



The Age of Digital Currency

A Special Report from Media Group Online, Inc.



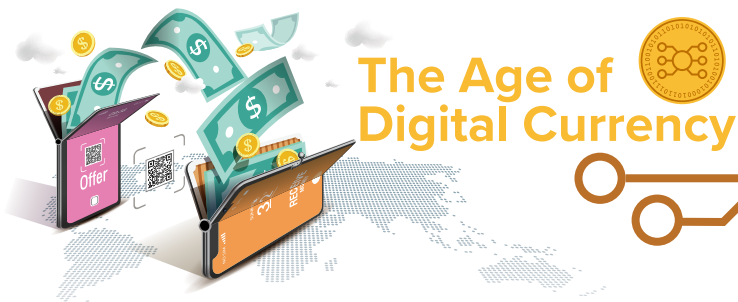
The perception of many people of the digital age is that we're being propelled through rapid changes and innovations at an unprecedented pace. It's all relative, however, as those who experienced the innovations of the first 25 years of the 20th century, especially the automobile and powered flight, would have had a similar perception as ours of the digital age.

Many of the innovations of the digital age, from smartphones to electric vehicles to robotics, have replaced older technologies or introduced new ones. Money, one of the basic components of commerce for approximately 5,000 years, is being similarly transformed into a digital form. It's a historical moment with major implications for every human, every business and every government.

This month's Special Report from Media Group Online shares the current story of how the paper and coins in your pocket will disappear. Many countries have already started the process and consumers and businesses are adopting cashless technologies – and are ready to reap the rewards of digital currency.



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The Digital Currency Revolution

Digital currency already exists in the form of cryptocurrencies. Bitcoin is the most familiar, but there are thousands of others. Cryptocurrencies may be the pioneers, but as with many pioneers, it has traveled a rocky road (See page 5).

Cryptocurrencies are still a mystery to many people, but the revolution in digital currency that will profoundly affect the entire world is a central bank digital currency (CBDC). Just as most governments issue and regulate their countries' currency, a CBDC would eliminate printed money and minted coins. Instead, governments' central banks would create electronic coins or accounts and still backed by the credit of those governments as they do with traditional currency.

The revolution has already started across the globe. According to May 2022 data from Atlantic Council, 10 countries have already initiated a CBDC, including Nigeria, The Bahamas, Jamaica and seven eastern Caribbean countries. Another 15 have implemented pilot programs, 24 are developing a CBDC and 43 are researching its future introduction.

The United States is one of those 43. Since the US dollar is the reserve currency of the world, the US can't be viewed as a late-comer to the CBDC revolution. The US Federal Reserve System issued its long-awaited first report on a CBDC for the country during January 2022.



As with any historical transition, a CBDC would be beneficial as a means to increase transaction efficiencies at all levels of local and global commerce. Conversely, there are also challenges, the first being how exactly consumers and businesses would exchange their current monetary assets for digital dollars. A CBDC would also require a highly secure system to protect it from cyber-attacks.

The revolution has begun, but much more research will be required before a CBDC and digital currency will become the norm.





The State of Cash

Many consumers have already made the transition to an early form of digital currency in the use of debit and credit cards and contactless payments from an app on a smartphone or smartwatch. The pandemic accelerated contactless payment systems, so people didn't have to touch a store's payment device.

The following table shows how the use of cash has decreased by a third since 2016 while the use of credit increased by approximately half and mobile payments, although small, by 300% from 2019.



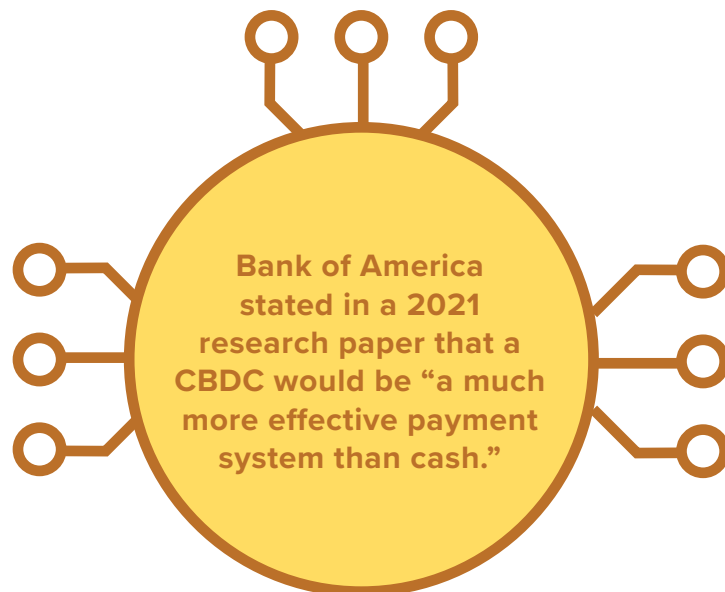
Changes in the Use of Major Payment Forms, 2016–2021

Year	Cash	Credit	Debit	Mobile App	Other
2016	31%	18%	27%	1%	13%
2017	31%	22%	27%	0%	11%
2018	26%	23%	28%	0%	11%
2019	26%	24%	30%	0%	9%
2020	19%	27%	28%	3%	11%
2021	20%	28%	29%	3%	9%

Federal Reserve Bank of San Francisco, May 2022

As usual, consumers are leading the revolution and the primary reason is the convenience of paying for a myriad of transactions digitally. An April 2022 survey from ThirdPartyTrust, a risk-assessment automation site, reveals just how much consumers are currency revolutionary.

- Almost 90% of respondents said they rarely use an ATM: 49% once every other month and 40% sometimes once or twice monthly.
- A majority (59%) of those surveyed rarely visit their bank's local branch and 17% never.
- Most people interact with their banks online (80%), via a phone app (70%) and an app (53%). Less than half (48%) interact at a physical branch.
- Almost three-quarters (73%) prefer shopping at a cashless business, compared to 27% at a cash-only business.





Those Who Could Be Left Behind

One of the biggest challenges of a CBDC is its impact on individuals and households who use cash more than credit and other non-cash methods to pay for goods and services. Many of these people are described as unbanked or underbanked.

The “unbanked” typically don’t have a checking or savings account with an insured (FDIC) financial institution. The “underbanked” have one or both of these types of insured accounts, but they are more likely to use “alternative financial services,” such as a check-cashing service, payday lender, pawn shop loans and auto title loans, among others. Most of these companies charge very high interest rates.

A 2020 Federal Reserve report found 5% of the US adult population was unbanked and 13% underbanked. Typically, these were adults with lower income, less education, African Americans and Latinx Americans.



Banking Status of US Adults by Household Income, 2020

Household Income	Fully Banked	Underbanked	Unbanked
Less than \$25,000	63%	21%	16%
\$25,000–\$49,999	78%	19%	3%
\$50,000–\$99,999	88%	12%	1%
\$100,000 or more	94%	5%	1%

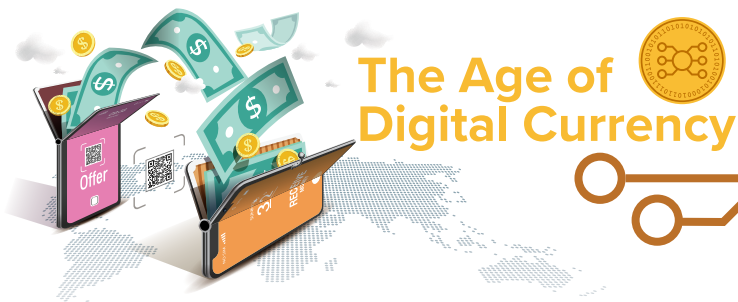
US Federal Reserve, May 2021



Editorial credit: jessica.kirsh / Shutterstock.com

The primary reasons why the unbanked and underbanked don’t have a checking or savings account are a mistrust of banks, lack of privacy and expensive fees. With this perspective, they are likely to be even warier of a digital currency.

The U.S. Postal Service is trying to address this challenge with a pilot project that would allow branches to cash payroll checks (currently at a limit of \$500) for a flat fee. The amount could also be added to a debit card. The Postal Service stopped providing banking services during 1967. If this service is extended to all branches, then it could include paying bills, depositing and withdrawing cash. This system would also help rural Americans living in small towns, many without major bank branches or any branches.

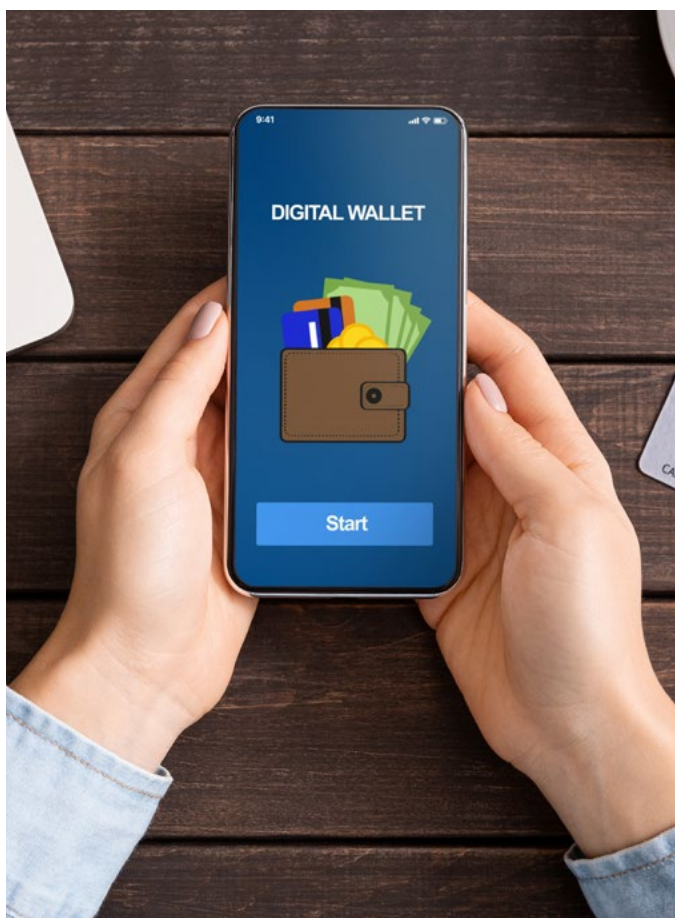


Digital Payments Are a Shopping Norm

Unsurprisingly, the youngest adults, Gen Zers and Millennials, as digital natives, have led in the use of a digital wallet, with at least one payment monthly, according to a March 2022 survey from Morning Consult. Almost 50% of Baby Boomers are using a digital wallet, too.

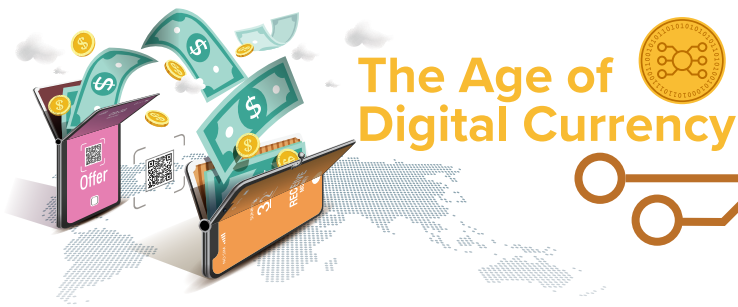
An October 2021 report from McKinsey & Company stated 15% of people who use digital wallets said they left their physical wallets at home and another 11% would do so if they knew they wouldn't be making a purchase during their trip. The survey for the report also found a majority of people who use digital wallets have added multiple cards to the app.

Another driver of the eventuality of digital currency is what CapeGemini calls Payments 4.X, when the customer doesn't have to perform any payment function, except walk through a store. Amazon has introduced its Just Walk Out technology in its Amazon Go stores and other major retailers are expected to follow suit.



It doesn't require much of a mindset change to transition from the use of a digital wallet to digital currency, which would simply be loaded onto the cards in the app. As the youngest adults age, the use of a digital wallet will only become more prevalent and they will be generally unconcerned about frictionless payment technology.

Retailers of all sizes realize they must increase their technology investments to remain competitive. According to TotalRetail's 2020 Retail Technology Report, 23% of surveyed retailers were already using automated checkout/cashier-less technologies and 72% said they would be increasing their investment in those technologies.



The Bumpy Ride of Cryptocurrency

Cryptocurrencies were riding high during 2021. In its 2021 Annual Crypto Review, CoinDesk, an integrated information platform for the crypto economy, reported total cryptocurrency capitalization increased 185% to \$2.2 trillion.

That heady, optimistic environment has been replaced by the June semi-crash of the crypto market. Many companies in the crypto space have liquidity challenges, some may disappear and some have had to reduce their staffs substantially.

Given the unregulated nature of the cryptocurrency market, any participation in it is much riskier than almost all other financial assets. Some market analysts view the current major disruption of cryptocurrency as an opportunity to clear the market of undercapitalized companies. Many had grown and hired too quickly, creating unsustainable business models.

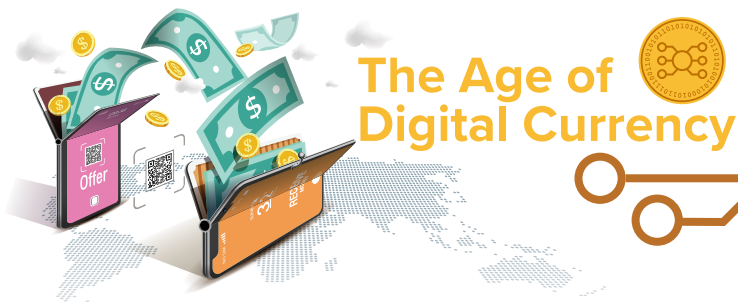
Despite the recent market crash of cryptocurrency and the loss of companies and jobs, it's not only surviving, but also new developments may signal crypto's revitalization and long-term growth.



"Cryptocurrencies... are digital assets which exist today and operate on blockchain technology. They are controlled by a private cryptographic key – hence crypto."

Checkout.com, a global payment solutions provider, April 22

- During the first week of June, a bill was introduced in the US Senate to create federal regulations for the crypto industry. Lobbying by companies in the industry will shape the future of possible legislation, which, however, probably won't become law soon.
- Two major retail brokerage firms, Fidelity and Charles Schwab, are creating a platform to introduce cryptocurrency to their current and future customers.
- PayPal announced during June that its users can transfer their cryptocurrencies to other digital payment apps and wallets and make purchases with crypto and buy and sell it via PayPal.



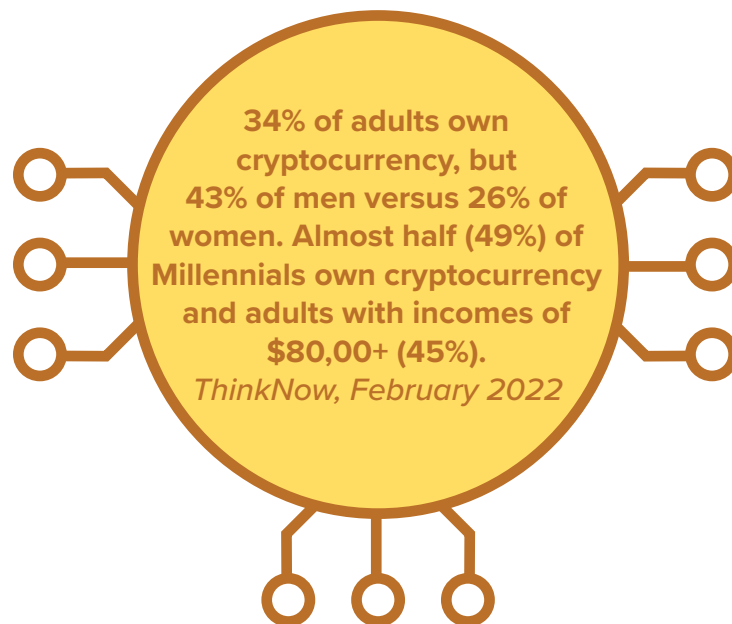
Cryptocurrency Consumers' Insights

Despite the growth of the cryptocurrency market, multiple surveys reveal many Americans don't fully understand cryptocurrencies and don't trust them as a viable financial platform.

A May 2021 YouGov survey found 69% of respondents said they didn't understand cryptocurrency and 47% thought it was a fad. Almost one-third (32%), however, said cryptocurrencies would be used for online financial transactions during the future. Even among those who don't understand them, 44% said they expected them to become mainstream forms of transactions by 2031.

The March 2022 Morning Consult survey cited on page 5 revealed their trust of cryptocurrency had decreased from -28% during the January survey to -36%. Of the US adult respondents, 57% of those who didn't own cryptocurrency said they didn't understand it, 54% didn't trust it and 49% didn't think it was secure.

Similarly, ThinkNow's February 2022 Web 3.0 Cryptocurrency Report, stated 58% of surveyed adults knew something about it, but 35% thought it was too risky and 43% didn't trust it.



The Morning Consult survey found almost two-thirds (66%) said they invest in cryptocurrency to make money. Although there is very little trust of cryptocurrency in these surveys, 24% told Morning Consult they planned to purchase it during the next month.

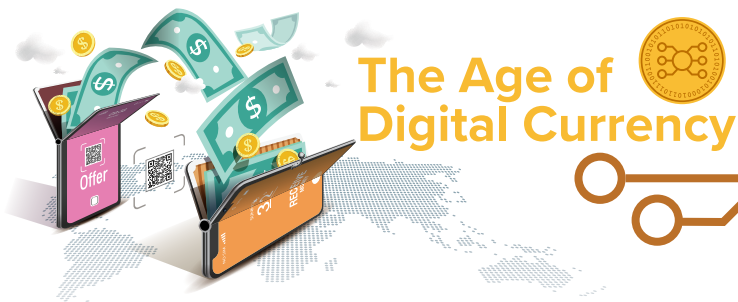
According to a January 2022 MARU/Matchbox National Study, podcast listeners were more aware of cryptocurrency at 31% than heavy TV viewers at 14%, heavy social media users at 24% and heavy AM/FM radio listeners at 25%.

Top Five Podcast Genres Among Adults Planning to Invest in Cryptocurrency*, January 2022

Podcast Genre	Percent
News/Current events	10.6%
Sports	10.3%
Music	9.0%
Entertainment/Culture	8.3%
Politics	7.5%

Westwood One, May 2021 *during the next 6 months





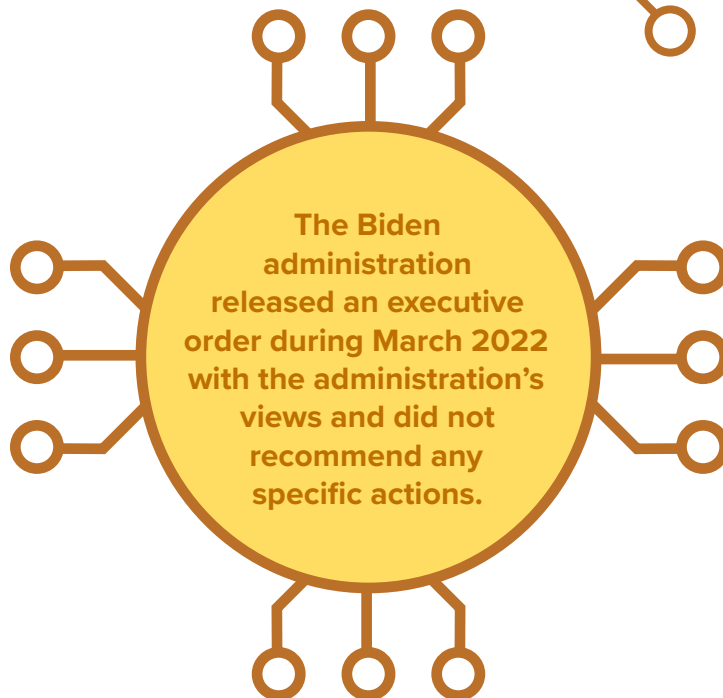
The Political Factor

The adoption of a CBDC and a greater level of trust in cryptocurrency will require significant involvement and support from all branches of the federal government.

Federal Reserve Chairman Jerome Powell and the Federal Reserve Board may be sharing their research and opinions about a US CBDC, but Congress must create the laws. Legislation will be needed to regular it, integrate it with other countries' CBDCs and protect the US financial and economic systems.

Major trade organizations in the financial sector, such as the American Bankers Association, are asking Congress and the federal government to be very cautious about a CBDC, and for good reasons. These organizations are also protecting their industry from changes that could fundamentally disrupt their members' businesses, as a good lobbyist would.

The International Monetary Fund (IMF) and the World Bank are also studying the impact of CBDCs. Although they also counsel a careful approach to adoption, they also stated integrated CBDCs would improve cross-border payments for governments, financial institutions, businesses and consumers. Currently, such payments are slow, given the speed of digital technologies, and have prohibitive costs for those who would like to move money across borders.



Digital currency already exists in the world and US marketplaces in various forms and governments are almost certain to adopt CBDCs, most importantly the United States. Increasing regulation and trust in cryptocurrencies will make them mainstream payment and investment options.

It's critical local media sales teams understand these trends as local advertisers will be seeking advice from many sources. Being able to share current information about digital currency and provide some of that advice will improve trust in local media and be seen as the advisors local advertisers want.



Sources: Payments Dive Website, 6/22; Atlantic Council Website, 6/22; Federal Reserve Bank of San Francisco Website, 6/22; PC Magazine Website, 6/22; New York Magazine/Intelligencer Website, 6/22; Yahoo Website, 6/22; U.S. Federal Reserve Website, 6/22; U.S. Library of Congress Website, 6/22; AARP Website, 6/22; McKinsey & Company Website, 6/22; Morning Consult Website, 6/22; Capgemini Website, 6/22; Grocery Dive Website, 6/22; My Total Retail Website, 6/22; CoinDesk Website, 6/22; Checkout.com Website, 6/22; Banking Dive Website, 6/22; YouGov Website, 6/22; ThinkNow Website, 6/22; Westwood One Website, 6/22; ABA Banking Journal Website, 6/22; Brookings Website, 6/22.

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