Country Report: Latvia

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 and consumers in Latvia.

Introduction

Digital and mobile technology is continually evolving and advancing, creating new ways to pay. The modern payments landscape in Latvia is increasingly digital and both consumers and merchants' preferences are evolving. According to data of the Central Bank, more than two out of three payments are digital (https://www.bank.lv/en/operational-areas/payment-systems/payment-radar).

Underscoring digital growth, merchants expect cash-originated revenue to drop from 34% to 23% over the next 5 years. Further, while cash and payment cards (hereafter cards) remain the most popular payment options among consumers (more than 8 out of 10 consumers used cash and cards in the past year), other means of payment, such as bank transfers, are available and relatively prevalent, and use of cryptocurrency is higher than the European average.

Underlying it all is a sense of optimism: 78% of Latvian consumers believe Latvia is leading or on par with the rest of Europe when it comes to payments solutions.

> 67% of consumers will use instant payments in the next 12 months

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Methodology:

This report is based on a survey commissioned by Payments Europe and conducted by FTI Consulting in May 2024.

The survey was completed by 2,250 merchants working in physical and online retail in Latvia (250), Ireland (250), Austria (250), Greece (250), Czech Republic (250), Denmark (250), Finland (250), Hungary (250), and Lithuania (250).

The survey was also completed by 13,000 consumers living in Latvia (1,000), Ireland (1,000), Austria (1,000), Greece (1,000), Czech Republic (1,000), Denmark (1,000), Finland (1,000), France (1,000), Germany (1,000), Hungary (1,000), Lithuania (1,000), Poland (1,000), and Sweden (1,000). Respondents were weighted on region, gender, and age to ensure representativeness.

Key highlights

The merchant perspective

Relationship with cash

While cash remains an important element of Latvia's payments landscape, its role is declining. **78% of Latvian merchants would like to receive digital payment over cash.** Merchants rank cash third among their payment preference, following cards and bank transfers. Further, 60% of Latvian merchants would even like the ability to refuse cash.

70% believe the cost of handling cash is higher than fees for accepting card payment and cash-originated revenue is expected to drop from 34% to 23% in the next five years, particularly in favor of bank transfers, crypto and BNPL.

Market evolution: winners & winners

The Latvian payments market is diversified, with new solutions being adopted by merchants and consumers alike. **90% of Latvian merchants believe that digital payments are critical to their organization,** and 83% believe that accepting a large range of payment options increases turnover.

Further, **75% of merchants have increased usage of non-traditional types of payments in addition to cards and cash** and 74% believe bank transfers (bank and instant) have been beneficial to their business. **80% of merchants expect to be making more instant payment transactions in the next 12 months.**

What merchants really want

Safety and security (54%), **consumer reach** (39%) **and preference** (49%) **are the top priorities for Latvian merchants.** Interestingly, Latvian merchants are less concerned about their own convenience compared to the European average (25% in Latvia vs 37% in Europe).

Moreover, increasing turnover is a priority for 81% of merchants when considering their payments strategy optimization. Cards are considered the best to meet this strategic priority at 52%, followed by cash at 24%.

Card payments: cost and value

As outlined, cost is not a key priority for Latvian merchants: **Safety, security, consumer reach and preference are the top priorities.** Latvian merchants prefer cards over other payment methods because they meet those priorities best. Over 90% of merchants ranked guaranteed payment, fraud protection, increasing sales and ease of use as critical features offered by cards. **Cards specifically ranked above all payment methods when considering anti-fraud measures.**

When considering the cost of accepting cards, 62% believe the cost of acceptance has decreased or remained the same in the last 5 years, and **90% believe they pay reasonable fees for the value they receive from accepting card payments.** Further **80% of merchants believe lower card acceptance costs have been beneficial to their organization,** and **78% say the benefits brought about by card payments outweigh the costs.**

84% of Latvian merchants understand the fees they pay for accepting card payment, six points above European average, and Latvian merchant believe that they pay a reasonable level of fees for the value they receive (90% agree or strongly agree)

Key highlights

The consumer perspective

Relationship with cash

While use of cash is still prevalent, digital payments are gaining prominence among consumers.

Today **cards and cash are used at the same rate,** followed by standard and instant bank transfers. **68% of consumers would also prefer to pay with card over cash if given the option.**

Market evolution: winners & winners

The Latvian payments market is in evolution, with healthy competition and new payment methods becoming available every day. Beyond more traditional payment methods, such as cash and cards, **67% of consumers will use instant payments in the next 12 months.** Latvian consumers make several purchases online on average each day and week. 8% of consumers would prefer using cryptocurrency for their online purchase experience, higher than the European average. Moreover, **94% of Latvian consumers believe the market is innovative, and 78% believe it is leading or on-par with others in Europe.**

Finally, **58% even support mandatory acceptance of digital payments.**

A look at consumer preference

Safety and security are top priorities for Latvian consumers when choosing between payment options. The ability to monitor or track expenditure is also ranked higher compared to other European consumers.

Interestingly, **environmental and sustainability** credentials also influence Latvian consumers in their choice of a preferred payment method. Nearly **8 in 10 find that the sustainability credentials of their bank or payment provider play an important role** in the decision-making to use one payment method over another, 16 points higher than the average European consumer.

Overall,

88% of consumers believe their current payment needs are met.

Value of cards

When choosing between payment methods, cards are the preferred option for Latvian consumers.

Cards are ranked highest for their convenience/ ease of use and security features and ability to pay online.

Across the board, cards scored highest to meet these priorities.

Comparatively, if we look at alternative payment methods, only 19% of consumers do not have concerns when executing bank transfers (either instant or standard bank), where fraud and non-redeemability of funds were overwhelmingly listed as the top concerns.

78% believe that card payments provide added value compared to other payment methods, and **78% trust cards over all other payment methods.**

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Digital Euro

Knowledge regarding the development of the Digital Euro is in line with the rest of Europe. 16% of merchants consider themselves to be knowledgeable and 56% are aware of the initiative. The key perceived benefit would be convenience (34%) and speed (31%). At the same time 30% are not sure what the benefit of a Digital Euro would be.

On the consumer side, Latvians are slightly more aware than their European peers about the Digital Euro (55% said they are aware). Yet 63% said they are unsure how it would benefit them. Further, 58% believe the digital euro is a form of crypto currency, and 48% would not use or are unsure when they would use the digital euro.

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