



THE EVOLUTION OF THE EUROPEAN PAYMENTS MARKET: FROM CASH TO DIGITAL, WHAT DO EUROPEANS WANT?

Introduction

In recent years, the European payments market has undergone great transformation. Payments have become a key enabler of the digital economy. Today, there are more payment solutions available to consumers and merchants than ever before. As payment providers continue to innovate and develop new ways to make payments, European regulators are looking to ensure that fair competition, security, convenience and innovation remain in balance.

In this report, Payments Europe provides insights into the latest payment trends, particularly looking at the opinions of consumers and merchants regarding their preferred payment methods as well as the benefits provided by the existing solutions. Based on surveys with consumers and merchants in Europe's largest markets, the report also provides insight into where the market is heading and looks at the interplay between traditional forms of payments, such as cash and cards, with more recent payment options, such as instant payments.

Key findings



Digital transition continues to take hold – and government initiatives to further **encourage** electronic payments acceptance would be welcomed by consumers and merchants



Security and **costs of acceptance** rank the highest when it comes to why merchants prefer to use card payments



Consumers and merchants are **happy with the payment options** currently available



Physical cards continue to be the preferred method of digital payment with mobile cards, mobile instant and Buy-Now-Pay-Later (BNPL) significantly on the rise



Instant payments are becoming increasingly available

1. Cash transactions are declining fast

Government initiatives to further encourage electronic payments would be welcomed

Consumers want to pay electronically

In a recent study, the ECB concluded that cash is still the most widely used payment instrument. In 2019, almost 3 out of 4 payments made by consumers in-store were cash. However, this number has been declining over the years, as electronic payments become more popular. Interestingly, that same ECB survey also concluded that consumers' self-reported preferences contrast with their actual behaviour: whilst consumers rely heavily on cash in their day-to-day, they seem to express a preference for using electronic payment instruments, with only 1 in 4 consumers reporting that they prefer paying in cash¹.

In 2021, it seems that the actual usage of payment instruments is much more in line with consumer preferences. The Covid-19 pandemic has clearly accelerated the trend towards the use of electronic payments. Indeed, our survey concludes that around 80% of in-store transactions are electronic, and only 20% are cash. This number leans even slightly more in favour of electronic payments among the younger generation. Other country-specific surveys confirm this trend: in the Netherlands, the Dutch Payments Association ("Betaalvereniging Nederland") and the Dutch Central Bank noted that 79% of transactions in 2021 were made electronically.

From our survey, it also appears that consumers would like to see initiatives that would allow them to always pay electronically. When asked about government-supported payments initiatives,

67% of consumers said they would support mandatory acceptance of digital payments.

Some Government Finance Ministries are also looking at mandating digital payment acceptance, while also preserving the right to pay with cash, to reduce tax fraud. Belgium's Minister of Finance recently announced such measures³.

Consumers: I support mandatory acceptance of digital payments



HOW TO ENCOURAGE ELECTRONIC PAYMENTS ACCEPTANCE THE POLISH CASE

In 2018, international card schemes, issuers and acquirers joined forces to launch the Cashless Poland program, aimed at supporting the deployment and access to electronic payments in Poland.

The goal was to support entrepreneurs with the set-up costs of payment terminal installation and offer them the first 12 months of use for free.

In just two and a half years, **280,000** merchants participated in the program with **400,000** terminals installed².

The country showed an unprecedented development of its electronic payment acceptance network in a short amount of time.

The results of our survey also show that Polish merchants and consumers are among the most satisfied with the payment solutions available to them. Separately, almost all Polish merchants responded that they would like to have the ability to refuse cash payments and to see further initiatives for electronic payment acceptance.

¹ ECB Study on the payment attitudes of consumers in the euro area (SPACE), December 2020

² Cashless Poland Foundation Data, June 2021

³ <https://vanpeteghem.belgium.be/fr/le-ministre-van-peteghem-lance-un-plan-daction-de-lutte-contre-la-fraude-fiscale-et-so-ciale>

Merchants are also stepping away from cash

The picture is similar on the merchant side. The pandemic has increased the preference of merchants for electronic payments, with 4 in 5 declaring that they prefer to accept electronic payments over cash.

Merchants expect cash to further decrease in the coming years. In this context,

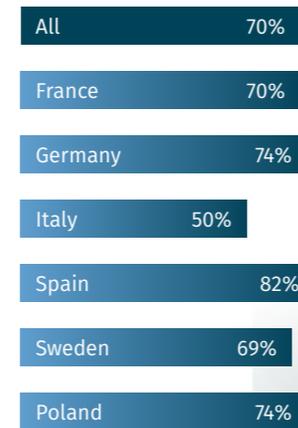
7 in 10 European merchants say they would like to see initiatives to encourage their ability to refuse cash.



Merchants: I prefer to accept electronic payments over cash



Percentage of merchants that would like to be allowed to refuse cash:



COVID-19: THE RISE OF CONTACTLESS

Contactless card payments have been the most widely used method in stores in the past 12 months (25% of all transactions): contactless payments provide not only benefits which are generally appealing to consumers, such as speed and convenience, but also offer advantages which are deemed particularly important during a pandemic:



Hygiene was identified as a determining factor in choosing contactless by 48% of surveyed consumers



2 in 3 consumers agree that they now use contactless more often than before the pandemic, and a similar proportion agree that they now prefer to pay contactless

Our research also shows that a majority of European consumers feel comfortable paying contactless for amounts higher than 150 euro per transaction, above the 50 euro per transaction limit set by PSD2. On average, and whilst the exact per-transaction amount varies across countries, consumers indicate that they feel safe and comfortable paying contactless up to 187€.

2. Consumers and merchants are happy with the available payment options

In the past years, the way we can pay has changed significantly. Innovation has led to many new solutions and devices becoming available for both consumers and merchants. For example, card issuers are offering consumers the ability to make card network payments via mobile or wearable devices, such as a watch, alongside traditional physical cards. Innovation has also allowed digital payment transfers to be instant.

Instant payments are an appealing solution for merchants. Unlike traditional bank transfers, it allows for instant availability of funds to the seller following the transaction. As a result, instant payments are being enabled through many devices, including mobile phones. Other new technologies, such as crypto currencies, are also entering the payments market.

Indeed, the European payment market is becoming increasingly diverse and there are more payment options available than ever. Our research shows that

Consumers: I feel that the currently available payment options respond to my payment needs



Merchants: I am satisfied with the payment solutions (cards, instant payments, cash,...) available for acceptance



88% of consumers are satisfied with the payment options available and feel that these respond to their needs. 76% of merchants share this sentiment.

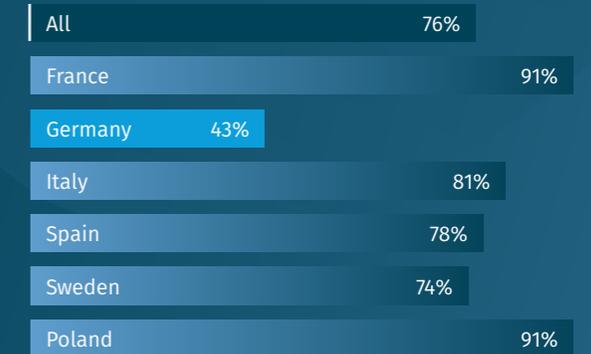


CARD ACCEPTANCE IS LESS DEVELOPED IN GERMANY

Whilst Germany shows average or higher-than-average levels of acceptance of cash and instant payments, it is performing below the European average with regards to the acceptance of cards.

Interestingly, the satisfaction with the current payment options available to German merchants drops down to just over 2 in 5 (43%).

Merchants: I am satisfied with the payment solutions (cards, instant payments, cash,...) available for acceptance



CARDS ARE GOING GREENER

Although small enough to fit in the palm of your hand, millions of payment cards are being produced monthly. Consequently, the international card schemes have stepped up to contribute to the sustainability goals. To avoid the plastic waste of cards polluting the environment, the card schemes are helping issuers to switch to greener alternatives, such as recycled, biodegradable and ocean plastics, or rolling out cards made of up to 98% upcycled plastic.

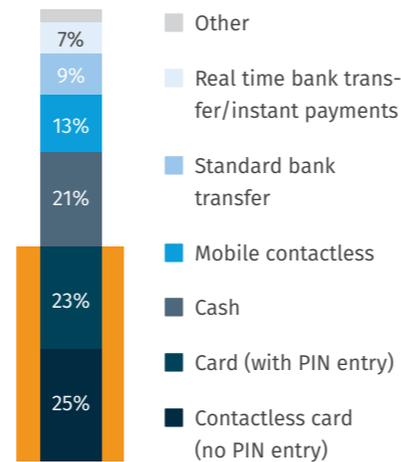


3. Physical cards continue to be the preferred method of payment

with mobile cards, mobile instant and BNPL on the rise

In the past year, card payments have accounted for almost half of in-store payments for consumers and more than half of merchants' turnover. Merchants also expect that turnover brought by cards will be rising in the next five years, while cash usage is expected to decline.

Consumers: How would you divide the following methods you use to make payments in store over the past 12 months?



Why do consumers choose cards?

Most consumers believe that card payments provide more added value than other payment methods. The research shows that cards best respond to consumers' top-rated needs when making payments, notably **online** and **mobile** functionality, **security of funds**, and **convenience**. Cards also outweigh other forms of electronic payments, in particular in terms of **security** and **convenience**.

Other reasons that consumers highlight include

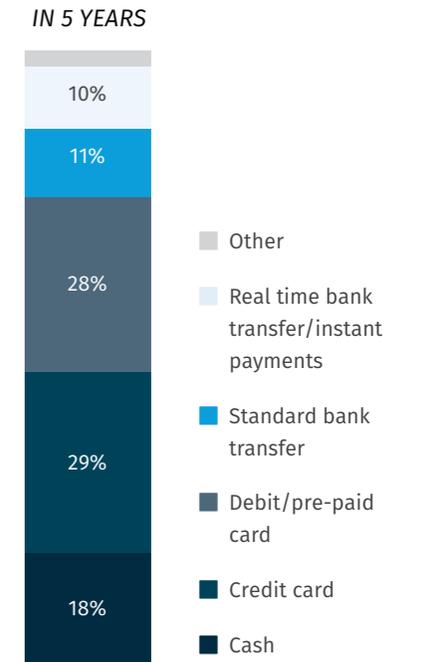
- speed,
- the ability to track expenditure,
- universal retailer acceptance,
- and fraud prevention.

Consumers also believe that paying with a card makes returns and complaints a lot easier.

Consumers: I would rather pay with a card at a merchant, even if cash was also available



Merchants: How do you expect your turnover to be divided by payment type in 5 years?





Why do merchants choose cards?

Like consumers, merchants also like cards the most. **Security** and **costs of acceptance** rank the highest when it comes to why merchants prefer to use card payments.

OVER 4 IN 5 *European merchants agree that security of funds is best guaranteed through cards, compared to instant payments. Half of all merchants believe cards are best suited for preventing fraud.*

Regarding the costs of cards, more than 9 in 10 European merchants believe that the benefits brought by card payments outweigh the costs and are satisfied with the level of acquirer fees they pay for accepting card payments.

Additional reasons that merchants highlight include access to value-adding data and insights, innovation and consumer experience, low risk of failed transactions at the point of sale, as well as ability to accept payments from foreign consumers.

Merchants: Security of funds is best guaranteed through cards compared to real time transfers



Merchants: The benefits brought by card payments outweigh the costs



Merchants: I am satisfied with the level of acquirer fees I pay for accepting card payments



PHYSICAL IS STILL THE MOST POPULAR - BUT MOBILE IS GAINING GROUND

Physical cards are the preferred interface of all electronic payments. However, what appears to be a matter of age is the importance of mobile functionalities: the younger generations are much more drawn to mobile functionality as opposed to online, and this trend is likely to accelerate as they increasingly enter the consumer demographic over time.

Which of the following are particularly important when choosing a payment provider and making payments?



Online functionality

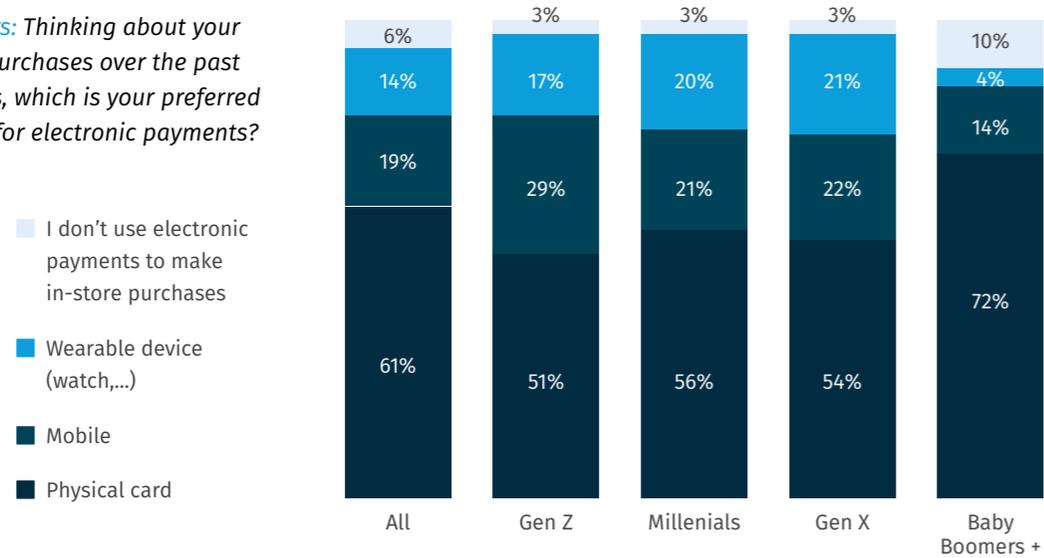
All	47%
Gen Z	52%
Millennials	42%
Gen X	37%
Baby Boomers +	56%



Mobile functionality

All	43%
Gen Z	59%
Millennials	52%
Gen X	43%
Baby Boomers +	33%

Consumers: Thinking about your in-store purchases over the past 12 months, which is your preferred interface for electronic payments?



Who should decide: consumers or merchants?

4 OUT OF 5

European consumers believe that the choice as to which payment method to use when making a payment should sit with them, and not be guided by the merchant.

Vice-versa, a similar majority of merchants (84%) believe that they should be able to guide the choice on which payment solution is used.

Consumers: It should be my choice which payment method I want to use when making payments, not the merchant's



Merchants: Merchants like myself should be able to steer the payment solution, not the consumer



WHAT ABOUT OTHER WAYS OF PAYING?

While cards are still the most used and liked product in Europe for in-store payments, the survey also reveals interesting trends regarding the more recently introduced ways of paying:



42% of the surveyed merchants currently accept instant payments. Equally interesting, this number is likely to **double** over the next year.



Buy-Now-Pay-Later (BNPL) options are becoming a staple method of payment. While currently only around **1/5** of the merchants surveyed offers BNPL, this is expected to more than **triple** within the next year.



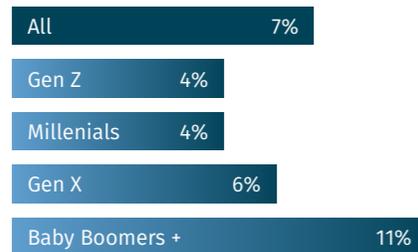
Almost 3 out of 4 consumers would not trust crypto currencies for their payments.

4. Instant payments are becoming increasingly widespread

Instant payments are widely available to consumers...

European consumers feel that instant payments are widely available, particularly for **online purchases** (60% of consumers). Almost half of consumers perceive them available also for **person-to-person** as well as **in-store** payments (43%). **Only around 7%** of European consumers, with the number being higher among the older generations, perceive that instant payments are not widely available.

*Consumers: Real-time bank transfers are **not** widely available*



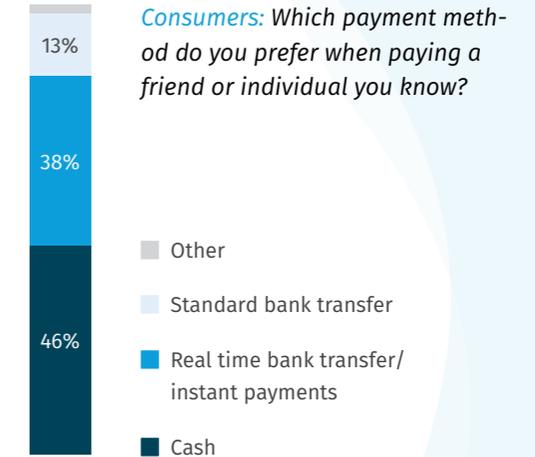
...but are still mainly used in specific cases

Despite the high awareness and availability of instant payments, European consumers still need to get used to using them: **only 7% of in-store transactions in the past 12 months were completed through instant payment.** This is likely because of the perception of heightened risk when making an instant payment compared to other payment methods. Indeed,

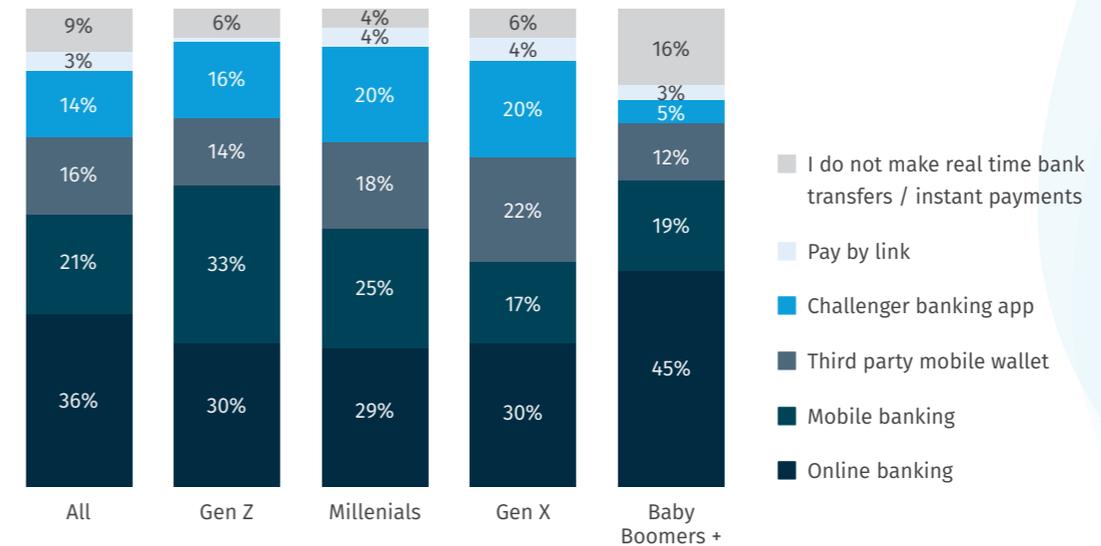
89% of consumers in Europe believe there are risks linked to using real-time bank transfers / instant payments,

with even more awareness of the risks among younger consumers.

However, the appeal of using instant payments increases when it comes to **peer-to-peer transactions**, such as paying a friend or a family member. In such cases, instant payments are the second most preferred option after cash and are more appealing than a standard bank transfer. Instant payments are also gaining ground in **online purchases** or when **paying a third person for services**, such as housekeeping or gardening. The growth of mobile, embraced by the younger generation, will most likely encourage further use of instant payments, including in-store.



Consumers: When making a real time bank transfer / instant payment, what channel would you use?



Merchants will increasingly accept instant payments....

9 out of 10 merchants confirm that they are satisfied with the current features of real-time bank transfers. While 2 in 5 merchants currently accept instant payments, this number is expected to almost double in the next 12 months considering the organic growth of instant payment acceptance. This will further increase competition amongst existing payment methods.



I am satisfied with the features of real-time bank transfers as it stands



Accepting real time bank transfers does not have a substantial impact on the amount of sales I make over a month



Accepting real time bank transfers have a higher risk of failed transactions at the point of sale than card payments



Security of funds is better guaranteed by cards than real time transfers



...but understand the limitations

At the same time, merchants are unsure that increased acceptance on their side will have a substantial positive impact on their sales.

4 OUT OF 5
of merchants believe that real-time bank transfers have a higher risk of failed transactions at the point of sale than card payments,

despite the lower cost and value they can bring, and that security of funds is better guaranteed through cards compared to real-time transfers. There is a recognition that lower cost comes at the expense of the security and reliability offered by cards.

Thus, while we see an increase in the take-up of instant payments on the merchant side, there is still a preference for cards as the payment method that best responds to merchants' needs.

OUR RECOMMENDATIONS

The European payments market is very dynamic and in constant transformation. Innovation, consumer behaviour, and external factors (such as the Covid-19 pandemic) influence the way we like to pay. While **cards remain the payment method** currently best suited to respond to consumers' and merchants' needs, other forms of payments, such as instant payments or Buy-Now-Pay-Later (BNPL), are becoming increasingly popular.

Our research shows that consumers and merchants are happy with the way they can pay today. This is testament to the organic growth of the payments market in Europe and the diversity of the European payments market, which allows consumers and merchants to exercise their freedom of choice when deciding which payment method to use in each situation, something they highly value. In this context, and considering many new products and technologies are on the horizon, we recommend continuing to let the market develop organically.

In particular, Payments Europe would like to highlight that:



- Policy makers should ensure that any intervention addresses a clear market failure and **does not influence the ability of payment providers to innovate** and design attractive instant payment products, that differ from current payment methods.
- Any intervention should guarantee that it does **not affect the level-playing field** nor undermine the competitive market dynamics or the trust that consumers have in existing payment solutions.
- Consumers should have the ability to **express their choice** between payment methods based on their different needs. In any case, they should be able to trust they will benefit from smooth, fast, and secure payments.
- The uptake of new forms of payments should **be done in full transparency**. End-users should be clearly informed about applicable fraud and consumer protection measures for each method of payment in order not to undermine the confidence that European citizens have in the payment's ecosystem.

Methodology of the research

This report is based on a study commissioned by Payments Europe and conducted by FTI Consulting from 9th to 21st July 2021. The survey was completed by 3,223 consumers living in France (544), Germany (539), Italy (530), Spain (540), Sweden (538) and Poland (532) and by 680 merchants working in retail both online and offline (France (109), Germany (110), Italy (110), Spain (110), Sweden (106) and Poland (103)).



About Payments Europe

Payments Europe is the voice of the card-based payments industry. We represent card issuers, card acquirers and card schemes, and our members are active in all European countries. Our mission is to promote the value that card-based payments bring to the European economy and society. We strive for a vibrant, competitive and consumer-centric European payments market.

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