

## OVERVIEW OF CASHLESS PAYMENT IN MALAYSIA

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### Article history

**Received date** : 31-3-2020  
**Revised date** : 2-4-2020  
**Accepted date** : 1-5-2020  
**Published date** : 6-6-2020

### To cite this document:

Ishak. N. (2020). Overview of Cashless Payment in Malaysia. *International Journal of Accounting, Finance and Business (IJAFB)*, 5 (27), 11 - 18

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**Abstract:** *This paper aims to identify the current state of studies, and in turn highlight gaps that exist in academic on cashless payment Malaysia, the impact of cashless payment on Finance and Economics and disadvantages of using cashless payment. Numerous articles from 2003 to 2019 have documented concept and empirical evidence of cashless payment. This paper also evaluates the cashless system through the possibilities outcome and measure if the benefits and convenience of the system are perceived to be worth in the increased risk. This study will be benefits to public users and policymaker and regulator. Related to policymakers and regulator, they should be implementing an extant framework, evolve economic and policy frameworks for the efficiency of cashless system in order to ensure Malaysia is right on track for the newest global trend.*

**Keywords:** *Cashless, Payment, Malaysia*

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## Introduction

“Electronic payment (e-payment) which offers a more expedient and cost-effective means of moving funds over paper-based payments” (Bank Negara, 2010). One of the electronic payments that tremendously used over the world is cashless payment. Tee and Ong (2016) stated that consumers will enjoy the freedom of no longer be a burden to carrying cash in their pocket and with the ease of high technology devices, the transaction can be done conveniently through wireless technologies via mobile device (smartphones). A cashless society can be described by the situation of economic state where financial transactions are not conducted with money in the form of physical banknotes or coins, but rather through the transfer of information between transacting parties (Ragaventhara, 2016). In other word, the cashless payment is a behavioral change in the consumer in which consumers could reduce the usage of money as a medium of exchange for goods and services by allowing electronic transfer payments such as digital cash and e-wallet. Mukaria (2013) in his research about the “Plastic Money is a way for cash Less Payment System” argue that usage of credit card was measured a luxury and has become needed.

The growth of cashless system into the society derived by the behavioral of consumer, in which they more prefer a technology that provide fast, convenient and useful service (Singh, Sinha & Liébana-Cabanillas, 2020). Meanwhile, in the business perspectives by Asian Development Bank Institute (2019) find that the small and medium-sized enterprises (SMEs) could achieve higher goals through e-wallet mobile. The platform provided is able to penetrate their product into overseas market by using digital payment platform such as PayPal, Venmo and Alipay. Hence it could help to boost the productivity of the SMEs. Meanwhile Gichuki and Mulu-Mutuku (2018) find that 94.7% women micro-entrepreneurs used mobile money transfer and 46.4% are using payment for services<sup>1</sup>. This is indicating that mobile network coverage provides opportunities for micro-entrepreneurs to reduce business transaction cost and improve of efficiency.

According to research by ForexBonuses.org (2019) shows that cashless payment systems are tremendously growing in some countries. There are six criteria in measuring top cashless countries: number of credit and debit cards per person; number of cards with contactless functionality; growth of cashless payments in past five years; payments made with non-cash methods and awareness of mobile payment option. Table 1 shows that the world’s most cashless countries. Canada is one top country that implements cashless technology in which there are over two credit cards for every person living. Followed by Sweden in which 59% of Swedish consumer transactions are completed through non-cash methods. Meanwhile in Asia, two countries which are China and Japan experienced high growth in cashless payment. Hence this paper highlight in-depth the cashless payment users and products related in Malaysia, the impact of cashless payment on Finance and Economics perspectives and the disadvantage of using cashless.

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<sup>1</sup> Services-allowing cashless payment for goods and services.

**Table 1: The World’s Most Cashless Countries**

Rank	Country	Proportion	Justification
1	Canada	6.48/ 10	Canada is the country most embracing cashless technology, hardly surprising since there are over 2 credit cards for every person living there
2	Sweden	6.47/ 10	59% of Swedish consumer transactions are completed through non-cash methods
3	UK	6.42/ 10	47% of people in the UK saying they know what smart phone payment options they can use
4	France	6.25/ 10	France is going further by embracing the contactless trend
5	USA	5.87/ 10	Research show nearly 3 credit cards for every person
6	China	5.17/ 10	China has experienced the highest growth in cashless payments over the last 5 years of all the countries in the study
7	Australia	4.92/ 10	Australians prefer to use debit cards as their payment method and have 1.75 cards per person
8	Germany	4.14/ 10	A third of all consumer transactions in Germany are now completed using cashless methods
9	Japan	3.12/ 10	Japan are catching up with the contactless craze
10	Russia	1.95/ 10	Russians are ready and prepared for more cashless option with 57% claiming they are very aware of the mobile payment method available.

Source: (Forexbonus.Org, 2019)

### **Overview Cashless Payment in Malaysia**

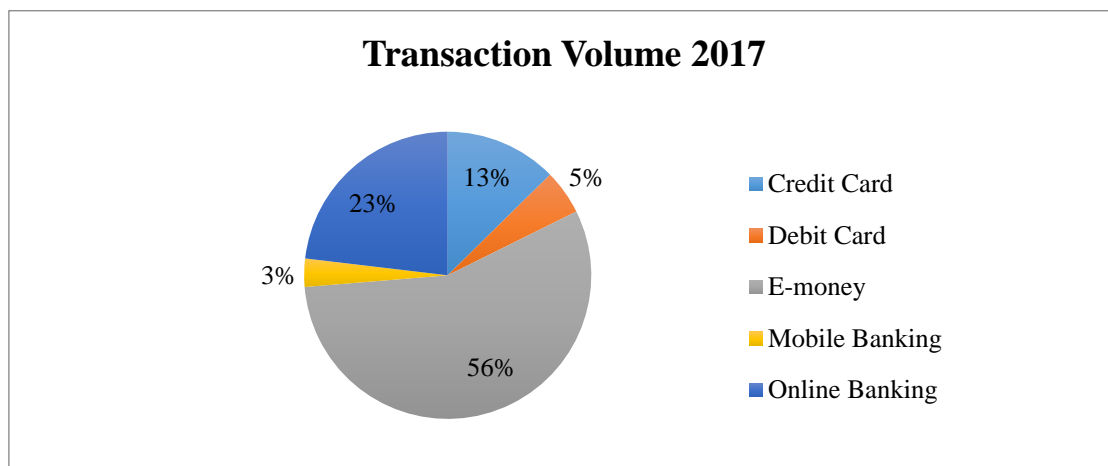
With strong concept has been discussed and widespread around the world especially in developing countries being changed towards cashless society. This system could improve and boost up the economics of country as shown in Table 2. There are several Asia countries that achieved cashless scenario. According to the impact of GDP (%) by cashless implemented, Thailand shows that by implementing digital transitioning, it could boost up the economic as 3.8% followed by Taiwan (3.6%) and Cambodia (3.4%). In the US, the higher of card usage has contributed a consumption of about US\$296 billion globally from the year 2011 to 2015 which is a 1.2 % increase in the GDP (Oswal, 2019). Asia developing countries like Singapore have growth of 0.5 % in GDP which accounts to about S\$400 million per annum.

**Table 2: Net benefits in several Asia’s cities in achievable cashless scenario**

Country	Category	Impact of GDP (%)	Average annual GDP growth rate increase (bps) *basic points
India	Digitally Transitioning	3.0	8.4
Indonesia	Cash centric	3.1	37.4
Malaysia	Digital maturing	2.6	19.9
Combodia	Cash centric	3.4	24.4
Thailand	Digitally Transitioning	3.8	34.0
Taiwan	Digital maturing	3.6	5.4
Philippines	Digitally maturing	3.4	16.5
South Korea	Cash centric	2.4	31.0
Vietnam	Digital maturing	2.8	17.5

Source: usa.visa.com (2017)

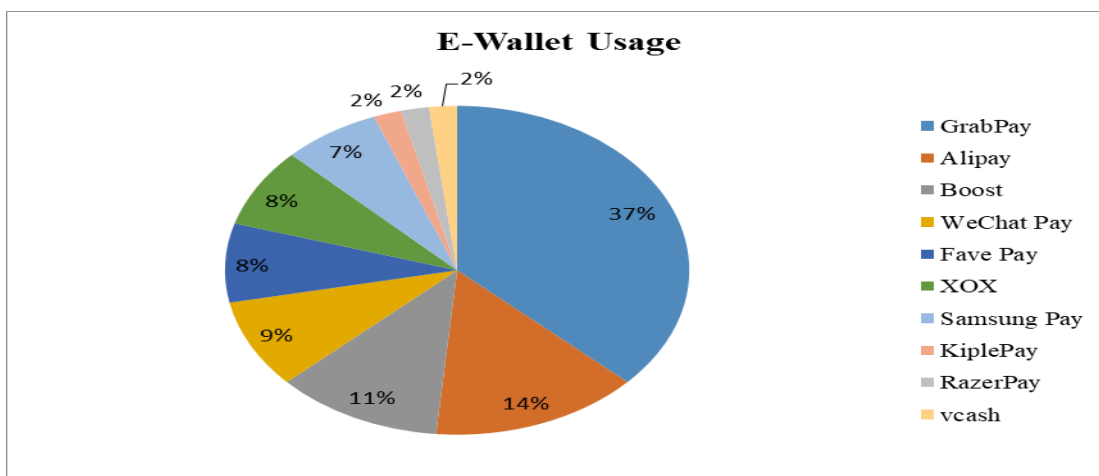
In Malaysia, the government is undergoing a long-term plan for achieving a cashless society. The report from Fintech Malaysia (2018) shows that E-money (56%) and online banking (23%) systems are the highest users compared to others e-wallet platform as showed by Figure 1.



**Figure 1: Transaction Volume by Types of Digital Payment**

Source: (Fintech Malaysia, 2018)

There are several brands are adapting an idea with the use of e-wallet such as GrabPay, Alipay, Maybank2u, Boost and others alternative payment methods. Refer to Figure 1.2 shows that e-wallet of GrabPay (37%) continues to dominate the market. This is followed by its closest competitor e-wallet Alipay (14%), Boost (11%) and WeChat Pay (9%). The remaining e-wallet such as KiplePay, RazerPay and Vcash show that the usages are 2% respectively. The special feature of GrabPay that on attracting user with promotions, cashback and freebies. As for public and society, this is beneficial as such competition may power consumer cost. Most of these-wallets are used predominantly for payments of F&B services, bill payments, groceries, convenience stores and mobile reload as cash back rebates and reward are available at various kinds of outlets.



**Figure 1.2: Categories of E-Wallet Usage**

Sources: (oppotus.com, 2019)

E-wallet usage becomes prominent in Malaysia. The research team by Oppotus.com (2019) find that E-wallet usage also being more popular amongst the Chinese towards the middle aged group (25-44 years old). The most of e-wallet users are located at Klang Valley and Johor Bharu. These two places are identified as hub-industry in Malaysia. In order to boost up their sales, cashless payment is an effective platform.

### Cashless Payment Could Generate Finance and Economics

There is several studies show the impact of cashless system on finance and economics. Rahsmi (2018) examines the pros of cashless transaction to a country. The paper discovered that the adoption of cashless transaction increased GDP by using cards and reduced social cost, increased in financial inclusion due to acceptance of e-payments, reduces the shadow economy, reduced in cash payment enables e-commerce growth and facilitated trusted transactions online. A recent study by Kumari and Khanna (2017) provide statistical evidence of the effect of adopting cashless payment on economic growth and development of the developing countries. Adoption of cashless economy policy enhances the growth of financial stability in the country and significantly benefits to developing economy as well as curbing black money. In the same line with Goel, Sahai, Vinaik and Gard (2019) cashless in India shows that it will help in curbing black money, counterfeit's fake currency, fighting against terrorism, reduce cash related robbery, helps in improving economic growth of our country. Zandi, Singh and Irving (2013) find some evidence that long-term shift to credit and debit cards and others cashless payment stimulates economic growth of 56 countries worldwide. They discovered that electronic card payments can increase efficiency and boost consumption of the economy. Every 1% reduction in cash in circulation within the economy translates into the increment of 40 basis points (0.4%) in GDP. In the light of this statistic, cashless can derive the growth to the economy. The spending behaviour of consumers is observed to be more spontaneous buying when using cashless payments.

Boost in the economic growth and increase of GDP can be observed when a country takes a step towards adopting a cashless system. Digitization offers a huge opportunity for creating a

significant financial revolution in the country (Tee & Ong, 2016). They argue the effect of adopting cashless payment in five European Union (EU) countries, namely, Austria, Belgium, France, Germany, and Portugal shows that there is significant effect of adopting cashless payment on the economy of the five EU countries in the long run. Meanwhile, Mieseigha and Ogbodo (2013) reach to a conclusion that adoption of electronic transaction is essential for transparency, accountability and reduction of cash related fraud, the fundamental elements of economic growth and development. Transaction can be done conveniently within the snap of a finger through smartphones or cards. Hence the ease of conducting financial transaction is the biggest motivator to go cashless (Dave, 2016).

In Malaysia, According to Bank Negara Malaysia (BNM), the innovation of the electronic payments could contribute to annual cost savings of up to 1% in gross domestic product for Malaysia (Bank Negara, 2010). The increasing usage of electronic payments has been shown to increase economic growth. When people choose for other alternative mode of payment, they tend to hold less physical cash when they are go for shopping. Thus, it could eliminate the incentive for robbers to commit cash related crimes. As for vendors, the ease of transaction through various payment modes will increase their revenue; improve operational efficiency and lower operating cost (Alliance 2003). Adopting digital payments and becoming a cashless society can curb corruption, decreased crimes and inefficient in Malaysia. High cash usage enables corruption, leakages and money laundering, amongst other cash-related fraudulent activities can be reduced by cashless payments. Going cashless can reduce the risk being stolen by thief when carrying cash. Hence reduce the costs that government spends on nabbing the culprits. In countries like the US, burglary and assault have dropped by about 10% once the government shifted the payment made for social welfare to electronic transfer. The government, however, has to take measures to curb the online scam and identity theft incidents (Oswal, 2019).

### **Disadvantage of using Cashless payment**

There is no denying that financial transaction will gradually increase due to the cashless system thus boost our financial economics. However such transactions are accompanied by several drawbacks as well. It runs the potential risk if cashless system is heavily implicates in our country. This study will provide insight into problem becoming cashless society. The biggest fear is the risk of identity theft, scammers, malware, viruses and cybercriminals. People can easily fall into the trap of this online fraud. Even well-educated people were lured into the fake websites, online scams and yet most e-wallet companies in the market only focus on attracting users with promotions, cashback and freebies (Zolkepli, 2019). Throughout 2017, 10,203 such cases were reported to the police, with the victims fleeced of almost RM184.2 million<sup>2</sup>. Hence, it is advisable to lock your phone with two-factor authentication step, fingerprint or facial recognition method since losing your phone is like losing your credit card.

Imagine the situation where cashless system is imposed heavily; there is concern around “big brother” company that will be very powerful. With banks and payment processors having monopolized most of the business transaction, they could also abuse their powers and charge fees to consumers. Besides, the merchants have no way to accept payments from customers

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<sup>2</sup> Muzaffar Syah Mallow (2019, Feb). Cybercrimes: Security and Cashless society. Retrieved from News Straits Times <https://www.nst.com.my/opinion/letters/2019/02/457888/cybercrimes-security-and-cashless-society>.

when systems malfunction. Even something as simple as a dead phone battery and it could lead to “penniless” (Justin, 2019) .

### **Suggestion on Cashless System**

Firstly, government and non-government have to educate the society about enhancing awareness of cashless benefits and potential risks in using this digital medium. Enlighten society with importance of authentication step of securities on cashless payment method. Hence they can avoid and reduce the chances of falling into the danger of identity theft, scammers, malware, viruses and cybercriminals provided with precaution so they can shop smartly. This digital medium is also a proven challenge for those who are tech-unfriendly people.

Secondly, the government has to ensure existing laws in the country are effective to deal with all the problems pertaining to cybercrimes. This is to ensure the electronic payment's infrastructure completely safe and secure. Thus an incident of cybercrimes could be minimized and customer is more convince in using the electronic payment system. The regulators especially need to monitor on any potential data breach activities. Additionally, government should provide easy-to-implement cashless devices compatible with the operational scope and business value of micro-businesses.

### **Conclusion**

Malaysia is moving toward an irreversible trend, the cashless society. From the research that has been carried out, it seems that there are a lot of upsides transitioning to the cashless society. The finding suggests that all issue arises from cashless society need to be considered deeply by the relevant parties in the country especially policymakers and regulators. Related to policymakers and regulator, they should implement an extant framework, evolve economic and policy frameworks for the efficiency of cashless system, in order to ensure Malaysia right on track on the newest global trend.

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