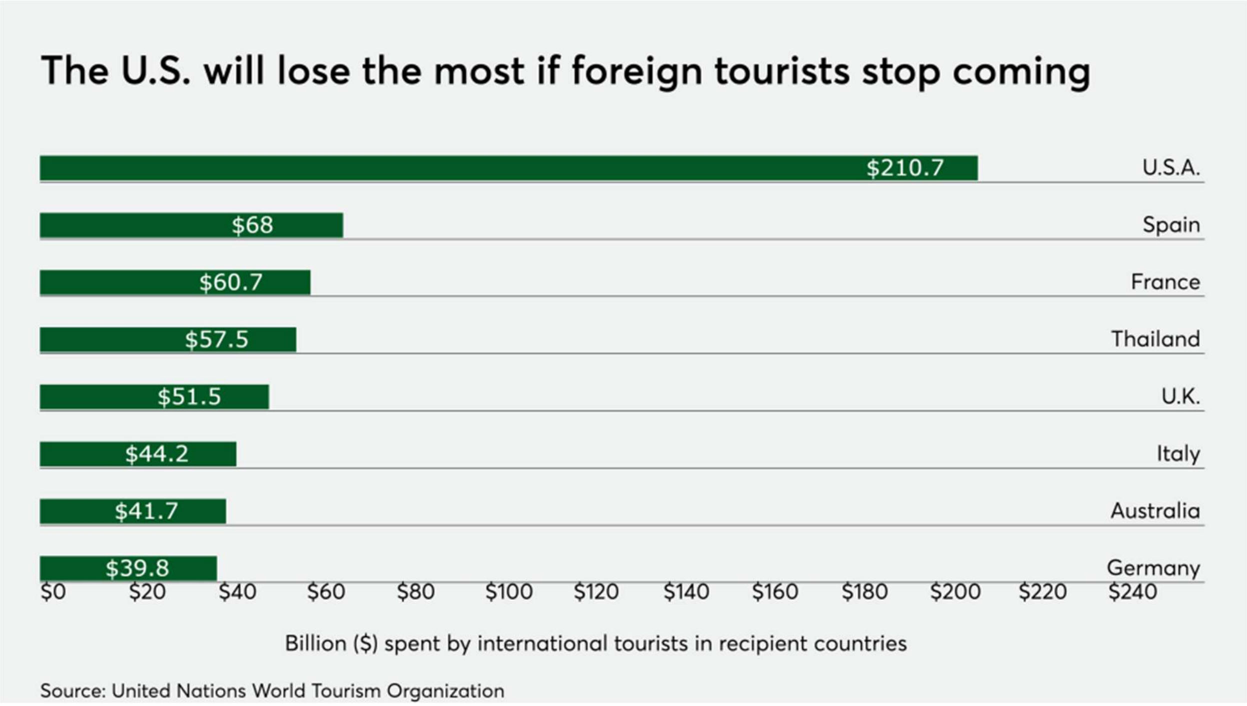
How coronavirus could change the payments industry

By Michael Moeser

Coronavirus, also called Covid-19, is wreaking havoc on the stock market, with a heightened effect on the travel industry. It could also cause a drastic change in payment habits, as consumers shift to digital channels to reduce their risk of infection from handling cash.

Many regions are already seeing a rise in contactless transactions, which could be seen as less prone to spreading disease than the handling of cash or paper checks.

Travel advisories could lead to a drastic drop in tourism spending, which could hurt the growth of global payment systems that rely on foreign travel for growth. At the same time, companies that have been undergoing a digital transformation, or promoting new technologies such as cashier-free checkout, may see more rapid adoption if their offerings can reduce the risks of transmitting the virus through human interactions.



The coronavirus is a very real threat to the U.S. economy. Foreign tourists visiting and spending money on goods and services are major revenue drivers for many verticals. Even if the U.S. doesn't become a high-risk zone for infection, travel from higher-risk countries could meaningfully drop.

According to the United Nations World Tourism Organization **2017 Highlight Report**, foreign tourists spent over $210 billion in 2017 on their trips to the U.S. In fact, the U.S. earns the most money in the world from foreign tourists despite it not being the most popular destination. The top visited country in the world for international travelers is France, with 86.9 million visitors, followed by Spain with 86.8 million, then the U.S. with 76.9 million and China in fourth place with 60.7 million.

It is widely predicted that China will lose the coveted fourth place for most visited countries to nations such as Mexico (6th place), Germany (7th place) or Thailand (10th place) as international travelers will seek safer destinations in 2020. This is especially true since the U.S. State Department issued a **Level Four – Do Not Travel** advisory for China on February 2, 2020. **Level Four advisories** are generally reserved for war-torn countries such as Syria, Somalia, Afghanistan and Yemen. A **Level Three – Reconsider Travel** advisory was issued for South Korea on February 26, 2020 and for Italy on February 29, 2020 placing both countries in the company with other Level Three nations such as the Congo, Mongolia, Chad, Sudan and Lebanon.

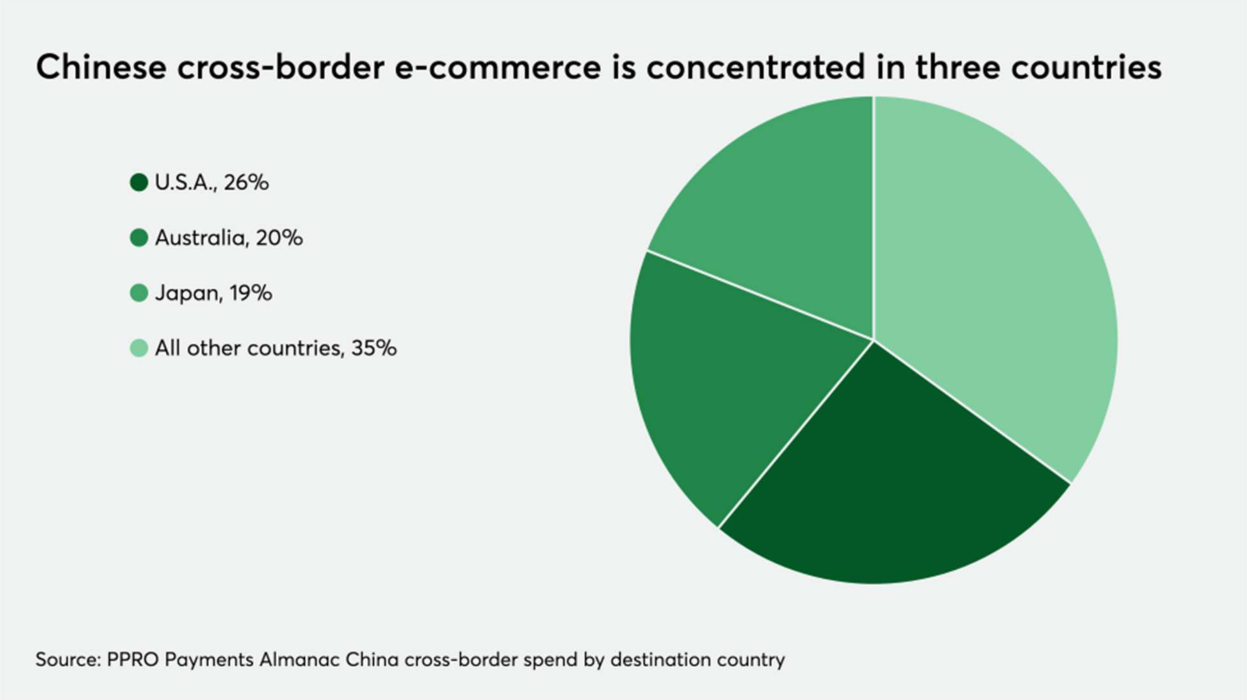
In terms of foreign travelers visiting places like Manhattan, Disney World or Hollywood, the Chinese outspend everyone hands down.

According to the **U.S. Travel & Tourism Office**, the 3.2 million Chinese visitors who visited the U.S. in 2018 spent almost $35 billion on goods and services. In contrast, there were 21.5 million Canadians who crossed the border in 2018 yet spent only $22.8 billion. Visitors from Mexico were the next largest group, with 18.4 million Mexicans visiting the U.S., spending $21 billion.

While Canadians and Mexicans spend less on their trips to the U.S., it could also be a factor that some travel for work or school and not necessarily leisure. Since both countries border the U.S., travel costs tend to be lower.

After contemplating the loss of Chinese travel dollars, the next possible losses are visitors from Japan and South Korea, which are both grappling with the spread of the disease. Japan is fourth and South Korea is eighth in terms of their travelers' spending in the U.S.

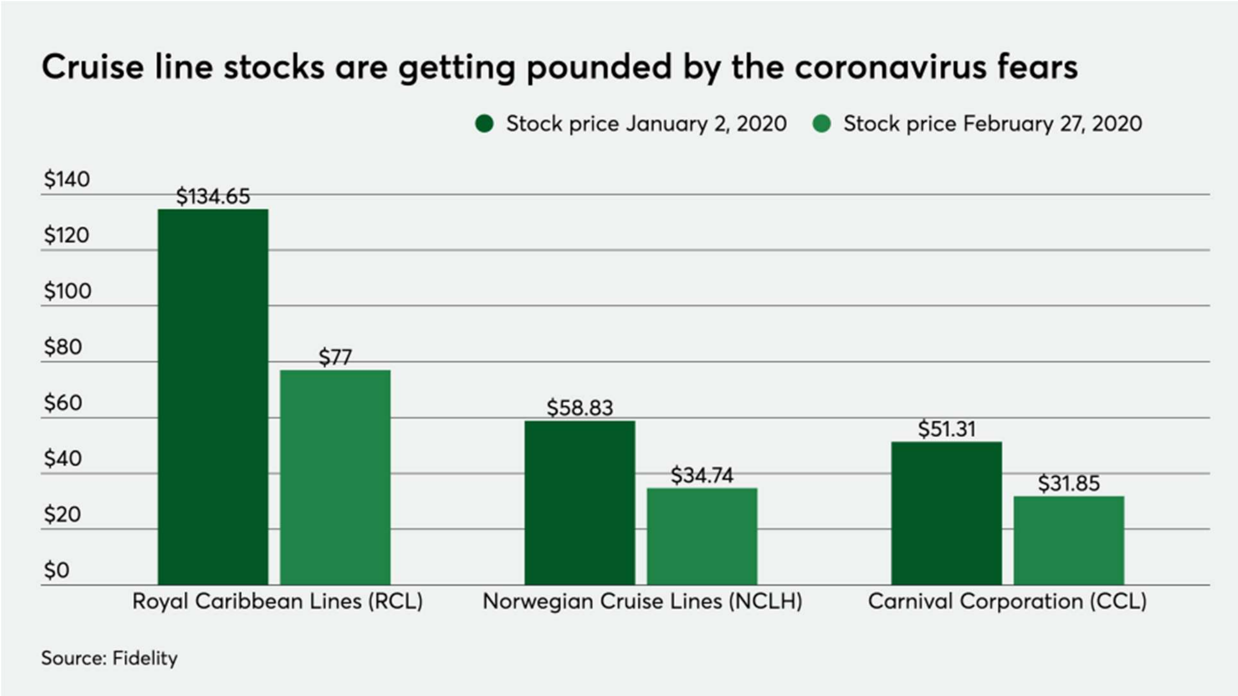
Notably **American Express**' CEO Steve Squeri recently told analysts that the New York-based company, a leading provider of cards for business travel spending, has seen significant reductions in spending in certain parts of Asia, including Hong Kong, Taiwan and Singapore. Overall American Express generates about 8% to 9% of its revenue from the Asia Pacific region.



One saving grace from the possible loss of Chinese tourist dollars is that it may spur Chinese consumers to make more frequent and larger cross-border e-commerce purchases.

Chinese cross-border e-commerce is highly concentrated in just three countries which command 65% of all cross-border internet sales, according to **PPRO's Payments Almanac**. That said, the top spend category for e-commerce shoppers in China is the airlines and hotels segment at 15% of internet spend. Clothing and footwear is the second most popular segment at 13.2% of spend, followed by electrical goods at 12.7%.

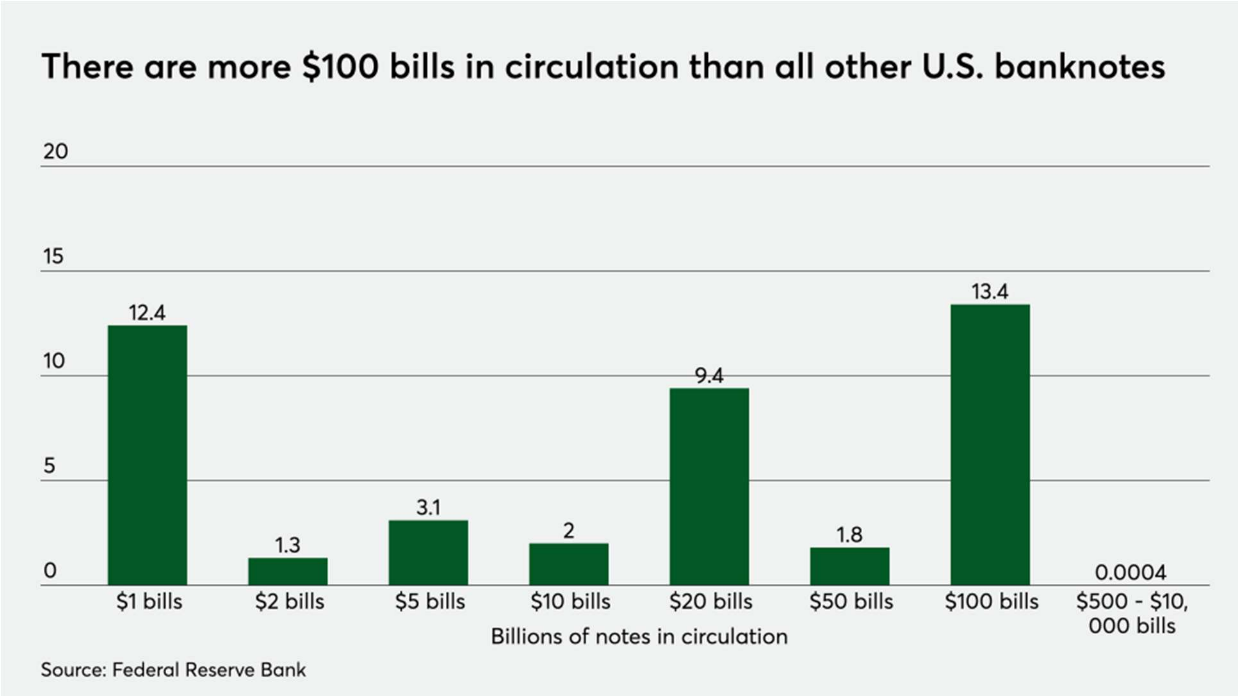
One big challenge for companies will be producing the goods and shipping them to customers in China. **Apple**, for example, closed factories in China and has only recently begun to reopen them. This could potentially create a shortage of iPhones and iPads, so if customers — particularly those in China — want to buy them, there may not be any on stores' shelves.



Probably one of the industries most impacted by the coronavirus fears is the travel industry — especially the cruise ship companies. Their stocks have taken a beating since the beginning of the year, as passengers have been cancelling trips at an alarming rate.

Earlier this year, the U.S. State Department issued a **Level Three – Reconsider Travel** advisory for all consumers considering traveling on a cruise ship in Asia. **USA Today** reported in February that the three major cruise operators were banning all passport holders from China, Hong Kong and Macau from boarding their ships.

Probably the biggest factor scaring potential cruise ship travelers was the Diamond Princess cruise ship that was docked in Yokohama, Japan. When one guest was found to have the coronavirus, none of the passengers were allowed to leave the ship for about two weeks, effectively holding them hostage while a deadly virus spread onboard. According to **CNN**, a total 705 cases were identified before most of the passengers were allowed to disembark and five have died since the outbreak was discovered on the ship.



The phrase “put your money where your mouth is" could actually turn out to be deadly advice.

A U.S. Air Force 2002 study of U.S. banknotes in Ohio that was published in the **Scientific American** found that 94% of bills were infected by bacteria, including **pathogens** such as E. coli, Salmonella and Staphylococcus aureus.

According to the **Federal Reserve** there were 43.4 billion U.S. banknotes in circulation in December 2018, with the $100 bill being the most popular, followed by the $1 bill. The total value of the currency in circulation was about $1.67 trillion.

Given that paper notes are inherently dirty, it should come as no surprise that the Chinese authorities are being aggressive with their paper banknotes to control the spread of the disease within the country and the epicenter in Wuhan. On February 15th the Chinese government held a news conference instructing banks on new requirements for cash handling.

Effective immediately, all Chinese banks must sanitize any cash received by consumers using ultraviolet light or high heat, and store it for 7 days in non-infected zones and 14 days for infected zones of the country, e.g., Hubei province. Additionally the Chinese government printed Yuan 4 billion (about $572 million) in new bank notes to distribute to the city of Wuhan, the capital of the Hubei province and the epicenter of the virus.