

## I Want Digital Dosh

by  
Dave Birch <<mailto:dave@chyp.com>>  
Consult Hyperion <<http://www.chyp.com>>

Digital money is, for the moment, small potatoes. Consider that last year Visa, MasterCard, Amex, Discover and Diners carried charges of more than a trillion dollars in the US alone (on which they earned billions of dollars in fees). By comparison, the economic impact of everything in the digital money world from DigiCash to Mondex doesn't even show up on the spreadsheet. Yet digital money schemes continue to spring up and the subject continues to attract attraction. The Net has a lot to do with this, since it is generating requirements for small (cash-like) transactions over networks and stimulating another cycle of evolution in the sector after the failure of early experiments like First Virtual and BarclayCoin. Even the Clinton administration, in the person of Stuart Eizenstat (deputy Treasury Secretary), has called for a new "standard-based mechanism" to handle retail payments on the Net because of the cost and inflexibility of credit cards, the dominant payment method today.

Why, given that digital money go off to such a poor start, is it back in the news again. A major difference between today's landscape and that facing the early pioneers (ie, a couple of years ago) is that there is a growing recognition that the role of banks may be limited. When interest in digital money began to grow it was assumed that the natural route to market for this technology would be through banks. Banks would licence the new money technologies—whatever they might be—and then carry on with business as usual. It seems, however, that the replacement of notes and coins by cool new technology has been taken up more enthusiastically by non-banks:

- ◆ In the Netherlands Shell have begun to issue drivers with contactless smart cards in the form of key fobs. The driver pulls up at a pump, punches in his PIN code, fills up and drives off. The cost of the fuel is automatically deducted from his nominated bank account.
- ◆ In Scandanavia, digital mobile phones are already used to pay for car parking and other small ticket items. In the particular example of car parking, Stockholm has car parking areas that accept payment cards (where petrol company cards, not bank cards, dominate), electronic cash and mobile phones (expected to dominate the next phase of development).
- ◆ The Hong Kong mass transit smart card, Octopus, handles around 7 million transactions per day through 9,000 readers throughout the territory. The scope of the system has already been extended beyond transit and the cards (soon there will be 8 million of them) can be used in phone booths, drinks machines and snack bars.
- ◆ In the US, five McDonald's restaurants in Santa Ana have reached an agreement with the local transportation authority to allow motorists to zip through their drive-through lanes and have the customers' *Fastrak* electronic toll transponders billed instead of using cash.
- ◆ On the internet, cash alternatives ranging reward-based schemes such as *Beenz* (who have just announced their move into the off line world with MasterCard), *Flooz*

and *Cybergold* to alternative currencies such as *e-gold* are springing up and innovating at pace. The digitising of existing offline loyalty schemes is also of note: the 38m members of American Airlines frequent-flier programme can now not only earn miles by buying on AOL, but spend miles there as well.

Banks in Europe have, where they've done anything, concentrated their effort on the smart card. But even if my bank did send me an electronic purse (a smart card that can carry digital cash, like a Mondex card or the 50+ million Geldkartes in Germany), I wouldn't be able to use it because I don't have a smart card reader on my Macintosh. American Express solved this problem with their *Blue* smart card in the US: anyone that applied for one got a free smart card reader in the post. Why can't our banks do that same, and solve the problem of paying on line for good?

I was talking to somebody (well, e-talking to them as they were in America) about this recently and their response—which was along the lines of “who wants digital money”—surprised me: because I do, for one. In fact, I want it every time I find myself rummaging around the house for 20p coins so that I can park at the train station: I'd happily use my mobile phone to pay if I could. I want it every time I'm trying to get some information that I really need but can't be bothered to subscribe to a web site: I'd happily send the OED 10p from my Mondex card for the odd occasion when I need to look something up. I want it every time I need to send my brother the £10 that I borrowed from him down the pub: I'd happily use Paypal if it worked in the UK (it doesn't).

In short, don't be put off by digital money's (bank-led) bad start. It's going to happen, and it's going to make life easier for an awful lot of people.

**Please note** that an edited version of this article appeared in *The Guardian* (London) in the *Online* supplement, p.8 (11<sup>th</sup> May 2000).