2020 VISIONS: VIEWS ON 2019 AND THE NEW YEAR IN FOCUS

Experts from the payments sector look back at the major talking points of 2019, and look ahead to 2020 to discuss with *Evie Rusman* the key priorities for the new year

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Digital currency - the future of retail payments

What is the future of retail payments? Technologists and businesses alike are spending billions trying to answer this question, as they continuously aim to improve the customer experience at point of purchase.

In a world where we have come to expect instant payments, any friction in the process can be detrimental to customer retention and brand appeal. The last thing people want to worry about is a payment being delayed at checkout, due to technical glitches, bank card issues or cumbersome payment queues. In-store or online, payments need to be fast, easy and rewarding for the consumer.

Digital currencies

So how does digital currency fit into this model? Since the launch of Bitcoin over a decade ago, this future of money has had its share of setbacks and bad PR, due to its volatility, unpredictable transaction costs and security breaches.

Few people actually use digital currency to pay for goods and services, but the future of retail will be inextricably linked to the developments of digital currencies – and this future is closer than many realise. For instance, payments are already being accepted in Bitcoin without having to convert to fiat with certain retail merchants such as Starbucks, Overstock, eGifter and Shopify, to name a few.

However, many still just cannot wrap their heads around Bitcoin and other 'virtual' cryptocurrencies, and therefore cannot grasp the idea of not being able to touch or feel their form of payment. This is surprising, given that most consumers are already living in a world where they rarely pay for goods or services in cash. We are either tapping our credit cards onto a contactless portal or paying with our mobile phone, so the concept of 'cashless society' is one that people have subconsciously grasped.

Complex and costly

What is not obvious at first glance is that the current system of payments is actually quite complex and costly.

At the national level, for instance, banks are having to deal with a reconciliation process between their respective ledgers, that involves multiple messaging networks such as Visa, Amex and Mastercard, end-of-day settlement with the nation's central bank real-time gross settlement system, and payment providers to give access to those networks – all to make the payment system work accordingly.

That is a lot of intermediaries involved to make it happen, and cost – not to mention liquidity and credit risk as banks only settle cash at the end of the day.

Adding to this complexity is the international payments arena, which currently has no single global real-time gross settlement system in play, which means banks are reliant on messaging networks such as SWIFT for their interbank communication and correspondent banks for settlement. Overall, we are looking at higher credit risk and transaction costs.

Enter crypto payments innovation and blockchain

The overarching vision behind 'cashless' crypto payments is to create something that is traceable, accessible and accountable to those that possess it, and to reduce the current cost of trust.

At the present time, these innovations and technology have proven to be best suited against slower transaction uses cases, given that settlement is still slow for high-touch, low-cost transactions. But this is changing rapidly each day.

Cryptocurrencies or assets are more or less the digital equivalent of cash stored in a 'digital wallet'. Unlike a physical wallet, however, cryptoassets are not stored literally. Instead, what is stored and secured are the private and public keys linked to those assets as they are needed to transact.

Leveraging blockchain technology, participants are able to transact and provide real-time verifications of those transactions transparently across one global, irrefutable distributed ledger that removes the need for intermediaries and reconciliation and settles in near-real time.

Facebook's Libra

Accepting crypto can increase a retailer's customer base, increase transaction speed and abolish expensive payment processing fees. Some of the biggest technology titans are already betting big on its future: Facebook's cryptocurrency Libra, for example, promises a new global payment system supported by a 'stablecoin' backed in a non-transparent manner by assets denominated in national currencies.

The aim of Libra is to eliminate the massive international fees charged by credit card companies and digital payment systems. The stablecoin is meant to allow users to pay for goods and services via its app, Messenger and WhatsApp, while disintermediating payment systems, regardless of where the users are based in the world.

Whether Libra will achieve its ambition is still uncertain, but there are many other stablecoins already in circulation with the aim to go global, such as Gemini Dollar, the first regulated stablecoin, USDCoin and MakerDAI.

Other stablecoins

The global decentralised financial sector (DeFi) is committed to addressing the traditional pain points of cryptocurrency so stablecoins can be used for retail payments.

It is already creating the foundations and infrastructure to accommodate digital currencies and to create a new world of financial services that can support new innovations in finance – with the same checks and balances as the old world of traditional banking and fiat currencies that still dominate our global system.

While stablecoins are being explored to manage the volatility of digital currency, cybersecurity specialists are focusing extensively on safeguarding digital assets to expedite mass adoption. Custodial wallets are being created with the most sophisticated technology so that people can store their cryptocurrency with the peace of mind they have come to expect with their traditional assets and account services.

New innovations like MoonPay are also making it easier to buy cryptocurrencies with fiat with just a few clicks from your mobile phone. This addresses another major pain point for those who have struggled to buy and sell crypto on an exchange platform, by facilitating the instant purchase of major cryptocurrencies.

Another great advancement in the DeFi space is MetaMask, a browser plugin that allows users to make Ethereum transactions through regular websites. It facilitates the adoption of Ethereum because it bridges the gap between the user interfaces for Ethereum.

Industry acceptance

Without question, these types of technology are paving the way for the mainstream acceptance of crypto payments. Major retailers must now acknowledge the inevitable future of digital currencies, and embrace crypto as a way to pay for goods and services.

So far, retailers such as eGifter, Gyft, Starbucks, Shopify, Overstock and Microsoft are beginning to accept digital currencies, while a company called Moon is taking matters into its own hands by helping customers pay for goods on Amazon using Bitcoin – even if the e-commerce platform does not formally accept them.

Moon does this by using its technology to allow payments with cryptocurrencies using current payment methods. After installing the extension, Moon automatically tracks when customers are at the Amazon checkout page and inserts the company's own payment widget. You are able to see how much you are going to pay in cryptocurrencies before the transaction is made.

France gets on board

In France, a cryptocurrency payment system developed by Global POS and Payments Platform Easy2Play will allow an estimated 4 million customers to make crypto payments at over 25,000 stores across France in 2020.

Over 30 major retailers have agreed to accept Bitcoin, including US footwear company Foot Locker, sportswear giant Decathlon, cosmetics retailer Sephora and furniture and home decor store Maisons du Monde. This is a real turning point for cryptocurrencies, and France's bold move should inspire other countries and major retailers to follow suit.

Crypto payments are inevitable

Digital currencies are a by-product of the digital world we live in, and whether we believe in them or not, one thing is certain: Bitcoin, Ethereum and other altcoins are here to stay.

Over $275bn worth of cryptocurrency is already in circulation – and the number continues to grow. Why not make it easier for people to spend it on things they want to buy?

Crypto payments are an inevitable part of the future, and major retailers have got to prepare for this reality, and embrace it. A whole landscape has already developed, with the first wave of service platforms and providers interacting with decentralised currencies like Bitcoin and Ethereum with ways to onboard consumers, from fiat currencies to crypto, to exchange between cryptocurrencies or create borrowing mechanisms.

That is crucial to extend the advantages of decentralisation and capture the full lifecycle and potential of this asset class – from issuance, through transfer and then into lending, as well as creating algorithmic stablecoins like MakerDAO. ■