

Cashless payment situation in singapore

[Parts of the World](#), [Asia](#)



Weakness

However, many SMEs are unwilling to adopt new technologies. Cashless payment is important for a digitalised economy. In 2015, 60% of consumer payments in Singapore were in cash, a high number amongst developed countries. Cash payments exceeded 90% in hawker centres and wet markets and 80% in small shops and neighbourhood stores. In contrast, only 20% of payments in Sweden are via cash.

It has been found that the social cost associated with cash payments in Singapore takes up about 0.5% of her GDP, which amounts to around \$2 billion, demonstrating the negative externalities of cash transactions.

Despite numerous positive externalities of using e-payment services, many small and medium enterprises (SMEs) remain unwilling to adopt e-payments, citing additional cost. Local electronic payment service provider (PSP) NETS typically charges 0.8%-1% merchant fee for direct debit transactions and around 3% for credit card transactions. Even for firms as big as Courts, the cost of accepting cashless payments is three times that of accepting cash payments. Since the profit margins of SMEs are already small, it is not surprising that merchants are unwilling to adopt e-payment, given the additional fee entailed. Merchant's hesitation in adopting e-payment is coupled by consumers' love for using cash. 90% of Singaporeans prefer cash over other forms of payment as primary payment methods.

Opportunities

There are a diversity of payment modes in Singapore, such as Ez-Link, NETS, credit card, GrabPay. Fragmented payment methods bring confusion to both

consumers and merchants. Hence, there is room for a central PSP that dominates the domestic market by integrating point of sale machines and have an extensive network of partners internationally, facilitating efficient payments both within and across the border.

Threats

Not only are local PSPs challenged by traditional competitors such as Visa, MasterCard, AMEX, JCB and Paypal, they also face intensifying competition from emerging foreign companies such as Alipay and Unionpay, who seek to expand in Southeast Asia.

Error of Omission

It is in the government's interest to encourage e-payments to avoid implicit costs associated with cash transactions, including misallocation of resources to accounting, transporting and maintaining the security of cash. However, the promotion of e-payments is a transfer of costs from banking institutions to merchants. Additional strain to SMEs is posed by merchant fees not addressed in the strategy. Hence, there should be a synergised effort to reduce the cost of e-payments so as to increase the adoption rate of e-payment and the society can reap its benefits by diverting the resources consumed to maintain the current level of cash services to other sectors.

There should be policies in place to keep merchant fees of different payment methods low. This is possible as the European union has already imposed a maximum credit card merchant fee of 0.3%. We suggest limiting the merchant fees charged by local PSPs at 0.3% – 0.5% and promoting the use of payment methods that are well-received by consumers so that merchants

are willing to adopt e-payment methods. However, this may threaten the profit margin of PSPs. To deal with this, we further suggest the consolidation of local PSPs.

Currently, there are two local PSPs, NETS and EZ-Link, that can process payments independently. NETS is formed by local banks, offering PIN-based direct debit, contactless stored-value facilities (FlashPay) and mobile phone fund transfer and payments with a wide range of acceptance points. NETS is currently expanding its coverage of Flashpay and mobile payment service to hawker centres, coffee shops and other small businesses. Ez-Link is a full subsidiary of the Land Transport Authority (LTA), with a wide usage of its stored-value cards in public transportation and a limited usage at other merchants.

There is a large overlap in the payment services provided by Ez-Link and NETS. Most of the merchants accepting Ez-Link accept NETS Flashpay as well, while both function similarly. While NETS has a much wider coverage, the only financial service offered by Ez-Link but not by NETS is FEVO Mastercard prepaid, which has a somewhat limited use because of the inconvenient top-up process and the requirement of merchants accepting debit cards. All FEVO card functions are covered by debit cards and most of its point-of-sale usage can be covered by NETS products, including Flashpay.

The operating costs of NETS and Ez-Link mainly consist of costs to operate and maintain their payment systems. Since Ez-Link services can largely be incorporated in NETS services and the former is owned by LTA, a government agency, it is viable for the government to create a single,

dominant PSP by initiating the merging of Ez-Link and NETS. The merged business can reap internal economies of scale as the hardware for payment processing is indivisible while the duplication in the payment network is reduced. The dominance of NETS also allows it an edge in negotiating with international PSP partners. This simplifies cross-border payments. A larger NETS with an even wider coverage can also better compete with international competitors, such as Alipay and Unionpay, who seek a larger market share in Southeast Asia.

Meanwhile, Singapore should promote a dominant stored-value, contactless payment card such as NETS Flashpay. Such transactions are fast to process (as they do not require communication with payer's bank) and accessible to people who do not own bank accounts such as foreign workers, children and tourists, helping the "left-out" of a cashless society to convert to cashless payments as well.

Weaknesses

Current programmes do not adequately address the nuanced needs of Singapore's diverse population. Firstly, SkillsFuture and similar programmes tend to reward individuals who already seek to upgrade their skills rather than encourage more people to acquire deep skills. Hence, such programmes is rather an inefficient use of government budget. Secondly, said programmes seem to often fail to take into account user's unique circumstances.

Opportunities

Human capital development is a relevant issue not only in Singapore but also in ASEAN. A 2017 Report by UNESCO identified “ a lack of quality assurance guidelines; insufficient community engagement by students and communities; insufficient budget; and insufficient information on other countries’ experiences” as four main obstacles facing Southeast Asian countries in lifelong learning. These provide vast business opportunities for Singaporean firms to address these obstacles. By collaborating with existing institutes such as NTUC Learning Hub and NUS Centre for Continuing, online platforms can benefit workers with different skill levels. Such platforms involve low fixed and marginal costs, and thus can bring vocational expertise to workers at low price. Such a strong sector not only meets regional demand, but also forms the mainstay in Singapore’s future economy.

Threats

An increasingly ageing population that demands more government expenditure in healthcare reduces resources available for human capital development. Furthermore, the inherent risks involved in any government funded programme to boost deep skill acquisition could outweigh benefits. Should training subsidies be continued with limited success, not only will opportunity cost incurred be high, resource misallocation could lead to deadweight welfare loss. On the other hand, should the government decide to directly provide training to certain industries, imperfect information could also lead to resource misallocation.

Errors of omission

It is efficient for Singapore to develop training programmes for every skill needed, especially higher-end programmes with high fixed costs. Cross-border talent exchange programmes at the higher education or professional level can be carried out across countries for Singaporean talents to pick up international best practices. Key industries of focus include Research and Development, aeronautics, chemicals engineering and advanced manufacturing. This facilitates transfer of technical knowledge to aid in the development of Singapore's key industries, resulting in a gain in factor endowments in knowledge-intensive industries.

Evaluation

Cross-border training brings into play each country's comparative advantage in training of different areas, mutually benefitting all participating countries. However, budgetary constraints of both countries involved mean that only selected talents can undergo exchange programmes. A gap exists between the acquisition of advanced foreign practices and the spread of such practices to domestic talents. Additional steps must be taken to maximise the knowledge transfer from participants in the programmes to other workers. This can be done through pair-and-share schemes at the workplace.

Recommendations

The government should set aside budget to subsidise the retraining specifically for older workers. Subsidies given to employers reduces firms' financial burdens to retrain older workers, while subsidised courses enhances the pull factor attracting them to lifelong learning.

Furthermore, to better include those with fewer academic qualifications in the growth of the economy, the government can partner with the private service industry to create an recognised accreditation programme where those lacking job qualifications can acquire necessary skills and/ or licenses. E. g. collaborations with Bettr Barista Coffee Academy to help the less educated obtain the necessary license to work in the field. Unlike current and CFE's proposed measures, such measures help to give the less educated a leg up when seeking employment, increasing productivity as well as workforce participation.

Evaluation

The proposed changes complements existing measures, such as the use of SkillsFuture credits to go through procedures to obtain vocational skill certificates. This ensures that the lower income groups have more means to overcome financial strains posed by retraining and certification. Financial support makes the acquisition of skills affordable. Moral suasion and mindset shifts promoted by the media are required to further incentivise lifelong learning. Workers need to be financially supported but incentivised and persuaded of the importance of skills retraining as well.