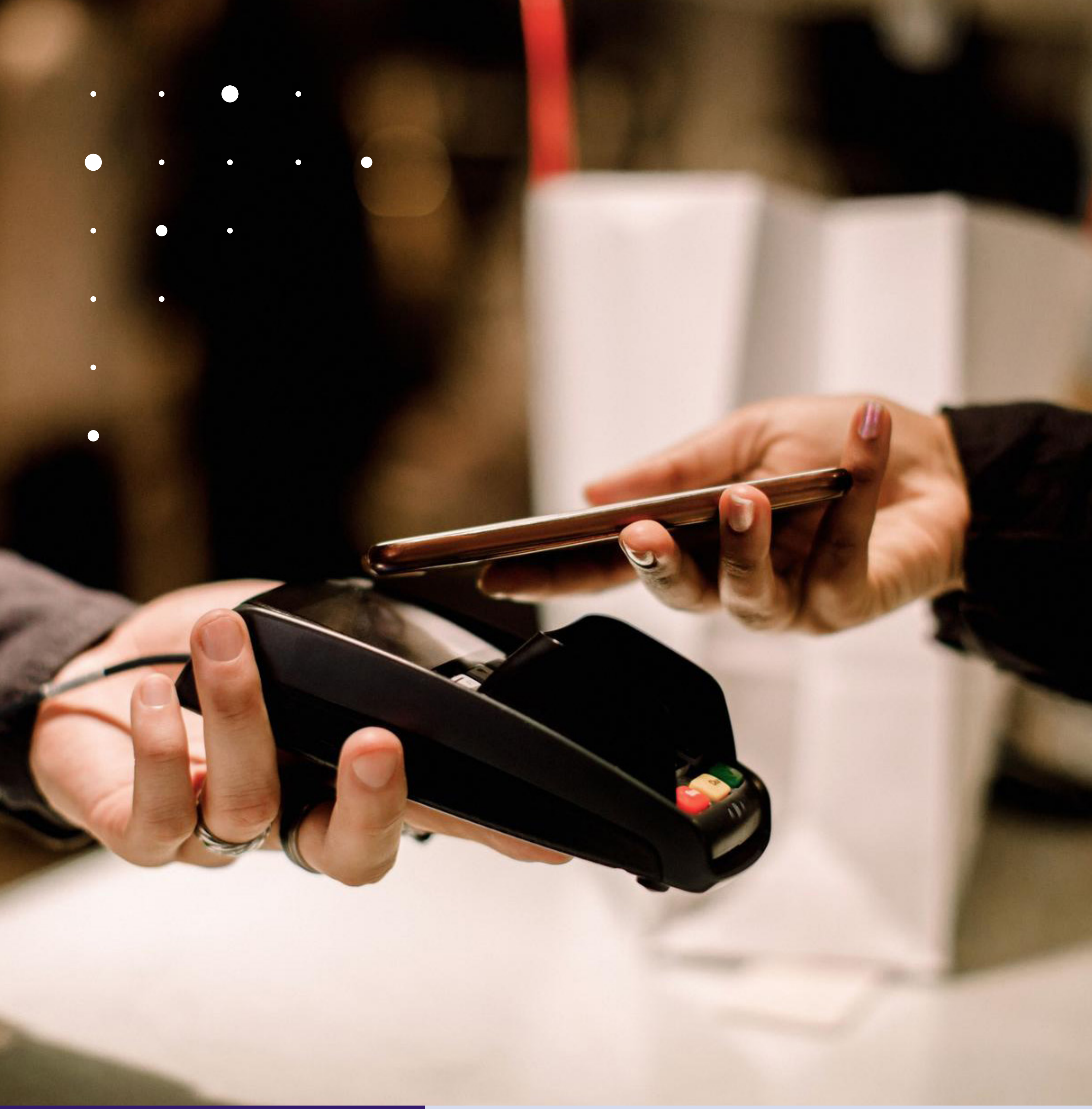

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Card use keeps growing – here are the strategic implications

Developers of Digital Futures

While much recent discussion has revolved around the rise of digital wallets and "alt-pays", new data reveals payment card use across Europe grew above trend coming out of the pandemic. **Hans Sjölund, Head of Card Sales & Business Development at Tietoevry Banking**, reviews what this means for players across the card value chain.

PCM's Digital and Card Payments Yearbooks 2022-2023, published in January this year[1], contained some surprises – not least the news that card use grew above trend across Europe. The number of European cards in circulation last year grew by 20% more than the long term average, at 5.18%, while spending on cards shot up by 17.64% – almost twice the long-term average. What's more, cards still constitute 57.3% of all cashless payments on average across 33 countries in Europe, with credit transfers and direct debit payments responsible for a majority of the remainder. These facts stand at odds with the thesis that cards are yesterday's payment instrument, and that digital wallets will soon dominate.

> "European card use grew at 20% above the long-term average last year, and still accounts for 57% of non-cash payments.

Cards still dominate cashless payments in Europe

	2017	2018	2019	2020	2021	GR 20/21	CAGR 5Y
Card payments (m)	81,186.5	91,710.2	102,283.1	100,065.3	117,716.1	17.64%	10.09%
Cheque payments (m)	2,720.2	2,441.1	2,166.9	1,583.7	1,452.4	-8.29%	-13.72%
Credit transfers (m)	33,207.8	35,246.8	37,867.2	40,107.4	43,650.4	8.83%	6.57%
Direct debits (m)	25,120.5	25,684.8	26,468.7	22,956.9	24,254.1	5.65%	0.29%
Other payment services (m)	1,731.1	1,781.8	1,577.5	1,283.4	1,288.3	0.38%	-6.55%
Total cashless payments (m)	143,966.0	156,864.8	170,363.3	165,996.7	188,361.3	13.47%	7.16%

Note: card payments include e-money purchases. Other payment services include remittances, transactions via telecommunication or IT devices, and few OTC. Other payment services include remittances, transactions via telecommunication, digital or IT devices, and cashless OTC cash withdrawals and deposits. Payment data is for 33 countries: EU27 + UK, Norway, Iceland, Switzerland, Turkey and Serbia.

Payments Cards and Mobile

[1] See The Digital and Card Payment Yearbooks 2022-2023 – European Overview at www.paymentyearbooks.com

Why are cards still popular?

Sources vary in their exact percentages, but research undertaken for the European Central Bank in late 2022[2] suggests that 55% of consumers in the euro area prefer to pay by card, while research for Visa from a year earlier[3] says 65% of US consumers are most comfortable with contactless card transactions coming out of the pandemic. There may be a number of reasons for this preference, not least consumer's familiarity with the card as a payment instrument during the challenging times we've experienced, as well as the convenience of paying with a contactless card.

> “ Developments such as NFC contactless, multi-function and biometric cards and tap-on-phone technologies have ensured the card's relevance in the digital era.

There are other factors in play as well. The introduction of near-field communication (NFC) payments with card over the last five years has reinvented the relevance of cards as a payments instrument in the face of competition from digital wallets. Furthermore, cards have become more powerful, with multi-function cards that combine credit/debit, buy-now-pay-later and loyalty making them more useful and flexible. Most recently, biometric cards have introduced a new level of security for consumers checking out in-store, while developments like tap-on-phone technologies mean consumers can use their card and phone in tandem to avoid queues while shopping in person or authenticate rapidly in the online environment.

Finally, in an era of rising fraud risk and fraud attempts – especially in the digital channel – it may be that consumers appreciate the range of security measures associated with card payment, especially since the introduction of 3DS 2 which, when coupled with risk-based authentication (RBA), can have a dramatic effect[4] on reducing the number of stepped-up authentications and cart abandonments while providing superior fraud protection.

The implications for payments players

> “ Cards will continue to play a central role in payments in the next decade.

While it's important to acknowledge that account to account payments (A2A) and digital wallets – among other payment means – are going to play a very significant role over the next decade, all of the factors reviewed above strongly suggest that cards will continue to play a central role in any payments strategy going forward. As we've seen, consumers prefer cards because they are familiar and easy to use, especially more as cards enhance their utility and security thanks to systemic developments such as Tap on Phone acquiring, 3DS 2 security and more.

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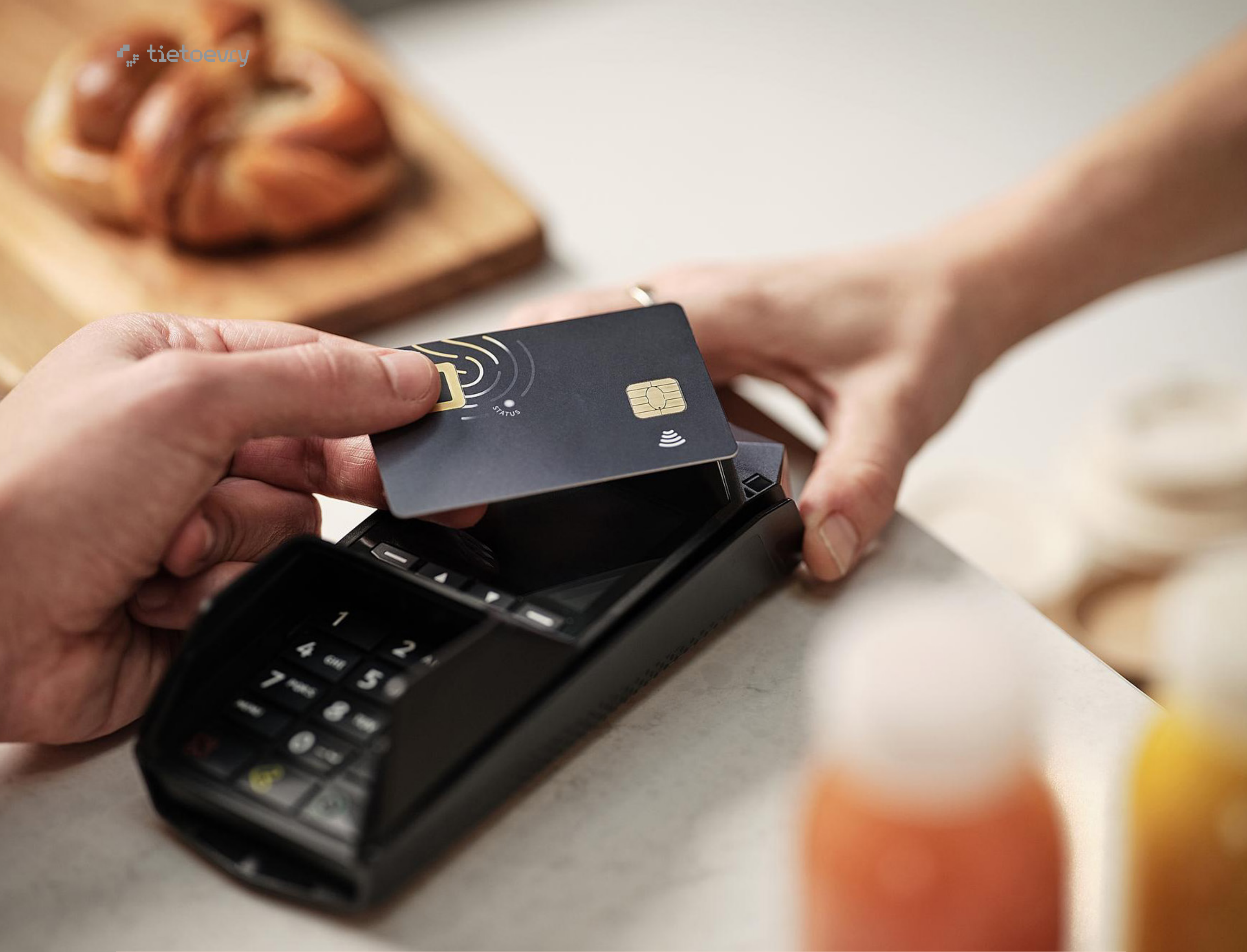
[2] The European Central Bank, December 2022, “The payments attitudes of consumers in the euro area”: https://www.ecb.europa.eu/stats/ecb_surveys/space/html/ecb.spacereport202212~783ffdf46e.en.html

[3] Visa USA, 7 January 2022: “Back to Business Study – one year on”: https://usa.visa.com/dam/VCOM/blogs/visa-back-to-business-study-one-year-edition-sep21.pdf

[4] See Visa, 12 April 2023, “Deliver more frictionless payment experiences and reduce risk with RBA”



> “At a time when banks are investing 75% of IT budgets on patching up legacy systems they should be investing in modern card platforms and customer innovation.

By implication, banks should seek to reduce complexity in their approach to cards and introduce more resilient, efficient and modern card management systems. At Tietoevry, we are aware of many institutions still operating card platforms between five and twenty years old which struggle to integrate modern payment methods, from virtual cards through to Open Banking payments. Publicly available data supports this view, with PwC[5] estimating that banks and insurance companies now spend 75% of their IT budgets on patching up legacy systems – leaving little room to invest in innovation.

By contrast, investment in modern technology stacks and digital-first products could speed up time to market, dramatically cut the time and cost banks spend on maintenance and improve customer service. There are examples across the value chain, from more sustainable card issuing practices (switching from paper to electronic communication, producing post-consumer plastic cards) through to fraud defences (modern AI systems that learn from fraud events) and acquiring and processing (omnichannel acquiring products able to handle everything from cards to crypto).

[5] See Techsense, 2 May 2022, “What are the hidden costs of legacy systems?”: https://techsense.lu/news/hidden-costs-legacy-systems-pwc

Delivering benefit – from shareholders to customers

European retail banking is in something of a crisis, with average return on equity having dropped from 11% a decade ago to 4% in 2021, according to KPMG[6]. This means banks have to make every penny invested count for the bottom line. At the same time, customers expect to experience the same ease and convenience from payments and banking that they find in other sectors of the digital economy, from food delivery services to streaming music and movies.

> Smart investments across the value in chain in cards will reduce long-term operating costs, improve profitability and deliver superior customer satisfaction.

By making smart investments across the value chain in cards, from production and issuing to acquiring and processing, banks will reduce their long-term operating costs, improve their profitability and return on equity while improving customer satisfaction. What's more, the heightened capacity for automation in modern card systems – automated dispute management is a great example – means fewer employees are required in such functions and HR budgets can be devoted to more fruitful areas such as product innovation and customer service.

As competition from Non-Bank Financial Institutions (NBFIs) like Klarna and PayPal or the giant "tech pays" grows – not to mention digital-only banks and fintechs – banks cannot afford to continue with their existing "make do and mend" approach to their card business in the belief that wallets and A2A payments will shortly supersede cards. The market data is clear – cards are set to be a major part of the payments mix for the foreseeable future, and banks should be investing accordingly. Failure to do so could lead to their position as Europe's leading issuers of card products being threatened by digital-first payments entities seeking to establish a physical presence, such as Amazon and Apple, both of which have already issued credit products in the United States and other markets.

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[6] SKPMG, July 2021: "European banks' profitability: plus ça change?": https://assets.kpmg.com/content/dam/kpmg/uk/pdf/2021/07/kpmg-european-banks-profitability-report.pdf

For more about how modernising your card systems enhances profitability and improves customer service, contact

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