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A rapid evolution of payment methods in the new normal

PAYMENT

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Taking a look back at 2020, it is clear it will be one of those years that creates a 'before' and an 'after'. The payment methods we use on a daily basis are no exception: our new habits will usher in a new normal for payments.

- The Covid-19 pandemic accelerated the shift from cash to card
- Contactless payments also increased sharply in 2020
- Lockdowns boosted the growth of e-commerce
- New payment behaviors are on the rise: P2P apps, debit over credit, "Buy Now Pay Later"...
- Modified payment habits rarely revert back to the old ways

One giant leap for cashless transactions

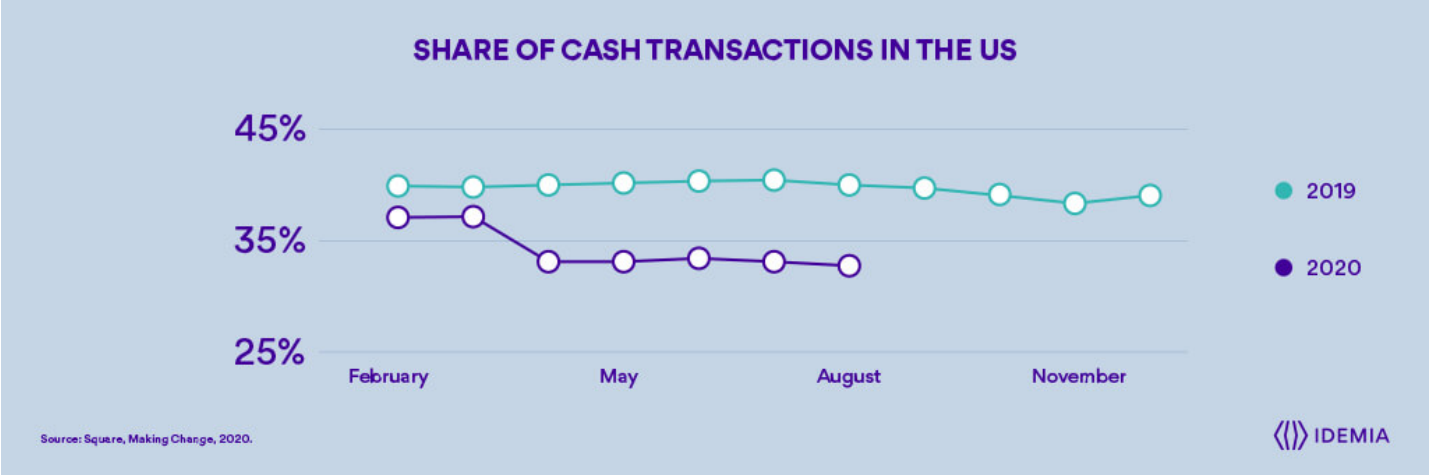
Taking a look back at 2020, it is clear it will be one of those years that creates a "before" and an "after". The payment methods we use on a daily basis are no exception, and our new habits in this domain can provide some keys as to what the new normal for payments will look like once the dust settles. In reality, **the events of 2020 reinforced trends that were already in play**, but they accelerated them by several years within a period of mere months.

Payment methods way ahead of projections

As an illustration of this, the Worldpay global payments report projected early 2020 that the cash share of in-store payments would fall from 30% in 2019 to 19% in 2023. But now, its 2021 edition shows that the **cash share of payments has already plummeted to 20% in 2020**. This is arguably the most dramatic shift in payments history. Similarly, according to a Visa Back to Business study, in 2020 78% of global consumers changed the way they pay, and 70% used a new payment method for the first time. Here is a look at how 2020 catapulted payments years ahead of what projections predicted.

The quick expansion of card payments

Ever since the world's first payment cards saw light in 1950, the global migration from cash to card has been set in motion. **Ever more merchants offered their customers to pay by card, while ever more consumers migrated their payments from cash to card**. Until 2020, one could describe the shift as slow but steady: early 2020, Visa presented estimations showing that it had a $4 trillion volume of payments in North America, but that there were still $4 trillion worth of cash and check payments in the region. Similarly, 10 million North American merchants accepted (Visa) card payments, but there were still another 10 million untapped merchants. However, the global pandemic triggered a big jump in the curve.



The fall of the last bastions of cash

Another example of this quick evolution can be found in Germany, a long-standing bastion for cash payments. As Abi Carter bluntly puts it on Iamexpat.de, "Germans have stubbornly kept hold of their banknotes and coins, even as other countries across the world embraced the speed and convenience of bank cards." But in May 2020, cashless transactions rose by 48% in Germany compared to the previous year, and card payments were predicted to exceed cash payments for the first time in the country's history in 2020.
Though merchants around the world have continued to accept cash throughout the pandemic, many customers have abandoned bills and coins altogether, and merchants who did not accept card payments prior to the pandemic have started to do so.

PROPORTION OF BUSINESSES WHERE AT LEAST 95% OF PAYMENTS WERE MADE BY CARD, BEFORE AND AFTER THE PANDEMIC PEAK OF THE SPRING OF 2020

	AUSTRALIA	CANADA	UK	JAPAN	US
Before	6%	9%	10%	0.6%	8%
After	36%	48%	60%	0.8%	31%

Source: Square, Making Change, 2020.

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From swipe to pay to tap to pay

Even prior to the outbreak of Covid-19, **customers in many parts of the world had adopted contactless payments**, where they tap their card to the merchant's POS terminal. In Australia for example, 92% of Visa payments were contactless as early as 2017. In other countries, the migration had been much slower, but during the spring of 2020, 41% of global consumers who said their cash usage was high tried a contactless card payment, and MasterCard recorded a 40% increase in its contactless transactions worldwide in Q3 2020. Also, numerous countries increased the thresholds for contactless payments, meaning that consumers could tap to pay for a larger proportion of their daily purchases.

THRESHOLDS FOR CONTACTLESS PAYMENTS PER COUNTRY

	FRANCE	EGYPT	AUSTRALIA	CANADA	KENYA	BRAZIL
pre Covid-19	EUR 30	EGP 300	AUD 100	CAD 100	KES 2 500	BRL 50
post Covid-19	EUR 50	EGP 600	AUD 200	CAD 250	KES 3 500	BRL 100

Sources: NFWC, 2020; Latin America Business Stories, 2020.

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Of course, though cash payments are rapidly decreasing, a large part of the world's consumers are still paying with bills and coins. **But even in the case of cash withdrawals, the trend is going towards contactless**: Switzerland for example recorded a 269% increase in contactless cash withdrawals in 2020.

The continued rise of e-commerce

Covid-19 and the resulting lockdowns made **consumers turn to e-commerce** at an unprecedented rate in 2020. In the US, e-commerce sales grew by a staggering 44%, the highest year-to-year growth in over 20 years. In China, arguably the world's most developed e-commerce market, online shopping is estimated to represent more than half of all retail sales in 2021. **Although much of this growth comes from existing users shopping more frequently, a significant amount comes from new users**. An illustration of how the Covid pandemic triggered an inflection point and made consumers change their behavior quickly is the fact that in Japan, online grocery sales rose from an estimated 2.5% to 5% in 2020, a remarkable shift "for a country that had been expected to take years to embrace online food shopping because of a zeal for fresh and perfectly presented [products]".

STAY-AT-HOME ORDERS BOOSTED THE GROWTH OF E-COMMERCE IN 2020

Source: eMarketer, 2019, 2020.

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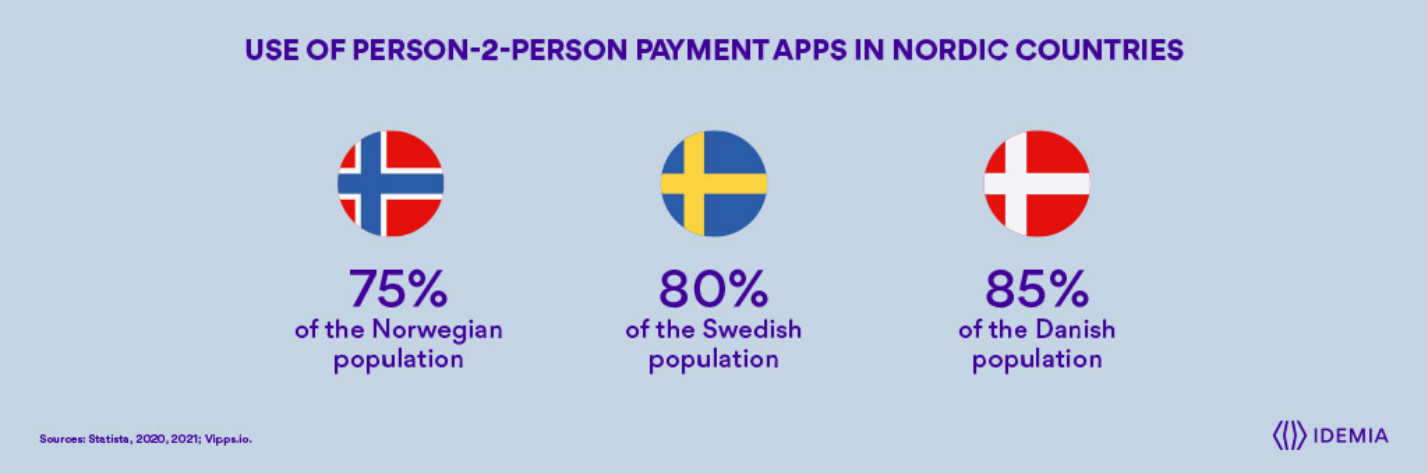
E-commerce is taking over all sectors

Needless to say, this shift from in-store to online shopping has a deep impact on many aspects of the economy, with for example nearly 60% of US merchants saying they were forced to **refocus their business towards online sales**. And this is true even outside of retail. Cafés and quick-service restaurants (QSR) have seen their customers migrating towards drive-thru and takeout services to an increasing extent instead of dining in.
As an example of this, a well-known global chain of coffee shops, for which 80% of transactions in the US were already on-the-go prior to Covid-19, has announced that to meet changing customer behaviors, it will expand pickup stores in high density markets such as city centers while developing curbside, drive-thru and walk-up windows in suburban areas.

P2P payments go digital too

Consumers in most countries have been able to use non-cash payment methods for many years, and Covid accelerated an ongoing shift from cash to cards for in-store payments. However, for person-to-person payments (P2P)—Michael paying his friend Julia the $20 he owes her—cash still prevails in most parts of the world.
But a few years ago, **P2P payment apps** started to emerge, allowing Michael to instantly pay Julia his $20 just by tapping his phone. Examples of such apps are Paytm in India, coins.ph in the Philippines, TNG in Hong-Kong, Swish in Sweden, MobilePay in Denmark and Vipps in Norway. These apps have been particularly successful in Scandinavian countries, where they are now used by almost the entire adult population. Sweden is arguably leading the race to becoming the world's first cashless society: the disappearance of cash could happen there as soon as in 2023, according to various estimations.



An expected and massive increase for P2P payments

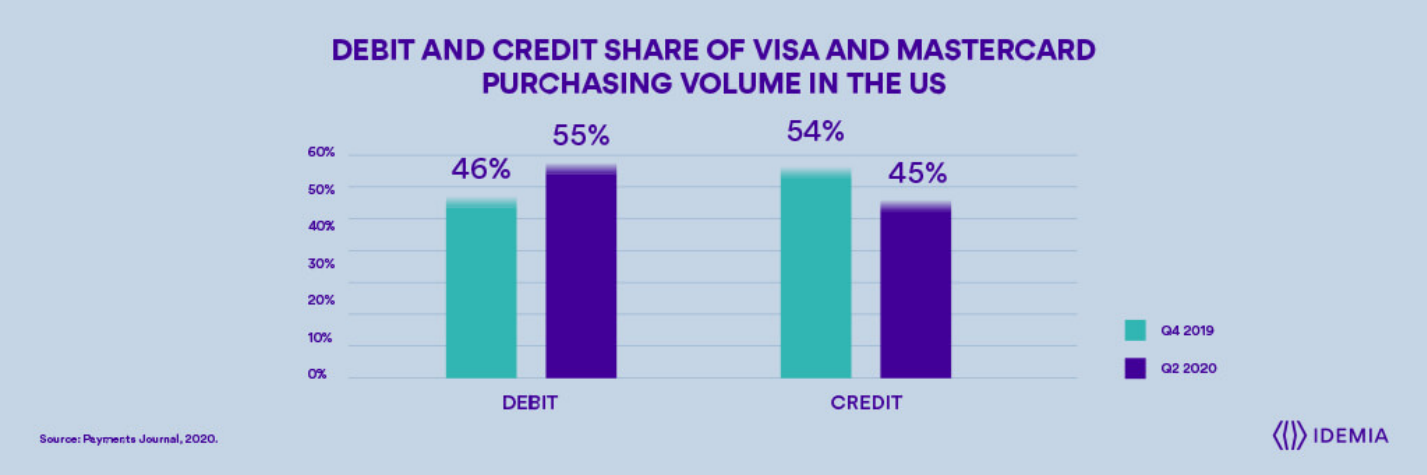
Though other countries are still far from reaching that point, here too, Covid has accelerated something that was already in motion. Person-to-person payment app Zelle, for example, which is offered by many American financial institutions, recorded a massive 62% increase in the number of transactions in 2020. And Visa is seeing a market opportunity of $20 tln in the P2P payments market worldwide in the years to come.

The shift from credit to debit and 'BNPL'

The global pandemic affected certain sectors more severely than others. Card spending in the travel & entertainment (T&E) segment particularly has plummeted. American Express for example reported its T&E payments were down 95% for Q1 2020. In the US, T&E and large-ticket purchases are typically made with credit cards. In addition to the decrease in spending in these categories, a **shift from credit to debit** card payments can be observed here as in other countries, due to a rising penchant in consumer psyche towards not spend someone else's money, but their own.

Simultaneously, there has also been a massive increase in so-called "**Buy Now Pay Later**" payments. Put simply, BNPL is a form of installment payment where consumers pay for their purchase in a series of fixed installments over a predefined period, which is perceived very differently from paying by credit. BNPL global leader Klarna more than doubled the number of its US users in 2020, and 36% of small businesses worldwide believe that the ability to allow for installments for online payments is critical to meet consumer needs.

Among consumers, the growing millennial segment has proven to find the BNPL concept appealing (54% of millennials in the UK use BNPL), and since these consumers are used to pay monthly subscriptions to services such as video-on-demand and music streaming, "installment plans start to look like subscriptions that just happen to have a fixed end date".



Cashless transactions are here to stay

Most of these Covid-accelerated movements can be expected to settle in as the new normal for the years to come. **Payment habits typically change slowly, but once they have been adopted, consumers rarely go back to the old ways** . Only 16% of consumers worldwide say they are likely to revert to their old payment methods even after a Covid-19 vaccine is widely available. There is little doubt that cash will eventually be replaced by **cards and other forms of digital payments** and gradually disappear in many parts of the world, contactless transactions will go mainstream, and the consumer experience will be ever more digital and remote.

That being said, some caution is probably advisable here nevertheless. In the words of Mercator's Debit Advisory Service Director Sarah Grotta: "If you take a look back at 100+ years of payment history, we never truly get rid of any type of payment transaction, we just add new ones".

Sources: atmmarketplace.com, 2021; CapGemini, World payments report 2020; digitalcommerce360.com, 2021; edition.cnn.com, 2020; emarketer.com, 2019 and 2020; finder.com, 2021; finextra.com, 2021; fool.com, 2020; forbes.com, 2021; iamexpat.de, 2020; interestingengineering.com, 2020; labsnews.com, 2020; marketwatch.com, 2020; nfcw.com, 2020; paymentsjournal.com, 2020 & 2021; paymentssource.com, 2021; pymnts.com, 2020; retailtouchpoints.com, 2021; reuters.com, 2020; Square, Making Change; statista.com, 2020 & 2021; stories.starbucks.com, 2020; The Visa back to business study, 2021 outlook; vipps.io; Visa, Investor Day report 2020; westpac.com.au, 2018; zellepay.com, 2021