Safety, Convenience and Choice:

THE TRUE VALUE OF CARDS

Research on the value and cost of cards in today's dynamic and vibrant payments ecosystem. Based on a survey of merchants working in physical and online retail across Europe.

PAYMENTS EUROPE

Introduction

"Payments are the lifeblood of the European economy".[1] This quote from the European Commission illustrates how vital payments are for our society, and the integral role they play to deliver an innovative and inclusive European economy. At their heart, payments are transfers of funds. However, digital payments are much more. They provide secure connections between millions of consumers, merchants, businesses and governments, each day, around the world. They make transfers faster, more convenient, and secure through innovative technology, delivered by a state-of-the art industry. An industry that is increasingly characterized by a wide range of brands and solutions, and generates and contributes immense value.

In today's hyper-connected society, consumers and businesses expect secure, seamless payments at any time and place around the world. Due to their critical role, digital payments are also a constant target for criminal behavior and bad actors. The payments industry is called upon to constantly invest, innovate, protect and maintain the resilience across the entire ecosystem.

The European payments market is diverse, with multiple brands and solutions available. **As the pioneer retail digital payments model, cards have traditionally played an important role and continue to do so by delivering innovation and resilience for consumers and merchants**, through popular developments like contactless and tokenized payment credentials. Card payments encompass more than the plastic card which many consumers are familiar with. Today they come in many forms: plastic or virtual, and card payment credentials can be integrated in mobile phones or watches, which can be used online or at a physical point of sale. Whatever form they take, Payments Europe research shows that **card payments continue to be valued as the most secure, convenient and preferred payment method by both consumers and merchants.**

Drawing from new research and data collated and commissioned by Payments Europe, this report provides insights into how the European payments landscape has evolved over past years and how it is expected to develop in the future. It looks at the growing competition in payments offerings across the European landscape, the role cards play for consumers and merchants, as well as the value relative to costs that are associated with them. This report draws from existing research as well as a **new survey of merchants conducted in 2023.***

*** Methodology:**
This report is based on a survey commissioned by Payments Europe and conducted by FTI Consulting in May 2023. The survey was completed by 1560 merchants working in physical and online retail in France (264), Germany (252), Italy (263), Spain (271), Sweden (242) and Poland (268).

This survey was also conducted in 2021, 9th to 15th July with 648 merchants working in retail. Breakdown by country: France (109), Germany (110), Italy (110), Spain (110), Sweden (106) and Poland (103). Both 2021 and 2023 results have been compared where relevant. For both studies, the countries were weighted to ensure an even representation. Company size in-country was also closely examined to enable comparisons.

The report was further completed with desk research based on publicly available sources, from public and private sector.

[1] European Commission: A Retail Payments Strategy for the EU, 2020

Content

Key highlights

Cash and merchants… a complicated relationship

- **Cash** remains the most common payment method in Europe. However, its **overall share of total transactions is declining**.
- **75% of European merchants prefer digital payments over cash**, and 65% would even like to have the ability to refuse cash.

Market evolution: winners & winners

- The European payments environment is a vast, multifaceted one, with a wide variety of brands and solutions available – **serving the different needs of different merchants and consumers**.
- **79% of merchants are happy with the payment solutions** available to them.
- The vast majority of merchants (85%) believe that **accepting a wide range of solutions increases sales**.
- **Mobile payments in Europe have tripled** over the last three years. Mobile wallets will account for up to 30% of e-commerce transactions in Europe by 2024. 77% of merchants think that **mobile payments have been beneficial for their business**.

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75% of merchants prefer digital payments over cash

72% of merchants prefer to accept cards over other payment methods

What merchants really want

- **Safety and security are the main priorities for merchants** when choosing payment method, followed by customer preference, reach, merchant convenience and cost.
- 72% of merchants prefer to accept **cards over other payment methods.**
- Merchants value cards because of **guaranteed payment, high security**, and because they provide a **better purchase experience**.
- Bank transfers, including instant, are behind relative to other payment methods, though they **are gaining popularity** in countries where popular instant payment brands exist, such as in Poland and Sweden.

Card payments: cost and value

- **Cost is not the most important variable when choosing between payment methods.** Security, customer experience, reach and convenience are key drivers of merchant preference.
- The vast majority of merchants are satisfied with the fees they pay for cards and 87% of merchants said **the value outweighs the cost**.
- **Card fees have remained stable over the years** – but can differ between transaction and merchant type. 67% of merchants say the cost has decreased or has remained the same in the last years.
- Unfortunately, still 1 out of 4 merchants indicate that they **do not understand the fees that they pay**.

87% of merchants say the value of cards outweighs the costs

Balanced payments strategies

- Developing an all-encompassing payments acceptance strategy is critical for merchants – especially small merchants – to **drive revenue and reduce cost**.
- While managing transaction costs is important, other elements such as **high approval rates, safety, fraud protection, and an attractive customer journey** are even more important.
- When asked about their **payments acceptance strategy**, security, and cost reduction are in the lead, while "increasing conversion rates", which can significantly drive sales, is only a focus point for 21% of merchants.

Empowering merchants

The payments ecosystem is evolving rapidly and staying up to speed can be a challenge. Initiatives aimed at sharing information and raising awareness of the different payment methods and brands available for merchants should be championed. They are **key to further empowering merchants, increasing sales, improving conversion rates, and broadening the customer base.**

Growth of digital payments

Digital payments have become a key **enabler of economic growth**. Merchants and consumers are increasingly adopting digital payments, contributing to the growth of both physical and e-commerce. The shift towards digital payments accelerated as a result of the COVID-19 pandemic, which introduced many consumers and merchants to the benefits offered by these solutions. This shift is expected to last as the majority of consumers now prefers using them to cash[2]. Payments Europe's survey indicates that **on the merchant side, 96% see digital payments as crucial for their business.**

While the shift towards digital payments is accelerating across Europe as a whole, **cash still plays an important role.** Indeed, national payment markets in Europe are at very different stages of digitalization and vary greatly in terms of access to digital payments – often with a range of national and cross-border payment applications and networks available. The use of cash versus digital payments is also culturally defined between EU countries.

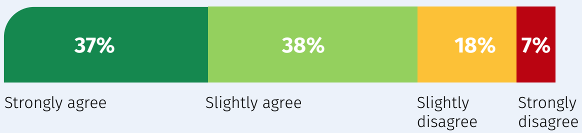
While its share is declining, cash remains the payment method used most frequently at point of sale. 59% of payments transactions in the euro-area are still made in cash, down from 79% in 2016 and 72% in 2019[3]. Yet, today **75% of merchants actually prefer to accept digital payment over cash.** The survey also showed that 65% of merchants would like to have the ability to refuse cash, with a slight variation among countries (lower in Germany and higher in Sweden, for example).

> “ 75% of merchants prefer digital payments over cash

[2] European Central Bank (ECB): study on the payment attitudes of consumers in the euro area, 2022
[3] ECB: study on the payment attitudes of consumers in the euro area, 2022

While physical cash is getting out of fashion, **digital cash is growing in popularity.** Policy makers in Europe, but also across the globe, are committed to ensuring continued availability of central bank money to all. The ECB and the European Commission are committed to offering a digital form of cash through a **Digital Euro**. Fabio Panetta, former Board Member of the ECB, recently said (December 2022): “We are seeing confirmation of strong demand for both cash and digital payments. Our commitment to cash and our ongoing work on a digital euro aims to ensure that paying with public money is always an option.”

I prefer to accept digital payments over cash



More brands, more solutions, more competition

The growth of digital payments is characterized by significant **diversification**. Many new payment providers and solutions have entered the ecosystem and are fiercely competing for share. Today, there are more payment solutions and services available to consumers and merchants than ever before. FinTech and BigTech, including social networks and online retailers, are increasingly disrupting the market to compete with traditional players like banks and card networks. This evolution is not unique, and in other parts of the world, in Asia for example, this paradigm shift has further progressed.

In addition to new payment applications, there are increasingly new payment networks being utilized in retail payments – notably SEPA and SEPA Instant in Europe for credit transfers, and potentially the Digital Euro – which sit alongside cards. These networks differentiate themselves through acceptance, settlement speed, anonymity, consumer protection and fraud mitigation and risk frameworks.

Digital wallets – led by global brands like Apple Pay and Google Pay – play an important role in such diversification. Digital wallets enable secure and convenient access to different payment methods, including account-to-account

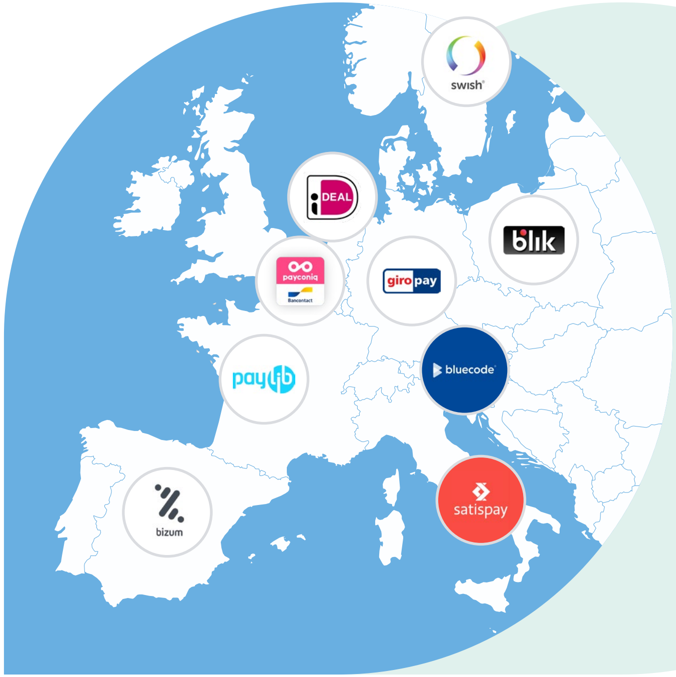
77% of merchants believe that mobile payments have been beneficial to their business

transactions as well as domestic and international card options. Digital wallets are becoming increasingly popular today in part due to smartphones and wearable devices. The share of mobile payments in Europe has tripled in the last three years, not least due to a significant increase in person-to-person payments[4]. It is predicted that wallets will account for up to 30% of e-commerce transactions in Europe by 2024.[5] Younger generations are much more drawn to mobile, and this trend is likely to accelerate as they increasingly enter the consumer demographic over time[6]. Merchants stand positive towards this trend. Our survey revealed that 77% of merchants believe that mobile payments have been beneficial to their business.

Beyond traditional banks, there is an increasing amount of **FinTechs** offering payment services. Their flexibility offers competitive advantages towards traditional banks that have to deal with greater legacy infrastructure as well as regulatory requirements. Digital banks like Revolut, Monzo or N26 are seeing success with millennials by offering innovative features. Klarna, a leader in online shopping and new payment solutions like buy-now-pay-later (BNPL), is attractive for young consumers and merchants. Klarna and others such as Afterpay/Clearpay, have really tapped into market needs with BNPL, a product that is supporting business growth and merchant sales. **Open banking** will give further opportunity to grow and diversify payments. Innovation is also happening in the **acquiring market**. While traditionally a fairly consolidated market, new and innovative players are emerging, such as Stripe. We also witness more integrated and tailored services and technologies, including mobile Point-of-Sale solutions, cross-border acquiring and account to account acceptance. This is making acceptance more diverse. **Large marketplaces** like Amazon have also elevated their competitive position, by starting to offer their own payment or consumer finance solutions.

[4] ECB: study on the payment attitudes of consumers in the euro area, 2022
[5] Worldpay from FIS Global: Payments Report, 2023
[6] Payments Europe: The Evolution of the European Payments Market, 2021

Additionally, many **national players** are active within their domestic market. Some have been established for years, others are new and growing fast. For example, **Giropay** in **Germany**, **Payconiq** in **Belgium** and **Luxembourg**, **Paylib** in **France**, **Satispay** in **Italy**, **Bizum** in **Spain**, **iDEAL** in the **Netherlands**, **BLIK** in **Poland**, **Swish** in **Sweden** and **Bluecode** in **Austria**, to name a few. Regional solutions are also coming to life. The European Payments Initiative (EPI) – a consortiums of banks – is building a wallet leveraging pan-European account to account instant payments.



The diversification of payment methods is welcomed by merchants. 3 out of 4 merchants in Europe say that the use of alternative payment methods, such as instant payments, has benefited their business and increases sales. In particular merchants are overwhelmingly positive in Italy, Spain and Poland, where cash has traditionally been perceived as the preferred payment method. At the same time, 60% of merchants also express concerns with BigTech.

Diversification is not only driven by new entrants. **Banks** and card networks have long been active in this space and are expanding, diversifying and consolidating their offerings. **Card networks** remain at the forefront of enabling payments and payment innovation.

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79% of merchants are happy with the payment solutions available to them

In addition to International Card Networks such, as VISA and Mastercard, there are ten important domestic card networks present in the European consumer market. These domestic card networks account for a significant share of payments in their respective domestic markets, and are exerting additional competitive pressure on the international card networks and alternative payment providers. In some markets, such as Belgium, the domestic network also owns fintech solutions (Bancontact-Payconiq).

Commercial cards

Commercial cards are used for business purchases, and differ from consumer cards. There are many commercial card networks available that operate under different business models, in particular 4 party networks and 3 party networks like American Express or Diners. The use of commercial cards is growing organically in line with the overall trend of increasing electronic payments and cards use. The growth of commercial cards is consistent with overall economic growth. It is suggested that commercial cards are more expensive to accept. Commercial cards have a different pricing structure because there are many additional business services that they provide to the benefit of end users, including merchants. Merchants are allowed to surcharge commercial cards to offset higher costs.

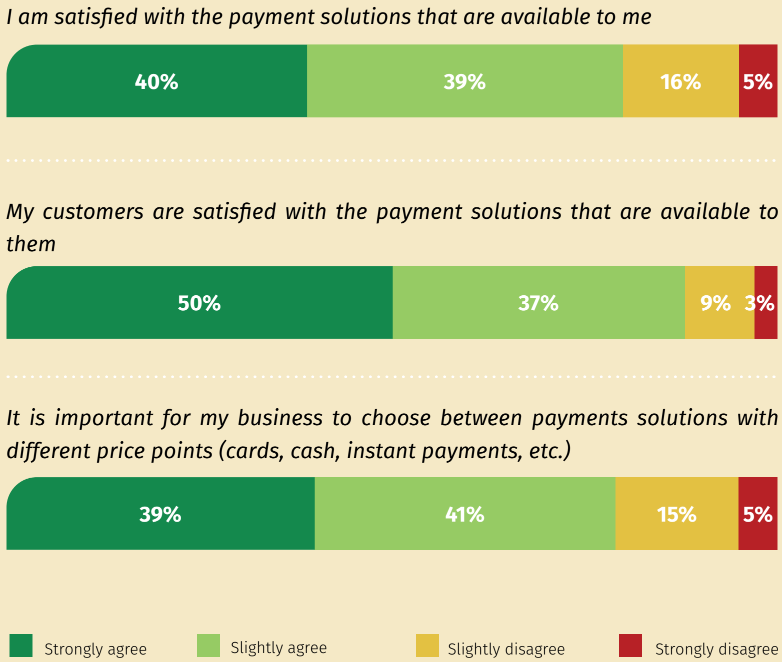
The value of digital payments

Narrowing the debate solely to acceptance costs disregards at least half of the overall cost-value relationship. It is vital that discussions on costs are relative to the overall value digital payment methods provide

As digital payments increase in importance for consumers and merchants, much of the discussion has focused on their cost of acceptance. Narrowing the debate solely to acceptance costs disregards at least half of the overall cost-value relationship. It is vital that discussions on acceptance costs are relative to the overall value digital payment methods provide. While the digital economy is making it easier for consumers to shop across borders and for retailers to scale their businesses, the **value and complexity of delivering digital payments is rarely fully appreciated.** The needs of consumers and merchants have changed enormously in the last few years, and payments have become much more than just transactions where money flows from point A to point B. They have become part of the shopping journey, expected to be safe, secure, fast and convenient, as well as growing sales revenue.

Increased diversification and competition give consumers and merchants greater choice and flexibility. **The variety of payment options available empowers both consumers and merchants to use or accept the payment method that fits their need in relation to a specific purchase.** Different payment methods carry different value and functionalities.

For instance, when buying bread at the bakery or purchasing an airline ticket, a consumer will value different features, such as security, insurance, availability, and protections if relying on credit. As more payment solutions come to market, it is paramount that these differ in features and functionality. Our research shows that 80% of merchants feel it is important to choose payment options that differ in value and price. The same amount of merchants said they are satisfied with already available payment solutions (cards, instant, cash, etc.), and even a higher number believe their customers are happy.



The value of cards

Of all forms of payment, cards remain the most popular. This goes for both merchants and consumers. In terms of numbers, cards account for 34% of physical transactions and 51% of online transactions in the EU. In terms of value of payments, cards surpassed cash in 2022, with 46% of the transaction value versus 42% for cash[7].

[7] ECB: study on the payment attitudes of consumers in the euro area, 2022
[8] Payments Europe: The Evolution of the European Payments Market, 2021

European merchants prefer cards

Consumers

Most consumers believe that card payments provide more added value than other payment methods. Previous Payments Europe research shows that cards best respond to consumers' needs when making payments – in particular in terms of safety and security, chargebacks and purchase protections, convenience, as well as access to credit[8].

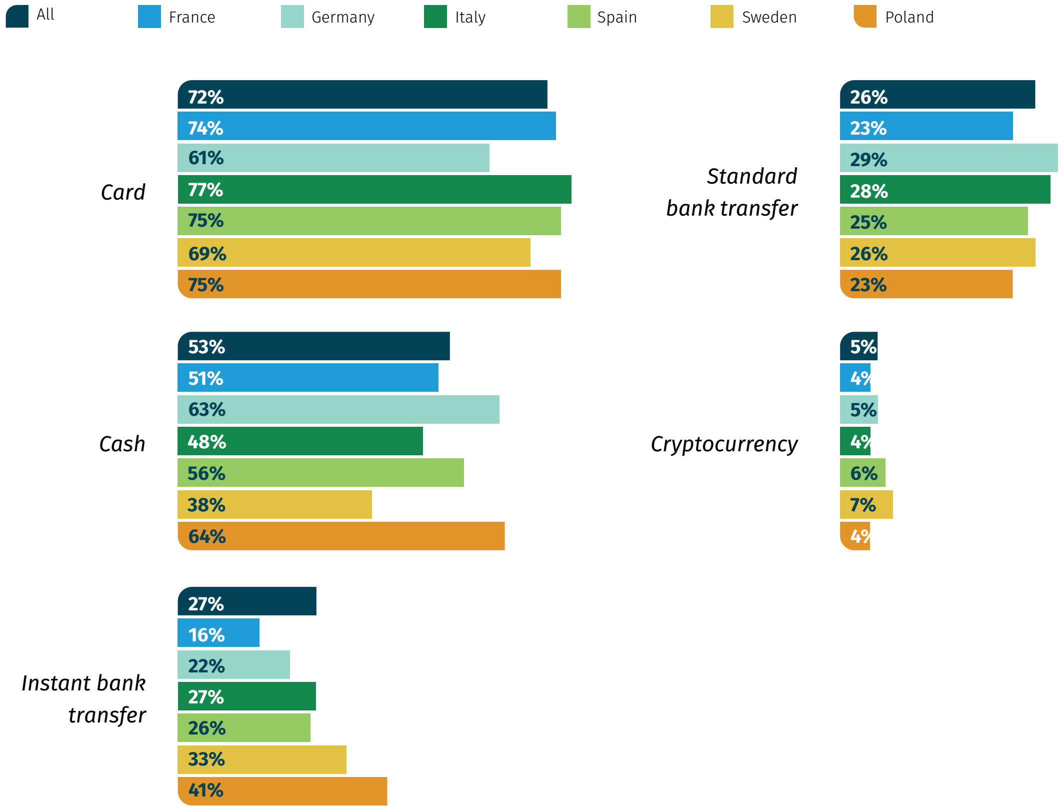
Merchants

When merchants were asked what their main priorities are in payments, they ranked safety and security first, followed by customer preference. Lower priorities, but still important for merchants, are customer reach, merchant convenience, and cost of payments.

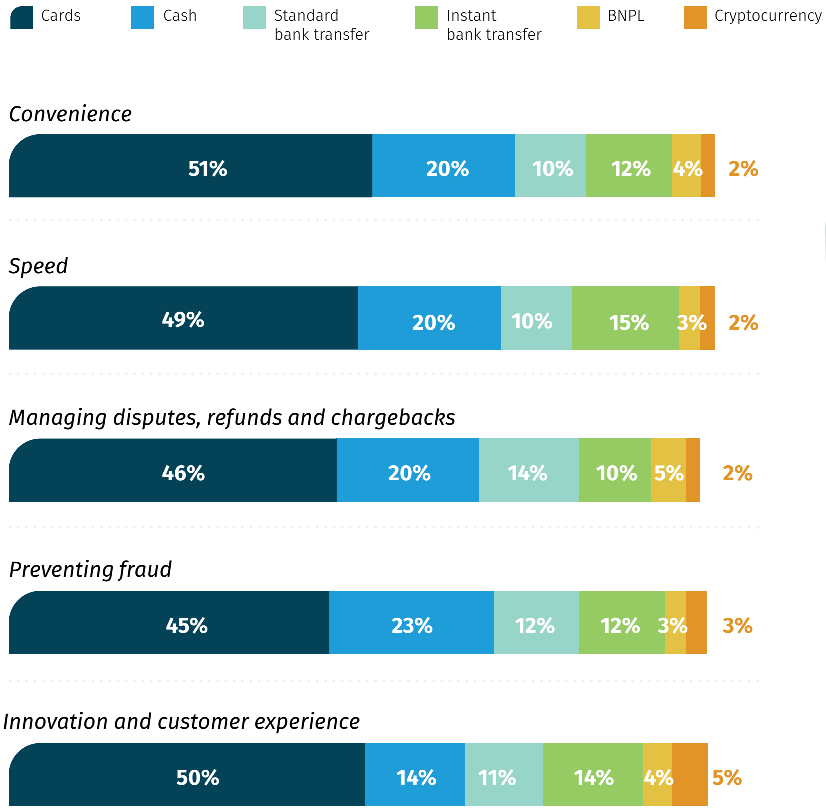
Attitudes across the main European markets follow a similar trend although there are some differences. For example, in Poland, merchants view reach, cross-border payments, and merchant convenience higher than the average. In Sweden, reduced red tape is prioritized.

While cash is the most prevalent form of payment, its use is declining. 72% of merchants prefer to accept **cards over other payment methods.** Cash is less popular in Sweden but more popular in Poland. In Germany cash is still slightly more popular than cards. Bank transfers, including instant, are behind relative to other payment methods, though they are gaining popularity in countries where popular instant payment brands exist, such as in Poland and Sweden.

Which payment method do you prefer to accept?



Which payment method is best for?



The main benefits of cards for merchants are:

Guaranteed payment
The single most important and appreciated characteristic of card payments is guaranteed payment. It ensures that merchants are paid for purchases providing financial security in case the customer funds fail to arrive. 98% of merchants indicated that guaranteed payment is an important feature of card payments.

Security
Security is a key priority for merchants when selecting payment methods. According to ECB data, card fraud is at historic low levels (0.028% of total value)[9]. Over 90% of merchants surveyed valued the lower risk of fraud associated with cards as important.

Creating a better purchase experience
Whether physical or integrated in a device, cards enable convenient and fast checkout, high conversion rate and deliver innovative purchase experiences to their customers, which in turn drives sales further. Around 65% of merchants indicate that speed and ease of use are a very important feature of cards, and around 30% think it is slightly important. In this context, 94% of merchants see significant value in contactless for their business.

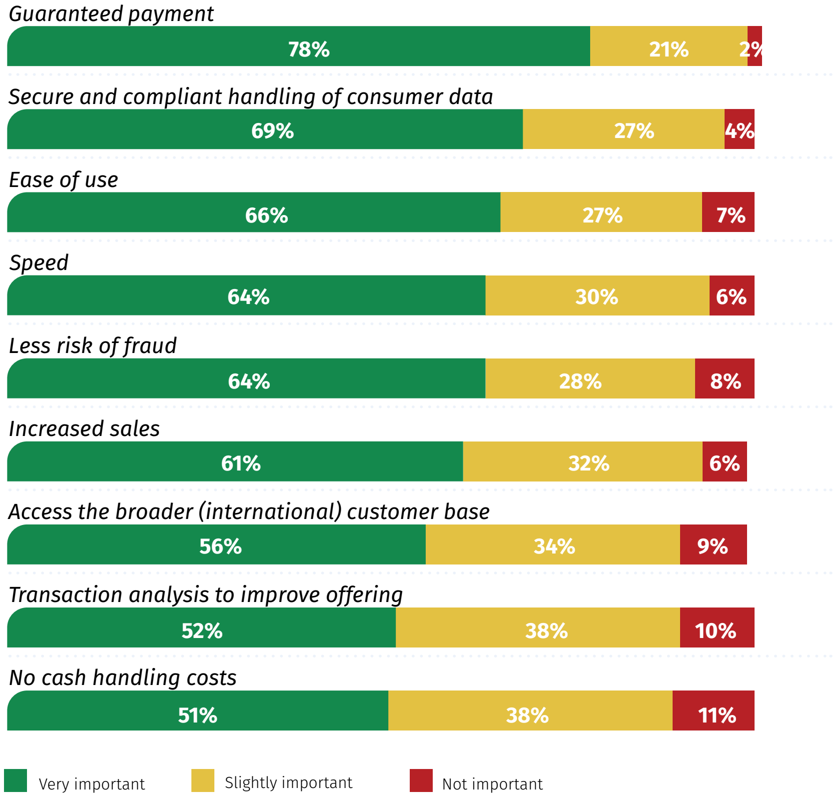
Enabling new sales channels
Cards are widely used and accepted in various commerce environments. They enable merchants to accept payments through all channels — in store, online, via mobile payments and at locations such as unattended points of sale, kiosks, and fuel pumps.

Access to a broad customer base
Cards are widely used by consumers in Europe and across the world. They allow merchants to offer products beyond borders as consumers will not be limited by the use of national payment methods. Cards have no borders. 9 out of 10 merchants see this as a benefit of cards.

Commerce insights
Merchants get access to data that enables analysis of trends, fraud patterns, and share of wallet. Access to this information and insight is invaluable, while simultaneously protecting consumer data and respecting privacy standards. These features are valued by merchants: 52% view it as very important and 38% as slightly important.

9 ECB Report on card Fraud, 2023

How important are the following card benefits to you?



And what about the costs of payments?

Cost of acceptance

The costs associated with different payment methods such as cash, cards, BNPL, (instant) bank transfers are not homogenous. Indeed, different payment methods offer **different functionalities and features** (e.g. guarantees, security, innovation, speed, convenience, etc.) and thus have different costs associated with them. This should be encouraged as it allows providers to offer solutions that compete based on value and costs. Indeed, our survey revealed that 80% of merchants believe it is important to have payment options with different price points available.

When considering the factors that impact cost of acceptance for merchants, however, it is important to focus on the total cost. Different costs, set by different players in the payments value chain, make up the total acceptance cost.

- The most visible cost for a merchant is the **'direct' cost** or (transaction linked) fee paid to the payment provider, such as an acquirer.
- The acceptance of payments also incurs other **'indirect' costs**, such as the cost for a cash register or a terminal for digital payments. Indirect costs also include fraud, theft (in case of cash), and back-office, administrative costs to manage payments (e.g. invoicing, reconciliation, sending payment reminders, walking cash to the bank).

These 'indirect' costs are less visible and measurable on a transaction basis but constitute the highest part of the total cost of acceptance, especially for cash and products like BNPL.

> 80% of merchants believe it is important to have payment options with different price points available

Comparing the costs of different payment methods

Taking into account all of these costs, recent data highlights significant variation in costs depending on the payment method[10]. Cash and payment products like BNPL are considered to be on the high-end of the cost spectrum, cards in the middle and alternative payment methods that enable bank transfers, such (instant) credit transfers, on the low-end.

- **BNPL** is one of the most expensive solutions, because of the high direct costs as well as steeper indirect costs.
- **Cash** may appear to be low cost but is among the most expensive. This is mainly due to the indirect and back-office cost associated with cash handling (e.g. cost of secure transportation to the bank, banking fees to deposit cash, equipment costs related to the register, safe and teller).
- **Cards** are in the middle of the range.
- **Instant payments** carry the lowest cost.

[10] BCG White Paper, The Hidden Cost of Cash and the True Cost of Electronic Payments in Europe and the UK, 2022

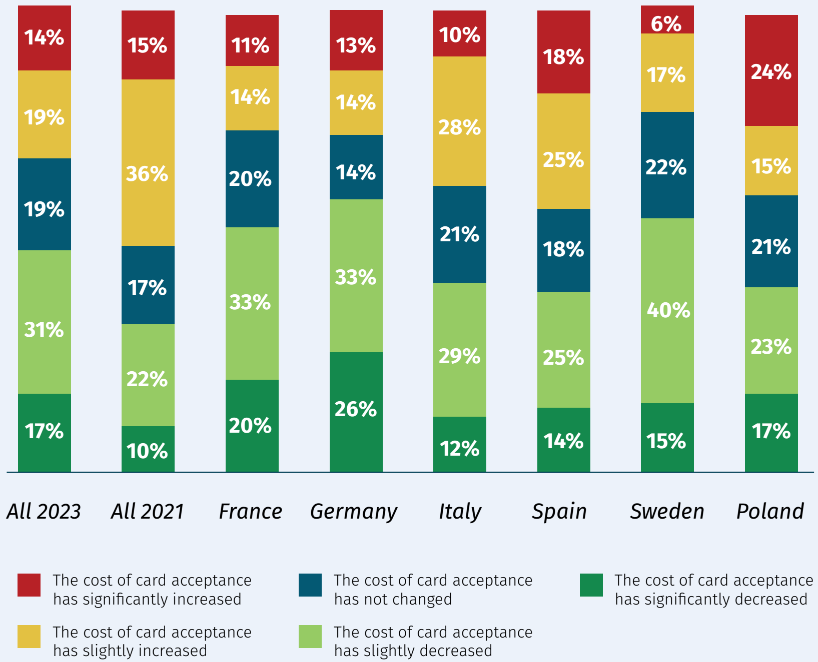
What about the costs of cards specifically?

The cost of cards falls within the middle range when compared to other payment methods. The direct cost of cards is the so-called Merchant Service Charge (MSC). MSCs are:

- Interchange fees (regulated fees between the card issuing bank and merchant acquirer)
- Scheme fees (between issuing bank/acquirer and the card network)
- Acquiring fees (fees charged by the acquirer to the merchant)

> About half of the merchants surveyed said card costs have decreased, 19% said they remained unchanged, and 33% said they have increased. Compared to 2021, fewer merchants believe that costs have risen.

Cost of card acceptance

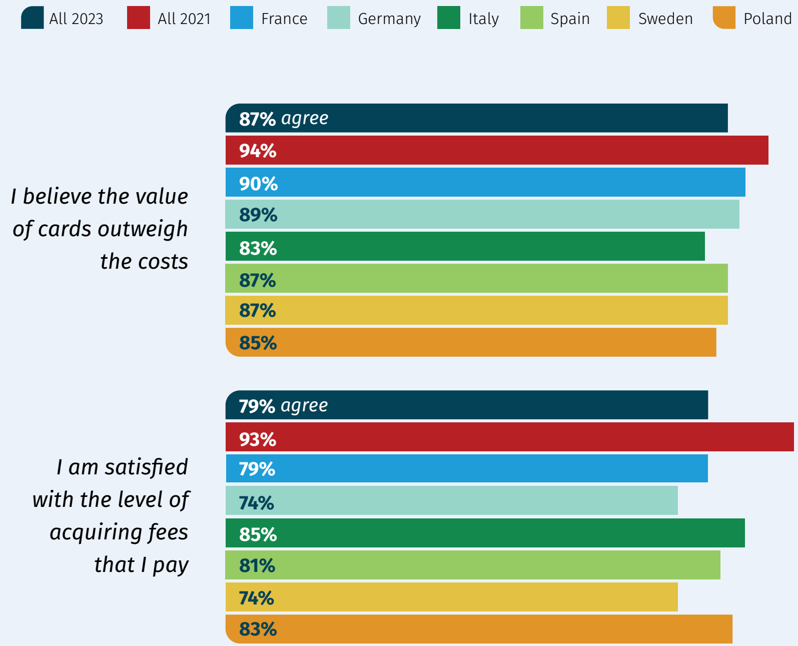


> 87% of merchants indicate that the value of cards outweighs the costs

While the level of MSCs can vary per transaction, data estimates that for the average transaction, **interchange and acquiring fees are the largest component.** Scheme fees are a smaller portion of the total cost of acceptance. On average, the fee for a domestic physical and e-commerce transaction is respectively 0,6 and 0,7%[11].

Defining an average transaction (and thus average cost) is however very difficult. When trying to define the MSC breakdown, it should be highlighted that there are **differences between merchants**. Merchants come in all shapes and sizes: from online to offline, small to large, and in a wide range of sectors, each having specific needs in the way they process payments. Merchant size is the most important contributing factor in the variability of card acceptance costs, especially regarding acquiring fees. Despite variations in costs, **4 out of 5 merchants indicate that they are satisfied with the acquiring fee they pay** - although this number dropped compared to 2021.

[11] BCG White Paper, The Hidden Cost of Cash and the True Cost of Electronic Payments in Europe and the UK, 2022



Acquiring fees

The contractual relationship for card acceptance is between a merchant and its acquirer. Large merchants are typically able to negotiate agreements whereas small merchants have less resources to shop around for the best deal[12]. Acquirers are likely to set merchant pricing based on several other carefully calibrated factors, including merchant risk, complexity of integration and other value-added services provided.

The **acquiring market is changing.** Traditional acquirers are experiencing pressures from new acquirer types. We are also witnessing innovation in the acquiring space. Terminal innovation, such as mobile POS and smart phone POS, continue to reduce costs for merchants. Cloud terminal solutions and tap-on-phone could further accelerate this trend. All of these are healthy market developments and will benefit merchants, in particular small merchants in the near future. For instance, mPOS terminals are estimated to cost less than half compared to traditional terminals.

> Data shows that costs for small merchants are higher than for large merchants

[12] Functioning of the electronic payments market in Belgium (Price Observatory instructed by Ministry of Economy, 2019

> About 80% of merchants are satisfied with the level of acquiring fees that they pay

Scheme fees

Schemes fees are the **smallest component** of the direct acceptance cost. They have increased moderately over the years to accommodate for the increasingly sophisticated end-user needs and expectations end-users demand from their payment networks. Drivers for this moderate increase include new regulatory requirements, ongoing investments in security due to the increase of cyber and fraud threats in the digital economy, product enhancements and new product developments to cater to consumer needs for faster and simpler payment (e.g. contactless, card credential tokenization, etc.). There has also been an increase in more complex cross-border and online transactions. These require more advanced functionalities, innovation, more bank connections and carry more risk, all of which inherently require greater oversight.

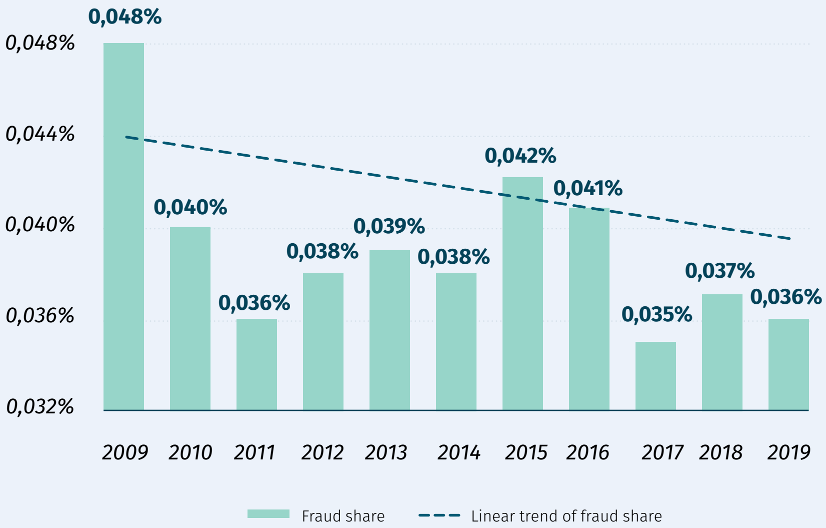
The cost of fraud

Among all the value features that payment solutions bring, it is worth zooming in on fraud protection. Fraud in payments is a constant challenge to overcome. As payments and security of payment innovates and improves, fraudsters become more sophisticated. Bad actors will never disappear. Instead they will look for the weakest link in the chain. Fraud hurts everyone: banks, payment providers, merchants and consumers. Everyone pays for fraud. The card industry tirelessly invests in fraud prevention, leading to innovations such as tokenization and fraud detection algorithms. **Despite increasing card use, fraud rates have generally decreased[13].** While lower in cost, instant payments provide limited protection to consumers, which is also perceived accordingly by merchants. Our survey revealed that only 1 out of 5 merchants believe instant payments offer very good anti-fraud measures.

[13] ECB: Report on card Fraud, 2023

The card industry tirelessly invests in fraud prevention

Value of fraudulent transactions as a percentage of total card transacation value



Conclusion

The European payments landscape is a vast, multifaceted one. It offers a wide spectrum of payments brands and solutions, available at European and national level, that serve the different needs of different types of merchants and customers.

Digital payments are delivered by a highly competitive and innovative industry. Competition does not only take place on the basis of costs. It is also driven by functionalities preferred by different consumers and merchants. As cost differs, so does the value proposition. More expensive solutions are available and preferred because of the value they bring relative to the cost.

Cards acceptance follows the same principle. **Merchants value cards because of guaranteed payment, high security, and because they offer a better purchase experience.** Indeed, card providers, like all payment providers, constantly invest to improve products and their offering. This of course comes with a cost. Card fees allow to pay for secure, convenient, fast and innovative solutions. They contribute to having the appropriate investments to enhance fraud protection, ensure guaranteed payment with zero or limited consumer liability, and increase sales. **The card payment industry must continue to pursue commercial value, including for itself.** Commercial considerations drive innovation and growth. Without commercial incentives innovation, including in security, speed and convenience, will lag behind.

Card fees have remained stable over the years – but can differ between transaction and merchant type. Despite this, unfortunately, still 1 out of 4 merchants indicate that they do not fully understand the fees that they pay.

> “ The vast majority of merchants are satisfied with the fees they pay for cards, and believe the value outweighs the costs

The acquiring space is also evolving, giving merchants the ability to find the best acquiring deals and tailor their acceptance, allowing for better returns via payments. While managing transaction costs is important, other elements such as high approval rates, safety, fraud protection, and an attractive customer journey are equally or even more important. When asked about their payments strategy, our survey revealed that increasing conversion rates, which can significantly raise sales, is key only for 20% of merchants.

> Developing an all-encompassing payments acceptance strategy is thus critical for merchants, especially small merchants, to drive revenue and reduce cost. Information sharing initiatives will further contribute to devising strategies that generate value.

The value that digital – in particular card – payment providers bring to end users is unique. They drive (cross-border) commerce, broaden customer base and product and services access, increase digital and financial inclusion, and contribute to the digitalization of our society. **The European payments market is a success story. Let's continue to grow it.**

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2023
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