How will we pay in 10 years?

By Josephine Lim and Carmen Chai

The days of cash as king are dwindling. Not only are other payment methods more convenient, but there are more payment choices available to Canadians than ever, including mobile payments and tap-and-go payments. While cash will likely never disappear completely, its use seems to be declining fast.

Customers paid with cash less than half of the time (44 per cent of overall transactions) in 2013, according to the Bank of Canada's recent *The Use of Cash in Canada* study. Instead, consumers are more likely to pay with credit cards, whose use rose about 11 per cent, the study says, largely thanks to the tripling of contactless credit card transactions.

The Canadian Bankers Association (CBA) conducts its own research every two years on Canadian banking to get a sense of changing impressions Canadians have about their banking and payment options. The CBA says Canadians now use debit and credit almost twice as often as cash or cheques.

And even debit card use "decreased in terms of both volume and value," the Bank of Canada report says. Fewer people are visiting ABMs, with an average of only 2.7 cash withdrawals per person per month in 2013, and those between the ages of 55 and 75 had almost twice the average amount of cash on hand as younger age groups. Pat White, executive director of Credit Counselling Canada, guesses that consumers are tired of paying fees for their cash withdrawals, especially if their debit or credit cards can do the job free at a merchant.

Convenience drives non-cash payment popularity

Convenience is one reason Canadians are more willing to whip out credit cards, says Norman Shaw, associate professor at the Ted Rogers School of Retail Management. In addition, low interest rates encourage people to buy bigger-ticket items and more luxury goods. Loyalty programs play a role as well, he says.

"We found in our survey that for consumers, the ability to use the ‘tap and go' feature on debit or credit cards (61 per cent) and use a mobile device to pay for purchases (59 per cent) added value to their payments," Kate Payne, a spokesperson for the CBA, said in an emailed responses to questions.

The CBA's survey suggests 30 per cent of Canadians think it is likely that they will be paying for more of their purchases using a mobile wallet.

"When asked, 23 per cent [of Canadians surveyed] don't think they will be carrying cash in 10 years, and 54 per cent anticipate no longer using cheques," Payne said. This is based on data collection that wrapped up in January 2015.

Credit landscape will continue to change

Experts agree that credit will see increased usage, but how we use credit is changing, and will continue to change.

Many companies are racing to create a ubiquitous mobile payment system, an option that has been slow to gain traction in North America but has been widely adopted in Africa. This involves partnerships among technology and telecom companies and financial institutions -- a technology company to facilitate a secure transaction, and a telecom company to provide a secure SIM card that encrypts credit card information. There's a behind-the-scenes struggle among these parties to create a proper ecosystem for mobile payments to take place, says Shaw.

The only option available at the moment is to use a certain cellphone with a certain bank and a certain technology, and until paying with mobile can be used with any phone or card, it won't be universally adopted by Canadians, says Shaw.

Security is also an important aspect when using new technology, and biometrics is one way companies are tackling this issue. But currently the technology is still flawed; for example, the thumbprint on an iPhone doesn't always work properly, says Shaw.

Security depends on three pillars: people, processes and technology, says Walid Hejazi, associate professor of international business at the University of Toronto's Rotman School of Business. While the technology is available, there need to be better comprehensive mobile security strategies in place and better awareness training, he says.

The Bank of Canada report showed that mobile payment use was low in 2013, with an average of only 7 per cent of Canadians using it, the majority of whom were between the ages of 18 to 34. This shows a generational acceptance and trust in smartphones, says Shaw. However, these payment methods are gaining acceptance and it's not so much a matter of whether this technology will be adopted, but rather when it will become the norm, says Hejazi.

Besides paying with your cellphone, another option that's being explored is paying with your wrist through an Apple Watch or a wristband.

One thing neither Shaw nor Hejazi think will gain national adoption is digital currencies such as bitcoin. "There are people and some institutions that are accepting bitcoin as payment, but I believe there's a long way to go before people understand what it is and how secure it is," says Hejazi.

Though digital currencies have the advantage of being anonymous, many consumers don't trust them, says Shaw. The value of a bitcoin can fluctuate drastically, the digital currency could completely disappear or bitcoin holders may not be able to tell when someone has already used or stolen their currency.

Why cash will never truly disappear

While cash use is declining, the average Canadian still carries about $84 in their wallets at any given time, according to the Bank of Canada report. Part of the motive to hold on to at least some cash is precautionary, for situations when cards are not accepted, or for anonymity, which is important for privacy-minded individuals. Shaw calls that an "amazing advantage."

Additionally, cash is a tried and true budgeting tool. Many people do not feel the same pain when swiping a card as they would if they were handing over bills. In fact, this disassociation between swiping and spending has some experts concerned that debt, bankruptcies and consumer proposals will rise, says Melanie Buffel, a money coach with Money Coaches Canada.

When people pay for items with cash, they feel that sensation of having no more money to spend when their wallets are empty, while when paying with credit, it encourages a mentality of buying now and dealing with it later, Buffel explains.

"We will see more and more ways for people to spend money without ever having to touch it and I think there's still the danger of various forms of credit that we can use to feed that spending compulsion," says Buffel.

"If we don't want to mortgage our futures entirely we need to figure out how to stay within our natural limits of the income that's coming in."