

COMMENTARY

Mobile payments have positive impact on business growth

The improved payment convenience of mobile wallets has a real and significant economic impact – driving consumer traffic, consumption and generating beneficial spillover effects that deliver business growth.

By Sumi Agarwal

AROUND the world, mobile payments are fast displacing cash as the preferred means of settling transactions.

Rapid advances in technology coupled with high levels of smartphone penetration provide a ready infrastructure for cashless payments to be made almost anywhere. According to one recent report, by 2019, nearly 2.1 billion consumers globally will use a mobile wallet to make payments or transfer money – an increase of over 30 per cent from the end of 2017.

China has proved a leading force in the rise of mobile payments, accounting for more than 60 per cent of the world's mobile payment users.

Its swift adoption of e-commerce and on-demand businesses such as ride-sharing services has helped propel its shift from cash to mobile. Indeed, in some Chinese cities, even street market traders have abandoned cash altogether and will only accept payment by mobile.

Yet, South-east Asia is catching up fast, powered by its own rapidly expanding mobile-first economy and a population that is among the world's most engaged with its smartphones.

For consumers, the speed and convenience of mobile wallet services is obvious – a quick scan of a code, a tap of the fingers to confirm,

and payment is made easily, instantly and with zero cost.

But what benefits does it bring to the economy in general?

In a recent study at the National University of Singapore's NUS Business School, working with colleagues at Hong Kong Baptist University, we looked at the impact mobile wallet technology has had in Singapore, and specifically how it has impacted small businesses and startups.

Our study focused on a dataset covering 250,000 consumers and two years of transactions from the PayLah! mobile wallet, one of several services launched in Singapore in recent years.

Looking at usage around the April 2017 launch of QR code technology attached to the service, we found that use of mobile wallets doubled in both the number and value of transactions after the code system was introduced. This triggered particularly strong increases in small transactions – less than S\$100 – for small merchants and gave a boost to customer acquisition for entrepreneurs.

Perhaps most surprisingly, we found that the introduction of the QR code led to spillover growth in debit and credit cards sales by driving additional consumer traffic.

The effect was particularly pronounced for small transactions in small businesses and new, entrepreneurial ventures, which saw an average

increase in card sales of 7 per cent.

Breaking this down further, we found that new, small stores increased the amount of monthly card sales by 11 per cent, compared with 2.1 per cent growth among the more established small merchants. This suggests that low cost and increased convenience offered by the introduction of mobile wallet technology has proved a particular boon to entrepreneurs.

As for the types of goods sold, the spillover effect from the greater convenience of paying through mobile wallets was seen across all categories, including discretionary items such as durable goods, clothing and entertainment. Among small merchants, eateries such as single outlet, non-chain restaurants saw the largest spillover effect, with a 12.6 per cent increase in total card sales.

A likely reason for this is that mobile wallet technology helps to move customer traffic more efficiently, especially for retailers that tend to trade on small value transactions. This rise in efficiency enables customers to explore new shopping locations.

Indeed, looking at our data, we found small merchants saw an increase in new customers of 1.8 per cent per month after the mobile wallet was launched.

Moreover, we found also that this reflects real business growth, rather than existing customers who had previously paid by cash simply

switching to alternate payment methods.

Overall, these findings show the positive impact mobile wallets are having on business growth, indicating that complementarity among different payment means can boost retail traffic and attract new customers, especially for small businesses and new entrepreneurial ventures. This is particularly significant for the economies of South-east Asia, where SMEs make up between 50 and 90 per cent of all enterprises.

Despite its explosive growth, we should remember that mobile wallet technology is still in its early days. As a fraction of total consumer sales, it is still relatively small.

Nonetheless, use of the technology is growing rapidly, with new applications and services being developed at an equally fast pace.

Yet our findings show that, even at this relatively early stage, the improved payment convenience of mobile wallets has a real and significant economic impact – driving consumer traffic, consumption and generating beneficial spillover effects that deliver business growth.

■ The writer is the Low Tuck Kwong Distinguished Professor of Finance, Economics and Real Estate at NUS Business School. The opinions expressed are the writer's and do not represent the views and opinions of NUS.