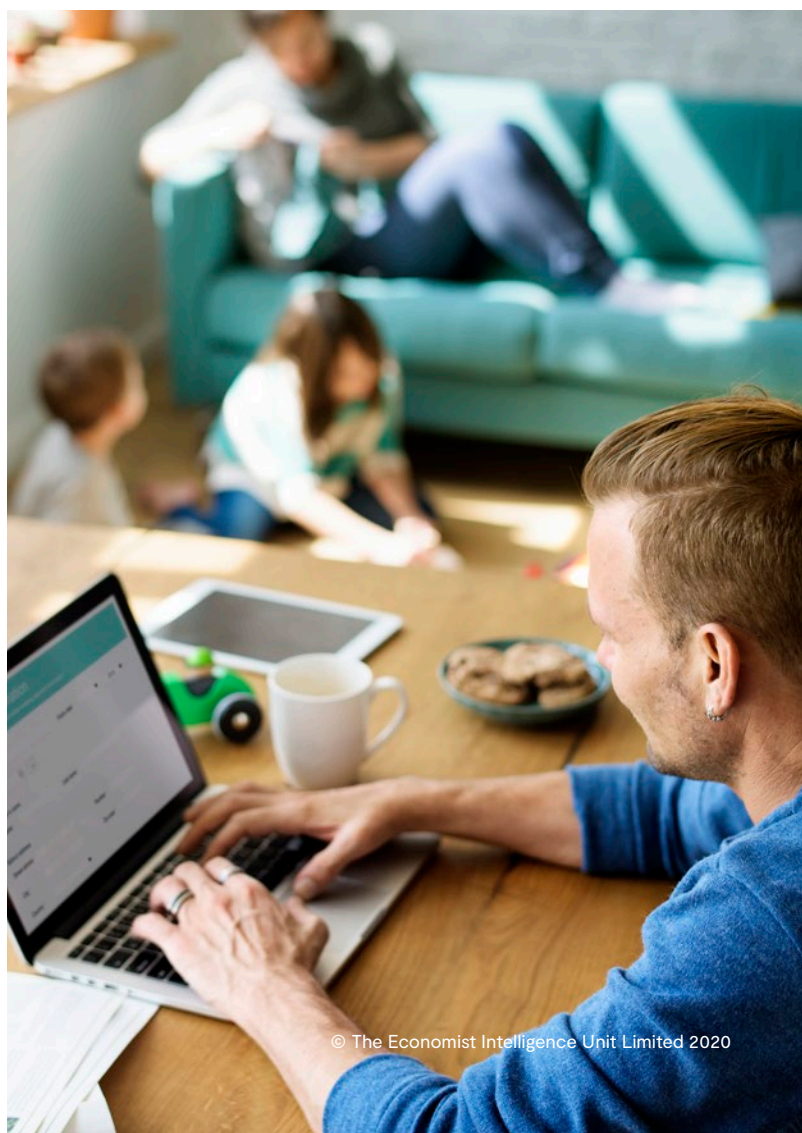
*Small businesses will have to actively look at transitioning to digital payments systems and understand various payment solutions available and what is best for them, he adds. At a time when revenues have been low, these transitions—while important—will be hard to make.*

But the challenges relating to COVID-19 aside, merchants should be able to go digital easily. A number of companies are presently simplifying the entire in-store purchasing process.

One of the challenges thus far has been the need to use different POS machines and training staff to use them; however, things are being unified now under simpler, multi-vendor machines that are easier to use.

At the same time, consumer buying patterns are evolving, which Mr Thayre believes owes at least partially to “the rise of the super app – the application that lets you shop/travel/order food in one place”. Even outside of apps, he says, much consumer activity is increasingly going online.

Consumers are actively looking for an enriched experience that is secure and seamless. COVID-19 has provided a clear push to both online purchases as well as cashless payments of different kinds. Online purchases naturally imply a boost in digital payments. It is now up to payment service providers and merchants to simplify things further for consumers, for these changes to stick on the other side of the pandemic. It is likely they will.





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