

Payments: The Next Step Toward the Extinction of Checks and Cash

By David Marino-Nachison

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PHOTO: BLOOMBERG NEWS

Cards may kill off cash someday, but they're coming for checks first.

As more transactions have gone digital, consumers are using credit and debt cards more — and more merchants that traditionally took mainly cash now take cards. As that continues, JP Morgan analysts wrote Thursday, they will eliminate checks entirely and chip away at a stubborn base of cash purchases.

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"We think card-based payments can continue to take a few points of market share from check over the next few years," they wrote, "and gradually chip away at mix of cash-based purchases through deeper penetration of ticket merchant verticals and prepaid (i.e., capturing the previously under-banked)."

In 1995, according to JP Morgan, checks made up nearly 60% of U.S. purchases; cash was just below 20%. Credit made up most of the rest as debit cards were relatively new. Those numbers have fluctuated, but credit has remained roughly firm as check purchases have dropped to about 10%. Debit and credit cards, they wrote, were at 70% in 2016.

"There are up to 20 million casual merchants in the U.S. that do not accept card-based payments, but could be converting a mobile phone or tablet into a card reader or cloud based payments," they wrote, citing businesses including taxicabs, vending machines and small businesses.

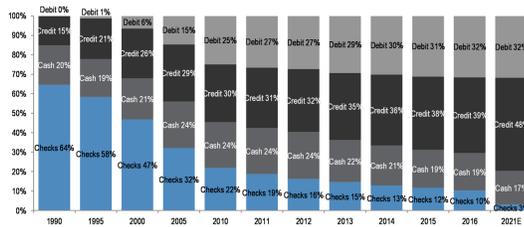


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“Mobile phone and tablet card readers could do to the physical world what the online space over 15 years ago,” they wrote, “by allowing casual merchants who previously couldn’t afford to maintain a merchant account with a cost effective way of taking credit or debit cards.”

Those companies represented an estimated \$100-\$300 billion in sales in 2010, according to JP Morgan, potentially representing more than \$2 billion in sales for companies including Square (SQ), Intuit (INTU), PayPal and others. (PayFare are Barron’s Next 50 companies.)

JP Morgan’s report, citing Nilson Report data, estimates that checks could fall to just 3% of transactions in 2021, with cash sliding to 17% and credit expanding to nearly half.

Barron’s Jon Swartz covered Square’s latest financial results earlier this month. Its shares are up more than 100% this year, well ahead of PayPal’s and the S&P 500.

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