



PAYSYS REPORT

Issue 4– July 2021

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1. Covid-year 2020: Skid marks in European card business

The lockdown-induced decline in consumer spending leads to a stagnation of card payments in Covid-year 2020 after a longer continuous growth period in the EU (27) of about 8% per year (since 2015). In contrast to debit cards, credit cards (incl. delayed debit) in particular were hit by the pandemic. These results are based on an analysis of previously published card data in 11 Member States, covering approximately 60% of the total EU-volume. Although overall cash demand has continued to rise, ATM cash withdrawals have fallen dramatically.

2. Cross-border acquiring in Europe: new figures

An important objective of the European payment policy is to promote cross-border acquiring of card payments within the EU. However, the data availability regarding volume and growth remains poor. For card-present payments at POS terminals, the until now unpublished overall market data for 2019 show growth.

Covid-year 2020: Skid marks in European card business

(hg) In most EU member states, Covid-19 infection rates led to widespread lockdowns in the spring and fall of 2020.

The shutdown of physical retail stores was partially compensated by consumers through e-commerce, but not the consumption ban in Travel & Entertainment. It is not surprising that the pandemic led to a significant decline in consumer spending at home and a standstill in cross-border travel.

The first wave led to a decline in consumption in the EU (27) of more than 15% (!) in the second quarter of 2020 compared to the same quarter in the previous year (see Fig. 1).

In addition to bank transfers and direct debits, card payments and cash are the usual payment instruments used to pay for private consumer spending. The decline in consumer spending will have had a negative impact on the transaction volume of all payment instruments.

For direct debits and credit transfers, there is unfortunately no differentiation between private and business users in the national statistics.

Therefore, we cannot extract the effects here. Cash payments, by their very nature, elude statistical recording but there are data on ATM withdrawals and the total stock of cash in circulation. Thus, only in the area of card payments, which are predominantly made for private consumer spending (around 10% are commercial card sales), do we see the direct consequences of the decline in consumption.

Meanwhile, a large number of national central banks in the EU have already published their payment transaction statistics for 2020. Some statistics show not only the annual result, but also the development per quarter or even in detail on a monthly basis.

Although the ECB's overall 2020 statistics for the EU are still pending, the development in the European card business in the Covid-year can be reliably outlined on the basis of the data already available for individual countries.

Our Comment:

In the issue of PaySys Report No. 8-9 (2020) we analyzed the consequences of the pandemic for the card business based on the figures of quarters 1 to 3 of the countries Denmark, Ireland, Netherlands, Spain and Hungary. At that time, a second hard lockdown like in Q2 was not yet foreseeable and there was still hope for a one-time V-curve.

In the meantime, annual card payments data are available for a total of 11 Member States, representing approx. 60% of the card payment volume of the EU (27). Of these, 8 countries - Denmark, Ireland, Netherlands, Hungary, Lithuania, Austria, Poland and Estonia - publish complete quarterly card data for card-present POS-

transactions, e-commerce (card-not-present) and ATM withdrawals.

The curve of aggregated card payment volume (POS+CNP in €) of cards issued by resident PSPs in these countries is like a roller coaster ride. In Q1, growth was still within the medium-term trend of 8.3% (vs. Q1 2019), reached a low of minus 2.5% during the lockdown in Q2, and then rebounded to 10.4% (Q3). In Q4, growth was again slowed by the new lockdown to 3.9%.

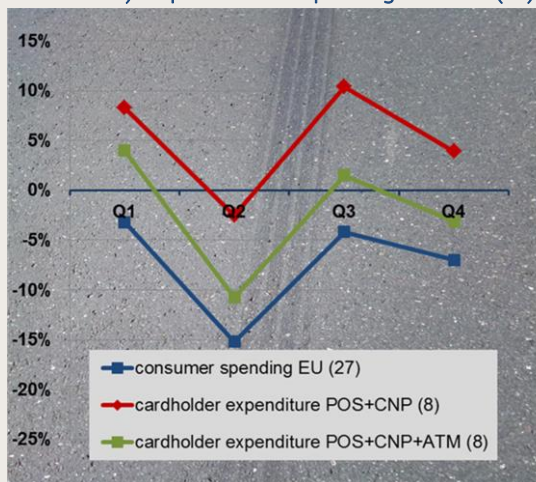
However, the downturn in Q4 is much milder compared to the crash in Q2. See Figure 1. One reason for this

relatively small decline is the fact that in many countries the lockdown did not occur until mid-November or even later, so that this quarter - unlike the 2nd quarter - was not fully affected by the lockdown measures.

Lockdown hits ATM business hardest

If we take into account ATM cash withdrawals by these cardholders in addition to card payments, the overall zigzag line shifts downward by about 7 to 9 percentage points, almost in parallel, from Q2. The shift is caused by a massive decline in ATM cash withdrawals. Already in Q1, we see a 10% year-on-year decline in some countries (ES, NL, IE and AT). In Q2, there was a decline of ATM cash demand of historical proportions of up to 35-40% e.g. in the Netherlands, Spain and Austria or even minus 50% in Ireland. See fig. 2.

Fig. 1: Gross cardholder expenditure of cards issued by resident PSPs in 8 Member States (DK, IE, NL, AT, ES, LT, PL and EE) resp. consumer spending in the EU (27)



(percentage changes compared to the same quarter in 2019). Sources: Payment statistics of the national central banks and Eurostat

The growth rate of total cardholder expenditure (with or without ATM) evolves in parallel to consumer spending. But the growth rate of card payments is much higher than the growth of consumer spending, while growth rates of ATM cash demand is much lower.

Assuming that cash obtained via ATM is used for consumption spending (and not for hoarding), these data show a clear change in consumer (cardholder) payment behaviour since the 1st lockdown in 2020. Consumption spending is drastically reduced, but cash is substituted by card payments to a significant extent.

This result corresponds to surveys on the card acceptance side in several Member States. In Germany

for example, the card-to-cash ratio in stationary retail trade changed from 52%/48% (2019) to 58%/42% (2020) within one year.¹

There are several reasons for this change in payment behaviour. The main reason was probably consumers' fear, not justified by facts, of infection through contact with cash or through the proximity to the cashier caused by handing over cash. Many retailers encouraged this behaviour by issuing corresponding requests to please pay by card instead of cash.

However, based on a survey by the ECB², 45%³ of consumers cited "Paying electronically has been made more convenient" as the most important reason. However, the option of contactless payment at the POS was already standard long before the outbreak of the pandemic.

The second most important reason (35%) cited by respondents was that the government had recommended cashless payments. In addition, 9% of consumers said that withdrawing cash was more difficult during the pandemic.

This can only refer to cash withdrawals at the counter, but not at the ATM. Be that as it may, cash withdrawals showed a dramatic drop in Q2. However, there was a certain recovery from the 3rd quarter onward. For 2020 as a whole, the group of 11 countries (no ATM figures are yet available for Italy) recorded an overall decline of 16.6% compared to 2019.

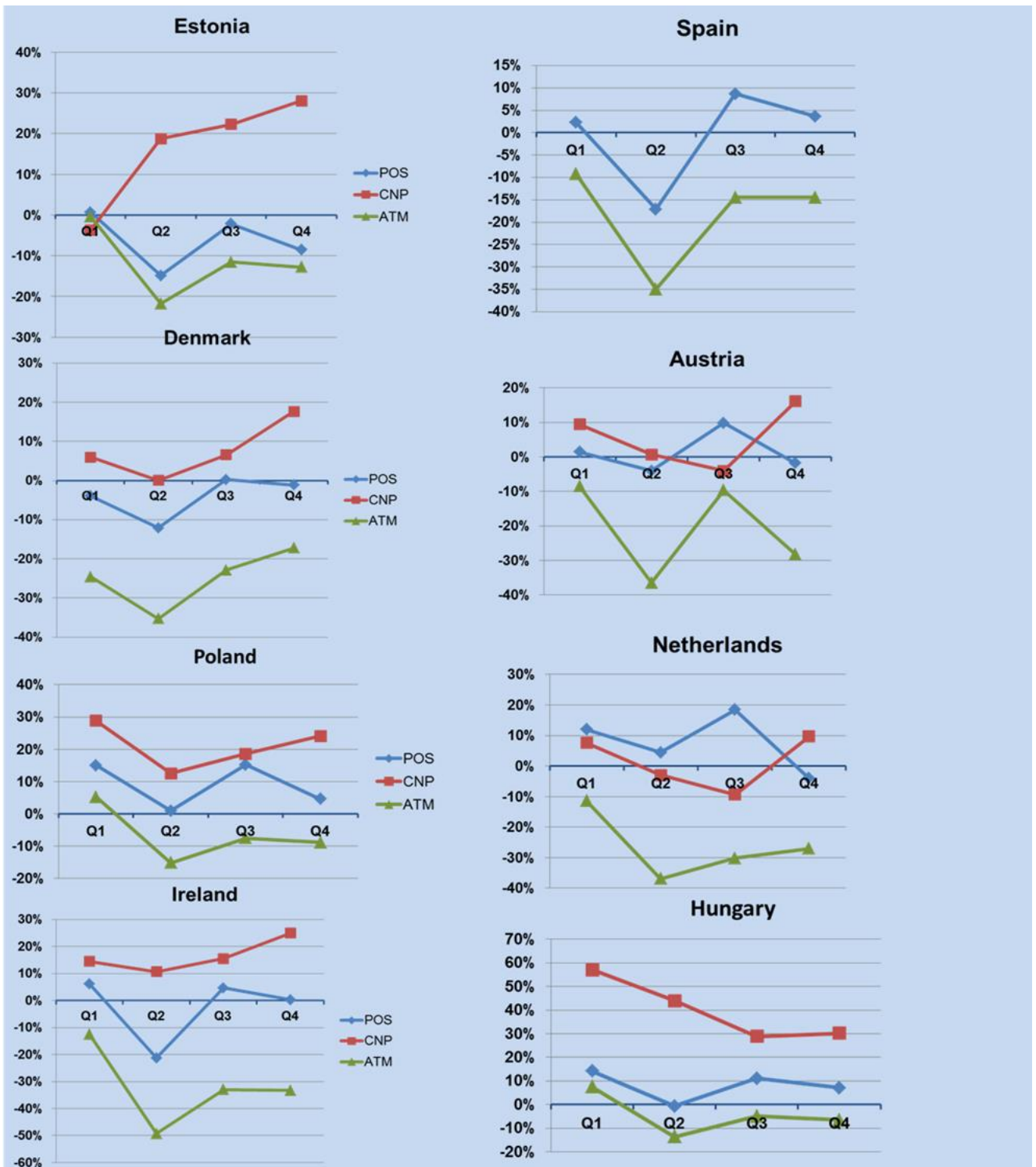
In addition to cash substitution by card-based payments (plastic or app), other hypotheses for the massive impact of lockdowns on ATM cash demand, which have not yet been supported by facts, can be considered:

- Point-of-sales, where cash is common, were much more affected by the lockdown than retailers where card payments predominate,
- During the lockdown, consumers with an affinity for cash reduced their consumer spending to a greater extent than card users (consumers with below-average education and income generally show an above-average affinity for cash).

It is striking that the growth rate of gross cardholder spending (green curve in Fig. 1) is still considerably higher than the blue curve representing consumer spending (EU27) (approx. 4 to 6 percentage points).

There are several hypotheses for this:

Fig. 2: Value of card-based payments (POS & CNP) and ATM withdrawals in 2020 (percentage changes compared to the same quarter in 2019).



Card payments (value) at POS-terminals, card-not-present (CNP) and ATM-withdrawals (percentage changes in 2020 compared to the same quarter in 2019); card payments (POS & CNP) of cards issued by resident PSPs in- and outside the country; ATM withdrawals of cards issued by resident PSPs at terminals provided by resident PSPs.

Sources: card payment statistics of national central banks.

Additional notes:

ES: CNP-data not available; POS/ATM: domestic trans-action of cards branded with the domestic scheme; NL: excl. cross-border transactions; DK: excl. self-service and vending machines; IE: excl. ATM-transacions by credit cards

- During the last 5 years, the growth of gross cardholder spending (incl. ATM) in the EU has generally been a few percentage points higher each year than the increase or decrease in consumer spending. This may be due to the fact that card payments also substitute other payment instruments (e.g. direct debits). This is a structural trend that may not have been affected by the pandemic.
- Cardholders in the country sample (8 predominantly smaller Member States) show a representative behaviour ("zigzag curve") but are in the upper growth range. This explanation is plausible, as the group of 8 shows an average growth in card payments of 4.9% in 2020 (compared to 2019), while the overall group of 11 countries shows only very low growth (+0.1%) due to the decline of the card payment volume in large countries such as Italy, Spain and France.

Cash demand

While Covid-19 has significantly reduced cash usage as a means of payment, it has not reduced cash demand. Despite the decline in cash use at stationary POS and the shift of face-to-face business to e-commerce (where cash hardly plays a role as a means of payment), we have seen a steadily rising demand for euro banknotes as a long-term trend since the introduction of the euro.

According to ECB estimates, only around 20% of euro

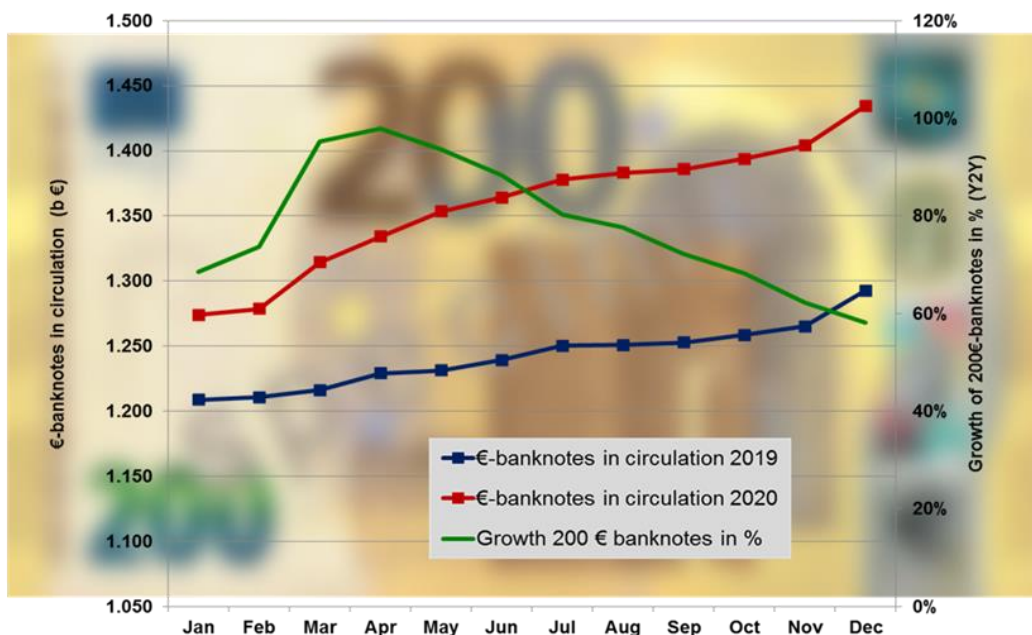
banknotes are used for payment purposes. The remaining 80% are held outside the euro zone or are hoarded as a store of value within the euro zone. The negative interest rate within the euro zone has additionally favored this development. Not only private individuals and companies are hoarding banknotes, but also banks to avoid the negative interest rates.

Since the 500-euro banknote is no longer being newly produced, the demand for cash as a store of value has increasingly shifted to the 200-euro note.

Covid-19 has not reduced cash demand.

As a result of this demand-trend, the volume of banknotes in circulation grew in recent years by an average of 5% per year (CAGR 2015-2019: 4.92%; range 3.9% to 6.6%).

Fig. 3: Banknotes in circulation (b €) and the growth of the 200-euro banknote volume (percentage changes compared to the same month in 2019)



Source: ECB Statistical Data Warehouse

We see at least two contrasting effects of the pandemic on card payment volumes in 2020

A decline due to a reduction in consumer spending and an increase due to greater cash substitution

The growth of banknote demand was still within this range in the first two months of 2020. From March 2020, the growth rate of banknotes suddenly jumped up and has since remained at a level of around 11% year-on-year. The additional demand related in particular to the 200-euro note. The volume of these notes doubled in April 2020 compared with April 2019. See Fig. 3.

Since ATMs do not generally eject 200 notes, the additional crisis-related demand will probably have been met by cash withdrawals at the counter as of the end of February 2020. Figures on cash-on-counter (unlike ATM) are unfortunately not yet available. Despite an easing of the situation in Q2, apparently there has been no de-hoarding of banknotes.

Card payments

The share of card payments in consumer spending has increased mainly due to the substitution of cash at POS. Covid-19 has reinforced this already existing structural effect. But there is another structural effect that has been amplified by the pandemic.

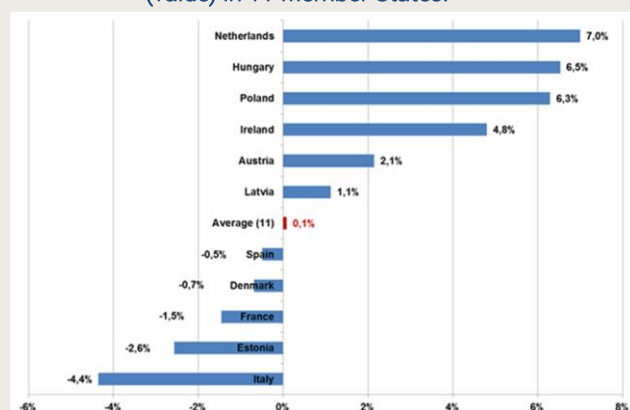
The share of card-not-present payments is rising due to the shift in consumer spending in favour of distance commerce (incl. online services such as streaming, gambling, etc.). Before Covid-19, the growth rate of CNP payments in the EU was much higher than card payments at brick-and-mortar POS in the period 2015-2019 (see Fig. 5).

As a result of this development, the share of CNP payments in total card payment volume (value) increased from 12.7% (2014) to 17.1% (2019). Due to the massive reduction in consumer spending in Q2 2020 (down 15% compared to Q2 2019), CNP payments were also affected in most countries (with the exception of Estonia). See Fig. 2.

Notably, travel-related CNP payments (e.g., travel bookings) were also directly affected by the lockdown. In contrast to card-present payments, however, the growth rate generally remained positive. Since cards encounter a large number of competing payment

instruments in distance commerce (e.g., credit transfers), the consequence of this structural effect on total card payment volume is still unclear.

Fig. 4: Growth rates of the card payments volume (value) in 11 Member States.



Source: Statistics of national central banks and card schemes⁴

Accordingly, we see at least two contrasting effects of the pandemic on card payment volumes in 2020: a decline due to a reduction in consumer spending and an increase due to greater cash substitution.

Some countries show growth, while others show decline. See Fig. 4. The range varies from minus 4.4% in Italy to plus 7% in the Netherlands. It can be assumed that the figures were also influenced by the varying extent and duration of the lockdown measures in the respective countries.

It is noticeable that the large member states, such as France, Italy and Spain, are to be found in the group of losers. If this group of 11, which represents about 60% of the EU-volume, is representative of the entire EU (27), the growth in card payment volume (value) is approximately zero in 2020 compared to 2019.

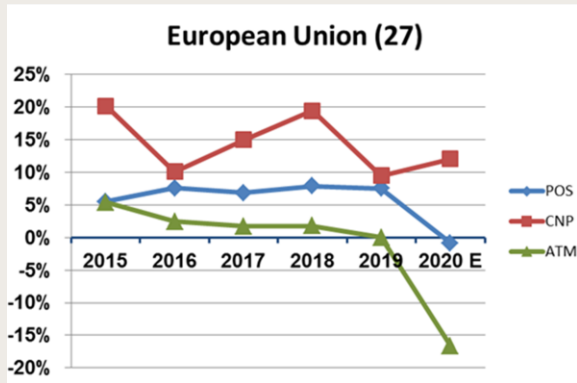
However the data may be biased against cash because it is not clear to what extent cash-back transactions have been included in the card payment data.

Mastercard also reports zero growth in card payments

(purchase) for the "Europe" region in 2020, based on dollar-converted figures (\$1,300 b. unchanged from 2019). This implies a growth rate of 1.5% in terms of euro or local currencies (according Mastercard).

For **Visa Europe**, only figures for the accounting year 6/2019 to 6/2020 (fiscal year) are available so far. In this period, there was a decrease of 3.3% in gross card holder expenditure volume (incl. ATM!) from €2,334 b. to €2,263 b. As the ATM figures are included and the recovery in Q3 2020 is not included, these figures are still difficult to interpret.⁵

Fig 5: Annual percentage changes of card based payments and cash withdrawals (value) for the period 2015-2020.



The figures of 2020 are estimated based on the available figures of 11 Member States. Source: ECB Statistical Data Warehouse & PaySys (estimation for 2020)

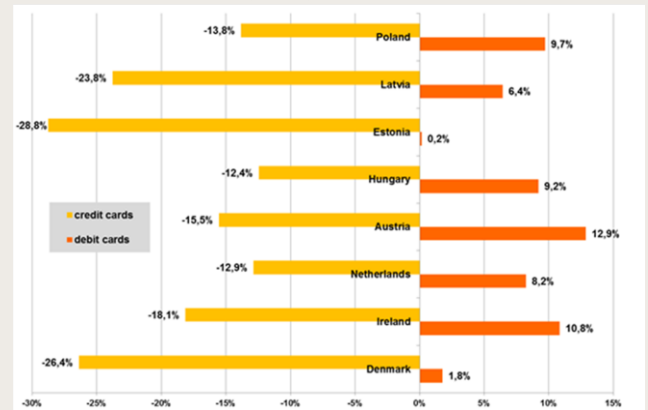
Debit versus credit cards

The available figures show that within the card business, the pandemic affects credit and debit card business in completely different ways. In almost all countries, we see a drastic decline in the volume of payments generated with credit cards (including delayed debit).

The decline in 2020 compared to 2019 is in the range of double-digit figures everywhere. Growth rates in the debit card segment are positive across the board. In our Report No. 8-9 (2020), we had already mentioned possible reasons.

- The lockdown particularly affects the market segments in which the credit card is preferred (travel & entertainment).
- The debit card enables timely liquidity and budget control. In addition, the looming economic crisis leads to a lower demand for consumer credit via credit card.
- In general, the share of sales abroad of the credit card is much higher than that of the debit card. The restrictions on travel are therefore hitting the credit card much harder.

Fig. 6: Growth rates of the card payments volume (value) in 8 Member States.



Source: Statistics of national central banks

As debit cards seem to be less affected by the pandemic than credit cards, the pandemic may have increased the market shares of domestic schemes compared to international schemes (Visa, Mastercard and Amex) within the EU, as most domestic schemes are only based on debit cards.

As soon as the figures are available, we will report on the market shares 2020 of the domestic and international card schemes in this report.

Cross-border acquiring in Europe: new figures

(hg) An important objective of the EU Interchange Fee Regulation (IFR 2915) was to promote cross-border (XB) acquiring of card payments within the Single Market. This goal was to be achieved through the same IF caps for domestic and XB card transactions and through the prohibition of country-specific acquiring licenses (Art. 6).

According to the IFR, XB acquiring exists if the acquirer and the merchant are located in different member states. In Recital 15, the goal is clearly expressed:

"If merchants can choose an acquirer outside their own Member State ('cross-border acquiring'), which will be facilitated by the imposition of the same maximum level of both domestic and cross-border interchange fees for acquired transactions and the prohibition of territorial licensing, it should be possible to provide the necessary legal clarity and to prevent distortions of competition between payment card schemes."

Art. 17 (review clause) requires the European Commission to examine in its review report "*the development of cross-border acquiring and its effect on the single market*". This report has now been available since June 29, 2019. The key findings are:

*"Cross-border acquiring has increased since the implementation of the IFR, together with the emergence of pan-European acquirers, but its take up remains limited overall (15% and 16.8% of the total value of transactions for debit and credit cards) and seems restricted to larger merchants"*⁶

The data refers to the external study by EY and Copenhagen Economics (CE)⁷, which we have already analyzed in detail in this report (see issues 1-4/2020).

Our Comment:

We doubt that the IFR has only positive effects on XB acquiring. The IFR still allows the establishment of domestic IF agreements. If these domestic IFs are significantly below the caps, these price agreements between domestic acquirers and issuers form a significant barrier to market entry by foreign acquirers.

We have described this case in detail for the Dutch card market (Report 6/2020). Today, we would like to look at market figures for XB acquiring.

The EY/CE-study quotes figures for XB acquiring based on acquirer surveys (p. 222). The participating acquirers state that 15% of transactions with debit

cards and 16.8% with credit cards are cross-border acquired (intra-EEA; value-based). These are the figures adopted by the Commission in its final report.

For commercial cards, the percentage is 13.8%. The average for all card payments is 15.4%

According to EY/CE, these percentages imply the following XB volumes (p. 221):

- Debit cards: 156 b EUR
- Credit Cards: 62 b EUR

- Commercial Cards: 14 b EUR
- (Total: 232 b EUR)

But when this total XB volume is set against the total 2017 card payment volume (domestic & intraregional) of just under 3,000 b EUR the share of XB transactions amounts to around 7 to 8%. This is about half of the percentage share of XB acquiring estimated by participating acquirers quoted above

Some national markets are obviously still uninteresting for internationally operating acquirers.

Another indication that the responses of the acquirers not only lack representativeness but are also contra-

dictory is the statement that in 2017 around 20% of their merchants are based in another member state (EY/CE-study, p. 222).

These merchants are predominantly large merchants (turnover above EUR 50m). Accordingly, the XB share based on card payments must be higher than 20%, unless the acquirers only have large merchants in their portfolio. However, the figures of the interviewed acquirers (see above) are significantly lower (15.4% on average).

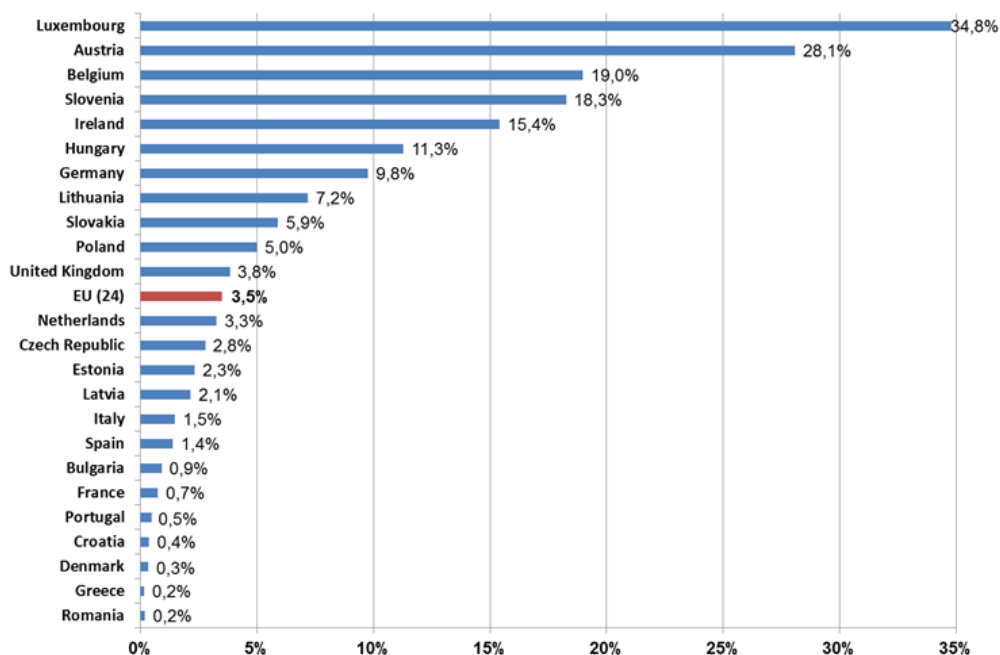
Accordingly, we have no reliable estimates of the volume of XB acquiring within the EU. The assumption is that the percentage of 10% for 2017 is more likely than 15.4% as reported by the interviewed acquirers.

The Commission is right to plead *"for more time to monitor developments."*

Are there any other indications of the volume and growth of XB acquiring?

The increase in XB card payments (value) from an issuer perspective (approx. 8 to 9% p.a. in the period 2015-2019⁸) is indicative of the growth in card transactions in XB acquiring. The decisive factor for flagging a transaction as "cross-border" by the issuer is not the location of the merchant, but the location of its acquirer.

Fig. 1: Share of EFTPOS-terminals located in the country provided by non-resident PSP.



Source: ECB Statistical Data Warehouse

Notes

- 1 Excluding T&E segments; see EHI Retail Institute, Payment-Entwicklungen aus Sicht der Handelsforschung, May 2021
- 2 See keynote speech by Fabio Panetta, Member of the Executive Board of the ECB, Cash still king of Covid-19, 15 June 2021; <https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210615~05b32c4e55.en.html>
- 3 Multiple answers were possible in the survey.
- 4 Unfortunately, the figures are not yet complete for some countries. The figures for France are based on the statistics of the dominant card scheme Cartes Bancaires, for Spain only card payments at POS terminals of the domestic scheme are taken into account, and in the Netherlands cross-border card payments are missing. The figures for Lithuania were not included here as there were extreme deviations from 2019 caused by the relocation of PSP from the UK (Brexit).
- 5 Visa data are calculated using constant exchange rates to minimise the effect of exchange rate movements. This also makes comparison with central bank data more difficult.
- 6 European Commission, Report on the application of Regulation (EU) 2015/751 on interchange fees for card-based payment transactions, 29.06.2020 - SWD(2020) 118 final, p. 18
- 7 Study Interchange Fee Regulation on the application of the Competition by EY and CE, 2020
- 8 Source ECB Statistical Data Warehouse
- 9 In our 2018 analysis, we reported a 2.8% share in our Report No. 5 (2020). The change was caused by an adjustment of the 2018 data in the ECB statistics.

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