

Blockchain Payment Systems in the post-COVID-19 World

April 2020

Introduction

The way the coronavirus spreads, via air droplets and infected surfaces, has forced people to think twice about direct and indirect human interactions. Unsurprisingly, our behaviours towards cash have also changed - its high circulation among the population means the chance of it carrying the virus is non-negligible. People are now afraid of cash, with many shops and supermarkets now refusing it as well. As a result, over the past few weeks there has been a significant increase in demand for digital forms of payment, and we believe blockchain payment systems could see accelerated adoption as societies move away from physical cash and towards new forms of transacting with each other.

Latest developments

Since we published our [Blockchain Payment Systems](#) note, in December 2019, the world has been turned upside down by the ongoing coronavirus pandemic. The highly contagious virus spreads through the air via droplets, but also through contaminated surfaces, such as handrails, handles, mobile phones, packages and even banknotes.

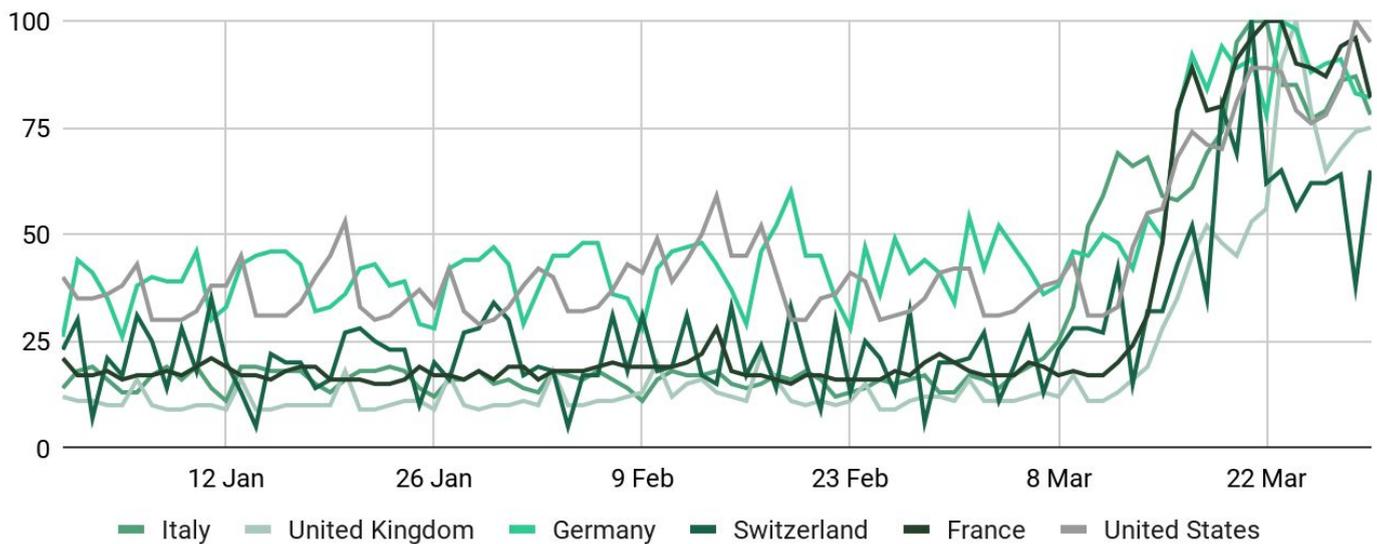
According to the World Health Organisation (WHO), the virus can survive on objects from two hours to up to a few days, depending on the type of surface. As a result, many people now believe that cash, credit card machines and ATMs have become means of virus infection, given the high number of people touching these objects on a daily basis.

In some countries, such as the United Kingdom and the United States, the pandemic has led businesses to shun physical cash payments. In the UK specifically, the British Retail Consortium (BRC) has increased the contactless spending limit from £30 to £45, in order to reduce the physical contact between users and card machines. In addition, in some cash heavy countries, such as Germany and Austria, the population has recently become wary of using banknotes for daily transactions.

In our December note we covered the trends in various countries and showed that most geographies are already moving towards a wider adoption of cashless payments, albeit some faster than others. With regard to age groups, anecdotal evidence suggests that older generations tend to prefer the physical to digital, but we believe that the current pandemic could transform people's habits towards a broader and faster adoption of digital technologies in transactions. In terms of safety and security, people who see contactless payments as prone to fraud are resorting to it as a temporary alternative to physical cash, which will lead to a more ready acceptance of digital methods in the future. Other measures, such as the increase in contactless spending limits in the UK, could increase the proportion of contactless payments within the overall economy.

In addition to health concerns in relation to cash, the recent lockdown measures imposed by governments across the globe have boosted online shopping and deliveries, driving electronic payments. The chart below shows the Google search trends for the word 'delivery' in various countries (in their native languages). The March uptick is clear, but expected, given that, for many people, online channels and home deliveries have become the only options for purchasing goods.

Google search trends for 'delivery' in select countries in Q1 2020



(Source: Google Trends)

(Note: Using native words for 'delivery' in other languages)

The role of blockchain during this crisis and beyond

So far, the idea of cryptocurrencies as a means of payment has been generally restricted to very small ecosystems with specific applications (e.g., purchasing stickers on messaging apps). Some companies, such as Rakuten, have made Bitcoin payments available in their e-commerce platforms, but the use of cryptocurrencies in physical stores, replacing cash or cards, has been very limited so far. In relation to the current cash and credit card payment systems, blockchains provide the following differentiating features:

- **Lack of physical money:** Cryptocurrencies only exist virtually and are not redeemable for physical banknotes, meaning that counterfeiting is avoided and other concerns, such as the hygiene issues mentioned above, are completely eliminated.
- **Increased security, resilience and auditability:** The decentralised nature of blockchain significantly reduces the risk of a single point of failure, allows decentralised auditing by anyone with a copy of the master ledger and increases security by allowing the majority of parties to perform transaction ordering, which reduces fraud and collusion.

In our view, one of the reasons why the adoption of blockchain payment methods has been low is the dominance of the private sector, with each company developing their own systems and interfaces, lacking the coordination of a widely accepted authority. In addition, the lack of government endorsement has left the public hesitant in switching from fiat to cryptocurrencies. Nonetheless, the current virus pandemic could spark further use of digital payments, and we believe that blockchain systems could benefit from this new trend, as this situation has led people to experiment new technologies, which could eventually be adopted on a permanent basis.

About Elwood Asset Management

Elwood Asset Management (“Elwood”) is an investment firm specialising in providing investors exposure to digital assets and blockchain technologies.

The Elwood Blockchain Global Equity Index aims to offer exposure to listed companies that participate or have the potential to participate in the blockchain or cryptocurrency ecosystem. The index aims to capture the potential investment upside generated by earnings related to the adoption of blockchain technologies or cryptocurrency. It is designed to evolve with the future development of the blockchain space.

The index is independently calculated and distributed by Solactive and is reviewed and rebalanced quarterly.

Invesco has partnered with Elwood to launch an ETF and a Japan domestic mutual fund that aim to deliver the performance of the Elwood Blockchain Global Equity Index by physically investing in the index constituents.

Index

Ticker	Name
BLOCK Index	Elwood Blockchain Global Equity Index

ETF

Ticker	Exchange
BCHN LN	London Stock Exchange - USD
BCHS LN	London Stock Exchange - GBP
BNXG GY	Börse Frankfurt - EUR
BCHN IM	Borsa Italiana - USD
BCHE SW	SIX - USD

Investment Fund

Japan domestic mutual fund
Invesco World Blockchain Equity Fund

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