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ECB publishes study on the use of cash

(mk) In November 2017 the ECB published its long awaited report on the use of cash in the Euro area.¹ The report is based on a household survey conducted from October to November 2015 and from January to July 2016. The survey was carried out in 17 Euro countries.

The Netherlands and Germany did not participate because these two countries have been conducting regular payment surveys for many years.² Whenever possible, the ECB report also takes the two national survey results into account.

If the Dutch and German surveys are included, the total number of respondents comes to 92,080 and the number of payment transactions they reported comes to 198,600.

The survey focusses on those types of payment transactions that are suitable for cash:

- POS payments
- person-to-person payments
 - payments between relatives and friends

- charity donations
- payments for home services (e.g. babysitting)

Not included are recurring payments, internet payments and B2B payments. The study is also limited to person 18 years old or older and does not include payments made by consumers travelling outside of their place of residence, as well as payments made by tourists or other non-residents.

In order to cross check the results of the ECB survey, ECB researchers compared the estimates based on the survey data with payment data from the ECB statistical data warehouse (SDW) (formerly known as "Blue Book data"). They find that the estimated value of cash payments equals about 93% of cash withdrawals in the SDW. The estimates are also roughly in line with card payment data from the SDW. However, for some countries there are relatively large differences. Still, overall, the ECB is fairly confident that the results are representative for the POS payment behaviour of Euro area consumers aged 18 and over.

Our Comment:

The new ECB report provides the market with a wealth of interesting data on POS payments in the Euro area. It fills a gap in official reporting on the payment system. Given the complexity of the task, the authors and their collaborators did a great job.

The report unambiguously shows that the Euro area is still a long way from the cashless society. Cash accounts for 79% of the POS and P2P transactions. In terms of the value of transactions the market share of cash is 56%. Cards are a distant second with market shares of 18% (number of transactions) and 37% (value of transactions) respectively (see table 1).

From the German point of view, one of the results is particularly interesting. Notwithstanding many claims to the contrary, when it comes to cash Germany is not the odd man out. Rather, German cash use seems to be close to the Euro area average (see table 2).

	number of transactions	value of transactions
Euro area	79%	56%
Germany	80%	55%

Table 2 The POS market share of cash

Source: ECB

In fact, there is a clear north-south divide. The Mediterranean countries (except for France) are all heavy cash users. In Ireland, the BeNeLux countries, Finland and Estonia cash use is relatively small.

- 24% of respondents hold precautionary cash reserves in their homes (of these 9% hold more than €1,000),
- 19% of respondents have had a €200/€500 note in their possession,

Payment instrument	Number		Value		Average value	
	b. trx	% of total	b. EUR	% of total	EUR	% of total
Cash	129	79%	1,653	56%	12,80	70%
Cards	30	18%	1110	37%	36,90	203%
Other	3	2%	205	7%	61,90	340%
Total payments	163	100%	2,968	100%	18,20	100%
POS	157	96%	2,845	96%	18,10	99%

Table 1 Number and value of POS and P2P payments in the Euro area in 2016

Source: ECB and own calculations

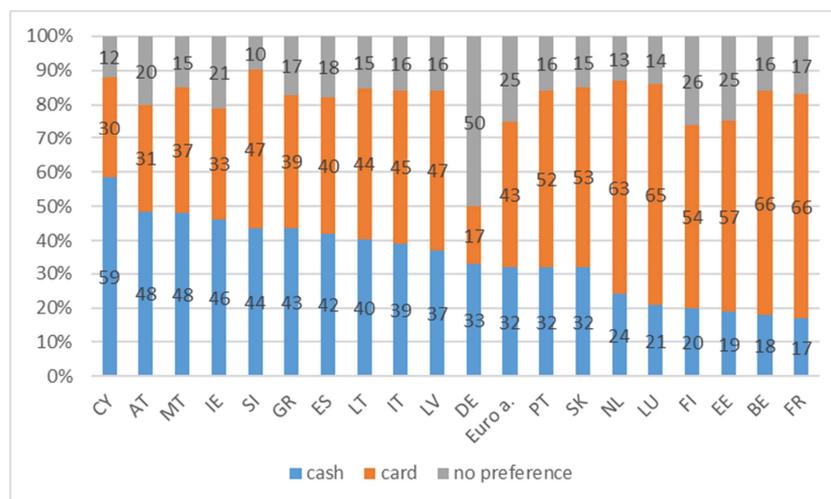


Figure 2 Payment preferences by country

- 32% of respondents either always or sometimes pay a fee for ATM withdrawals.

But since cash competes with non-cash payment methods, in particular cards, the report also contains quite a number of interesting findings with respect to cards.

As expected, cash is used particularly for small transactions. Cards are overtaking cash only at transactions above 45€.

In 2016, only 1% of POS transactions below €25 were contactless. Of these two thirds were below €10.

Average card ownership in the Euro area amounts to 93%. While card ownership varies somewhat across countries, it is well above 80% in all countries except for Cyprus (66%).³ On the acceptance side, differences between Euro countries are larger. Perceived card acceptance varies between 89% and 57%.⁴ One particularly hopeful result of the survey is the relatively high preference of respondents for non-cash means of payment. When asked "Assuming you were offered various payment methods in a shop, what would be your preferred payment method?" 43% opted for non-cash methods whereas only 32% opted for cash.

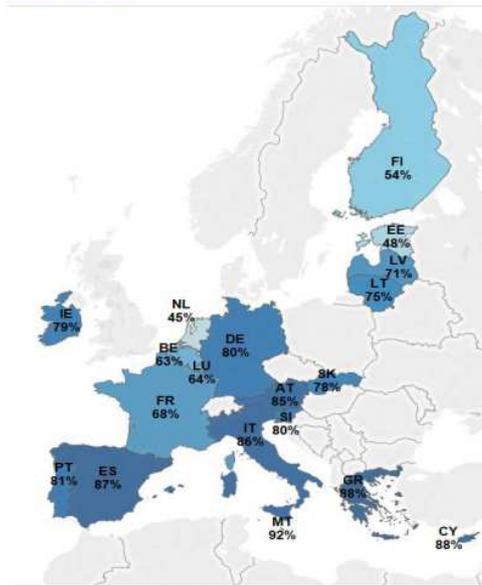
There still is ample scope for card growth

However, the results have to be interpreted with caution. In the German survey the options were formulated a little differently and the result was a much higher share of undecided persons – and a much lower preference for non-cash methods.⁵

Overall, the results of the report are good news for the European card sector. True, cash is still king. But that implies that there still is ample scope for card growth, in particular contactless transactions. Moreover, households seem to view cards favourably. That should make it easy to grow card usage volumes.

Share of cash transactions per country at points of sale

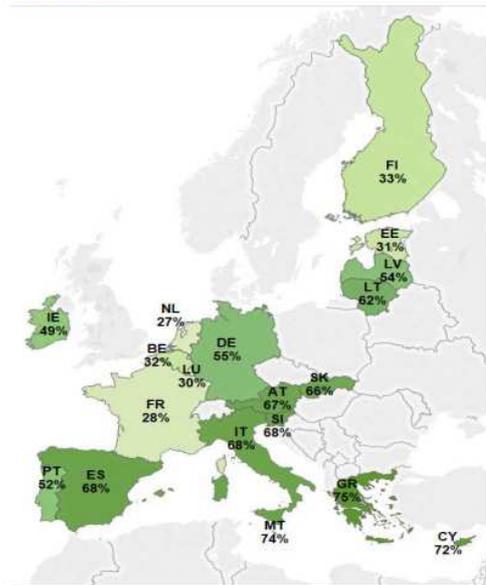
(number of transactions)



Sources: ECB, Deutsche Bundesbank and De Nederlandsche Bank.

Share of cash transactions per country at points of sale

(value of transactions)



Sources: ECB, Deutsche Bundesbank and De Nederlandsche Bank.

Figure 1 The share of cash transactions

Application selection at the POS: A field test

(hg) According to the European Interchange Fee Regulation (IFR 2015/751) Art. 8, the application selection at the POS by using co-badged cards has applied since 9 June 2016. Card users should have the option of overriding the merchant's brand preference if the merchant accepts both

brands of the card: *"payees shall not prevent the payer from overriding such an automatic priority selection made by the payee in its equipment for the categories of cards or related payment instruments accepted by the payee."*(Art 8.6).

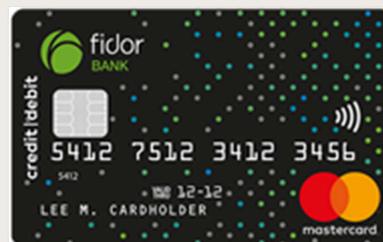
Our Comment:

The requirement is relevant in member states where domestic schemes still dominate, like for example in France (Cartes Bancaires), Italy (Bancomat/ PagoBancomat) or in Germany (girocard). Most of the banks in these countries issue co-badged debit cards with the domestic brand and one of the brands of the international card schemes (ICS), Maestro or V PAY. In the meantime in Germany about 35% of the girocards are co-badged with V PAY.

As a consequence of the IF adjustment for all debit card schemes, the brands of the international schemes are meanwhile broadly accepted in Member States with dominating local schemes. Regarding domestic usage, issuers would probably act in a brand-agnostic way. For XB-usage the ICS-brand is still invincible. The logical consequence is the issuing of a single ICS-branded debit card as an alternative to co-badged cards in these countries. Several banks in Germany started with the issuance of Maestro-only cards or cards with the new Mastercard debit. Maestro probably wins the game due to its worldwide acceptance whereas V PAY is still limited to Europe. By the way, the question arises as to whether V PAY still

has a right to exist as a debit brand after the dissolution of Visa Europe, with most Visa cards in Europe (about 70%) already being issued as debit cards.

A few issuers have launched more innovative products, like combo cards branded with Mastercard for credit and Maestro for debit transactions (e.g. Fidor Bank). Schemes can no longer prevent banks from issuing cards with brands of the two top dogs Visa and Mastercard. However, such exiting cards are regrettably not yet familiar.



According to the ideals of the Commission, the informed and decisive user of a co-badged card should be the key to competition between the brands, preventing peaceful co-existence. *"In order to ensure that*

competition between brands is effective, it is important that the choice of payment application be made by users, not imposed by the upstream market, comprising payment card schemes, payment service providers or processors” (recital 40 of the IFR).

Without incentives the cardholder will be totally indifferent about using the domestic brand or the ICS brand. If pricing for card acceptance is different for both brands, the merchant will prefer a specific brand, which has a priority selection at its terminal. It is up to the issuer to offer incentives for the card user to override the merchant’s selection, e.g. by offering cash-back, a raffle or sweepstakes. Without pecuniary incentives for card issuers (e.g. a more attractive IF or scheme fees) they will be indifferent too. To establish real competition by cardholder initiated brand selection at the POS, we need brand competition on both sides of the market, issuing and acquiring. Both sides could influence the user’s choice by incentives. If the cardholder is lazy or not informed, a pre-selection by the issuer and the merchant would furthermore guarantee a smooth handling of transactions at the POS, where the merchant has a natural advantage. The preferred active choice of the cardholder should not be hindered by technical barriers. So much for the theory.

Only one click more could create fair competition.

I twice practiced brand selection by using my debit card (co-badged with girocard and Maestro) in Germany. The first merchant has a big sticker at the POS, stating that it does not accept Maestro-only cards. However, at the Verifone terminal the screen offers me the button “selection”. The button disappears after plugging in my card. I learned to make my selection before plugging in my card. The person at the till has to initiate the card payment again. Together we tried to find out how to touch the selection button (it was the screen, not the keyboard). It shows me two brands -

girocard and Maestro - whereas girocard was obviously preferred. I have to select Maestro at the screen before putting in my card. I made my first successful domestic Maestro transaction, although the merchant doesn’t accept Maestro-only cards.

The next Maestro transaction at an Ingenico terminal was slightly different. The selection button was keyboard based. After pushing the button I first had to plug in the card before the screen showed me the two brands (which is a more logical procedure, because the terminal has to find out which brand options my card offers).

However, in both cases the people in line behind me did not appreciate my field test. Hint: Don’t make such tests during Christmas shopping! My wife forbade me to make a third test of brand selection in a contactless environment.

Most of the German POS terminals introduced this solution, where the selection options are only shown if the cardholder actively pushes the selection button. The solution was developed by the German association of ec cash network providers (BecN) in cooperation with the German merchants and is approved by the European Cards Stakeholder Group (ECSG).

At the time being, this solution would be the most efficient one because cardholders have no interest in using their right to select the brands of their debit card. They will probably not even be aware of their right to select. However, if a card issuer starts incentivizing people to use the ICS brand, the preferred solution is not brand neutral. Actually the terminal should show me all my brand options after plugging in the card. Only one click more could create fair competition. In the longer term, competition would always be the most efficient outcome.

In summer 2019, the Commission is due to submit a report on the application of this Regulation to the European Parliament and to the Council (according to Art. 17 of the IFR). The assessment shall inter alia consider “*the effects of co-badging on user-friendliness, in particular for the elderly and other vulnerable users*”. Even for non-vulnerable users the solution seems to be non-user-friendly.

Notes

- 1 Henk Esselink, Lola Hernández, The use of cash by households in the Euro area, ECB Occasional Paper Series, No 201, November 2017.
- 2 The Dutch survey is described in Hernandez L., Jonker, N. and Kosse, A.: Cash Usage in the Netherlands: How much, Where, When, Who and Whenever One Wants?, Occasional studies, De Nederlandsche Bank 2012. For the German survey see: Deutsche Bundesbank, Payment Behaviour in Germany in 2014, Frankfurt 2015.
- 3 Given that the Blue Book statistics records 1.127 million cards (764 thousand debit cards) for a population of 852 thousands, the estimate for Cyprus does not seem to be representative.
- 4 Survey respondents were asked to record whether a transaction could have been made in cashless form in cases where they made a payment in cash.
- 5 In Germany respondents were asked whether they paid predominantly with cash or cashless or whether they made a decision on a case-by-case basis. Deutsche Bundesbank, Payment behaviour in Germany in 2014, Frankfurt 2015, page 39.

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