Shifts in Consumer Finance After Coronavirus

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Passport
Euromonitor International

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Introduction

COVID-19 has impacted every sector, including financial cards and payments and consumer lending. The long-term effects of the pandemic are starting to become clear, as consumers incorporate social distancing and avoid large gatherings. Travel has drastically declined, with every player in the industry struggling to persevere to the end of the virus. More and more consumers are unemployed or are struggling to find full-time employment. This has resulted in rising write-offs, declining credit card usage and consumer defaults on loans across the world. A large portion of the economic hardship is being seen in the developed world, but in an integrated global economy no market is immune to the effects of COVID-19.

COVID-19's impact across payment players

Card networks

- In the short term, as consumer spending overall is negatively impacted, card networks' processed payment value will decline. With consumers adapting to restrictions on behaviour in the mid- and long term, card payment value will increase and take share from paper payments. Card networks are in a unique position as partners with merchants, fintech companies and card issuers to assist in the transition from in-store shopping to online. As social distancing measures are adopted, the use and acceptance of contactless cards is expected to increase across the world in both emerging and developed markets.

Card issuers

- Card issuers are better prepared for an economic downturn than in the previous 2008 recession but are still likely to suffer a rise in non-performing loans and losses on credit card portfolios. Their stronger financial position has positioned issuers to extend payment options for consumers impacted by unemployment, underemployment or illness. The incentives and rewards of credit portfolios will also need to be adjusted to provide value to consumers, as the traditional travel- and experience-related categories are less relevant in a social distancing environment. Issuers may expand card portfolios to functions focused on spending management.

Fintech

- Fintech has an advantage in the pandemic as an industry built on innovation and technology designed to reduce friction and increase value. A number of companies have emerged or expanded rapidly to move store-based merchants online, provide financial products and services to SMEs and consumers, enhance security and provide analytics for merchants to optimise operations. In the current landscape, fintech is serving as a partner to issuers and networks, and has the potential to take share in either industry. One area for further improvement will be reducing the total value lost to fraud from electronic card payments.

What could alleviate the economic effects of the pandemic?

A **coordinated global response** limits the spread of the virus. Advanced economies help emerging economies with their response and this limits the spread and length of the pandemic.

Effective treatment, widespread testing and a vaccine help to curtail the pandemic. The vaccine provides certainty that the virus will not return at pandemic levels, which gives people security. The economy quickly rebounds.

Fiscal and monetary policy stimulus helps companies and consumers stay afloat and supports demand through uncertain times. Once the pandemic passes, the economy quickly and fully rebounds because no financial crisis with a considerable number of defaults and bankruptcies was triggered.

It becomes evident that the spread of **COVID-19 slows down in warmer weather**. Countries are able safely to remove the severe quarantine measures in the summer, which leads to economic recovery. The virus does not return with a severe impact for a second wave in autumn 2020.

What could exacerbate the economic impact of the pandemic?

Declining private sector income and sentiment, lower employment and tightening credit conditions cause **declining consumption and investment**. Lack of investment in infrastructure reduces the potential economic growth and speed of the recovery.

The pandemic lasts longer with more people infected than in the baseline forecasts. Social distancing measures have little impact on curtailing the spread of the virus and the virus spreads across emerging economies.

Cashflow mismatches between business costs and revenues cause business liquidity problems and a rise in bankruptcies. Administrative bottlenecks limit access to financing for businesses.

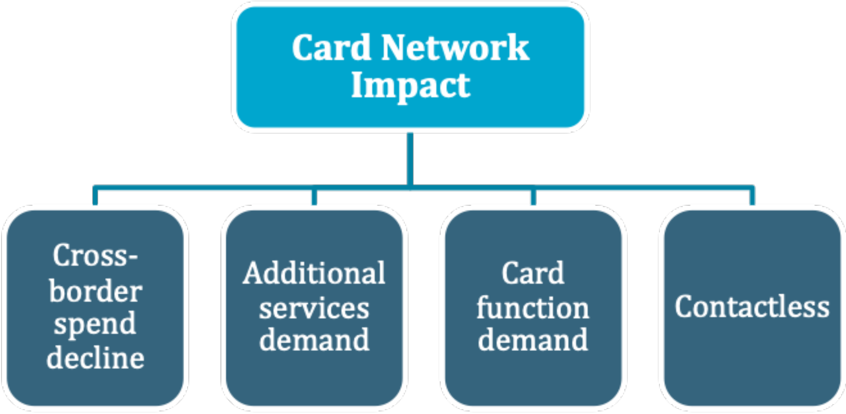
Current short-term travel bans grow out into **long-term protectionist policies** and decoupling gets an additional boost. Global trade declines and remains low in the long-term future too.

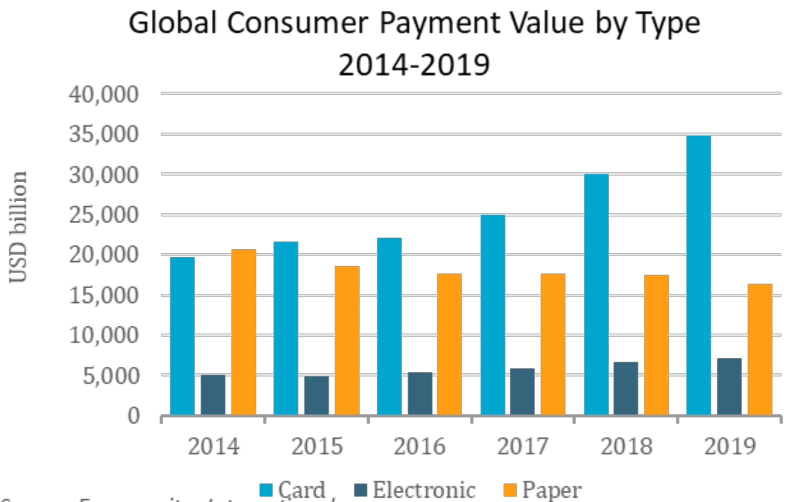
High-debt companies (eg the shale industry in the US) cannot roll over debts due to a slowdown in business, which gives rise to **bankruptcies, triggering a financial crisis**.

Card Networks

Like many industries, in the short term, card networks will be negatively impacted by the economic contraction brought on by the COVID-19 pandemic; however, the mid- and long-term impact of the acceleration in consumer payments moving away from cash will strengthen the networks' position in the consumer payment landscape. Specific impacts on the networks include: the decline in travel will negatively impact cross-border spending, demand for additional services beyond processing payments will increase, card function preferences will shift and contactless payments will be in greater demand.

COVID-19 presents opportunities and challenges for networks



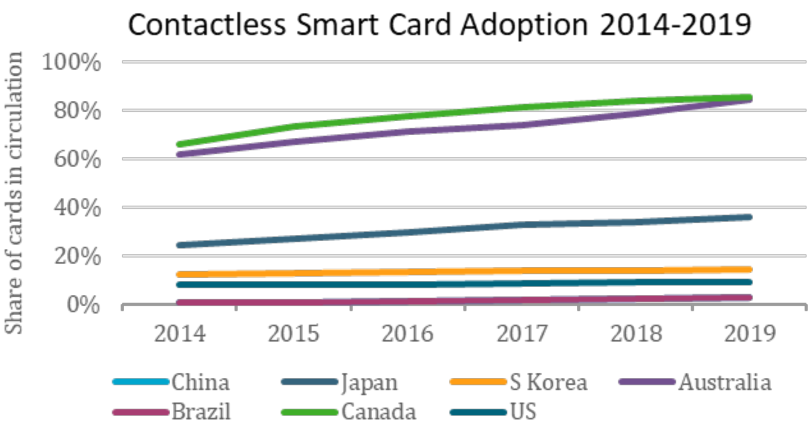


Source: Euromonitor International

- The financial card networks have faced significant declines in payment value, as consumers in many markets have been told to shelter in place, or they face restrictions on where they are able to go and where they are able to shop. The challenge for store-based retailers to adapt rapidly to newly imposed restrictions on how consumers pay has placed the card networks in a unique position to provide solutions and services to facilitate the transition. The initial impacts from the COVID-19 pandemic on card networks have been declines in cross-border spend fee revenue, an increase in demand for non-payment data-based services, a shift from credit to debit card utilisation among consumers, rapid growth in card-not-present payment value and an increase in demand for, and use of contactless cards.
- The overall decline in consumer spending will negatively effect all companies involved in card payments in the short term, but as consumers abandon cash in favour of cards, and electronic alternatives take hold, these companies will benefit during and beyond an economic recovery, as consumer behaviour changes.

Making contactless the standard

- Prior to COVID-19, a number of markets effectively transitioned to enable contactless payments, and are the best prepared to incorporate social distancing into the payment process. Other markets where it has not been adopted are expected to move quickly to make it the standard. Where contactless has already been adopted, the card networks have raised the maximum purchase value to allow for a wider range of payments.
- Payment using mobile devices has grown rapidly in recent years in the US and China, and this is likely to continue over the forecast period, due to the pandemic. The leading markets by total value for mobile proximity payments are largely developed markets in Europe and Asia Pacific, but adoption going forward is expected to be more balanced between regions and between developed and emerging markets.
- The US and China far outpace other markets, accounting for 79% of all mobile proximity value among the researched markets in 2019. The combined share of the two markets increased by 36 percentage points over 2014-2019.



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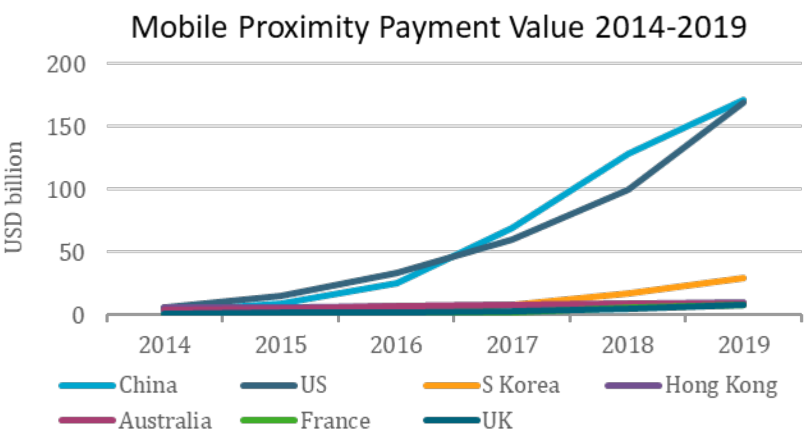
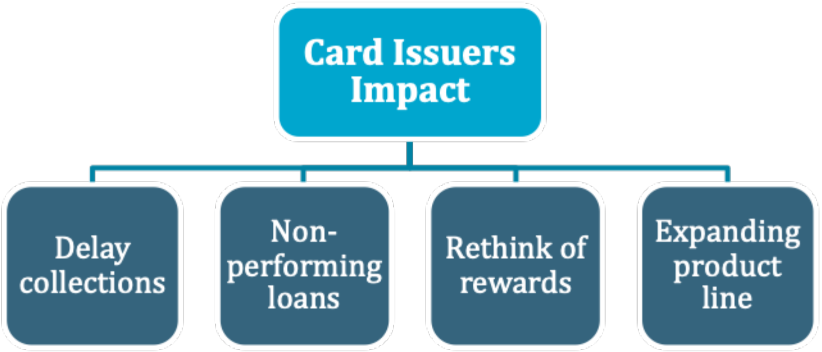


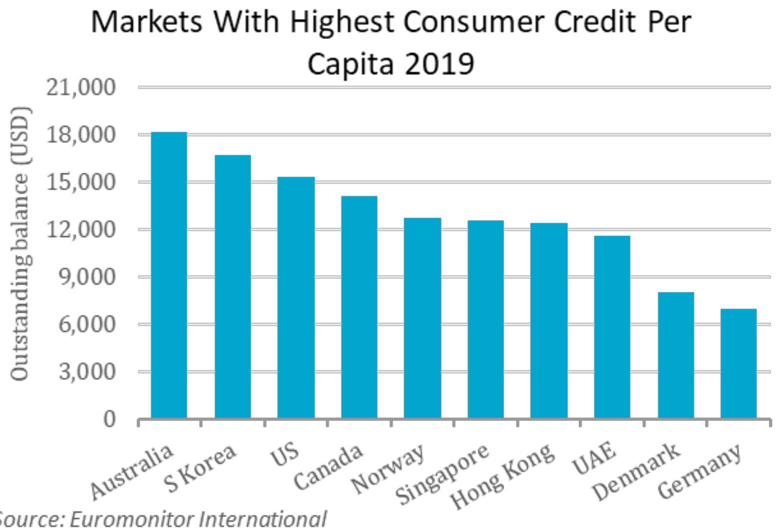
Source: Euromonitor International

Card Issuers

Financial card issuers are applying a number of lessons learned from the previous recession and are moving quickly to adapt to consumers' evolving needs. Given the severity of the health and economic crisis, financial institutions that do not adapt are likely to fail. Allowing customers flexibility in making monthly payments is likely to reduce growth in non-performing loans. Issuers will also benefit from retooling reward programmes to reflect the current consumer environment. Transitioning travel rewards to online merchant categories has already proven popular in some markets.

Issuers better prepared than before but will still struggle



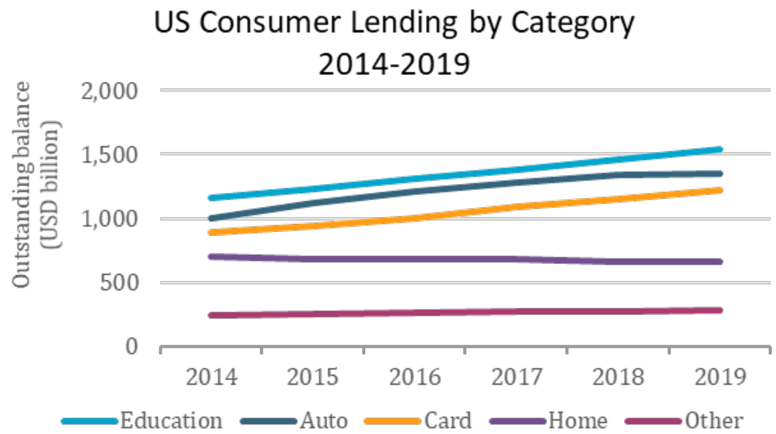


Source: Euromonitor International

- The Great Recession a decade ago originated from the financial sector, and the subsequent re-regulation and oversight of the sector has made financial institutions better prepared for the pandemic. That being said, the scale and scope of the pandemic could not have been entirely prepared for, and the financial sector, like every sector, will register significant losses going forward. To limit defaults in the short term, some financial institutions are allowing for flexibility for consumers on their payments during the pandemic. Despite mitigation measures, elevated unemployment and underemployment will lead to a rise in non-performing loans, which financial institutions will have to manage. With more consumers keeping their distance, digital banks are taking share from traditional banks. To retain customers, financial institutions need to have competitive online platforms and must match the fees and interest offered by digital banks. In terms of retaining credit card customers, issuers need to rethink their reward programmes to reflect consumers' everyday "new normal". Migrating travel rewards to online merchants has been effective.

Providing billing flexibility

- Card issuers around the world have unveiled programmes designed to allow for bill payment flexibility for their customers. With global unemployment steadily increasing, more consumers are finding it difficult to pay bills, and with financial institutions delaying payment they are increasing the likelihood they will eventually receive payment and are also creating goodwill with their customers. During the previous recession, financial institutions –the cause of the economic crisis – were focused on shoring up balance sheets rather than maintaining customer levels. So far during the pandemic, financial institutions have focused on customer retention and ensuring SMEs have access to funding to be able to reopen or to move online to reach additional customers. Following the previous recession, new regulations were adopted in many markets, which increased capital requirements, tightened lending standards and introduced a variety of other measures to prevent future failures. This has contributed to the flexibility being offered now. Alternative financial service providers can, however, fall outside those regulations, which could leave an increased portion of consumers vulnerable.



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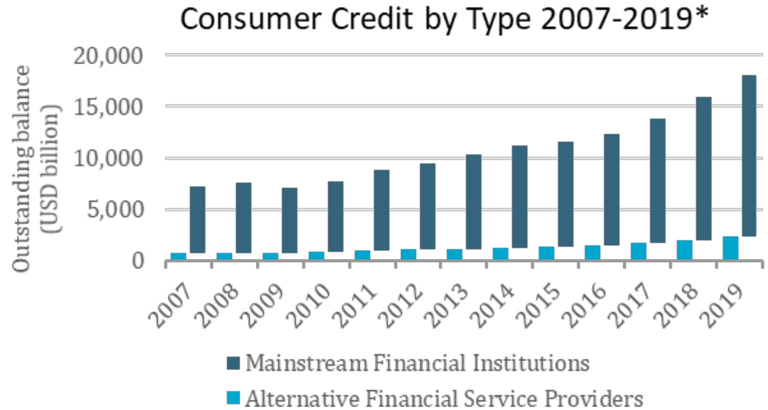
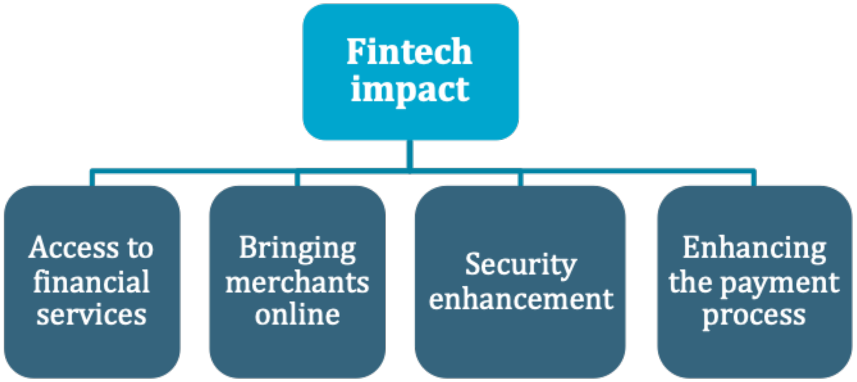


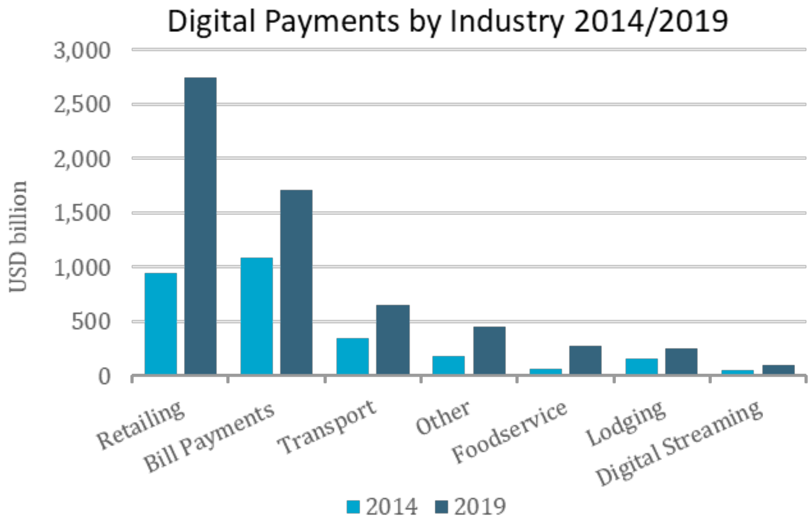
Source: Euromonitor International
Note: * 47 researched markets

Fintech

The fintech industry has disrupted as well as partnered with the traditional card and electronic payment players over the last few years, and the COVID-19 pandemic presents a number of opportunities for greater movement in both directions. Many of the existing trends that have driven the expansion of fintech will accelerate in the evolving payment landscape. Demand for greater access to financial products and services is increasing, platforms are in greater demand to bring merchants online, and the need to enhance the security of online payments is more pressing than ever.

Fintech developing solutions to a changing retail environment



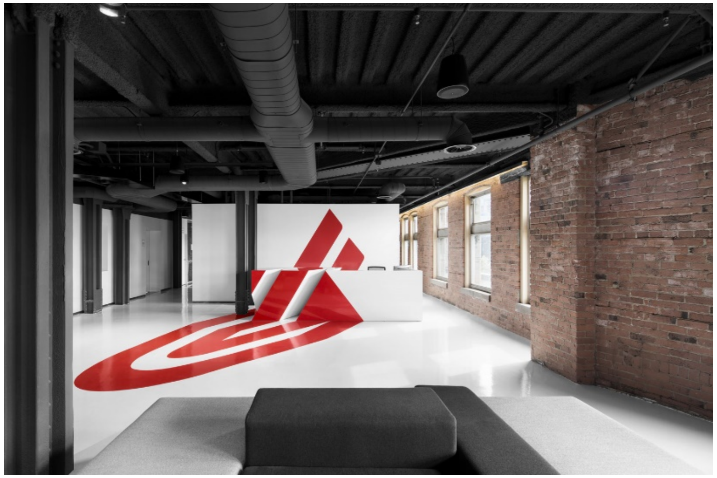


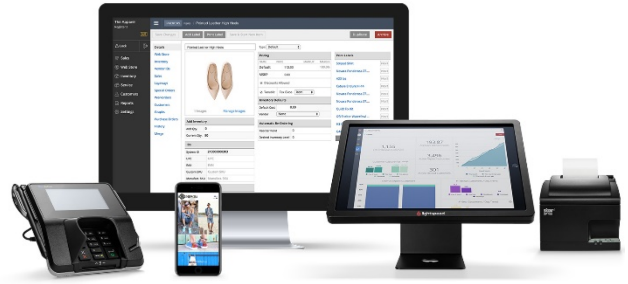
Source: Euromonitor International

- As with the other categories of companies covered, fintech is facing a unique set of opportunities and challenges from COVID-19. Many fintech companies have the benefit of a culture of innovation already being in place, making them more able to respond to changing market dynamics. There is a strong culture of collaboration and partnership, an ability to pivot or evolve rapidly and an ability to analyse and leverage various types of data. While these capabilities are not available to every fintech, they are more prevalent than in any other industry segment.
- Fintech has responded to COVID-19 by creating tools to increase access to financial products and services, to bring store-based merchants online to continue to reach their customers, provide the necessary increased security enhancements to respond to the greatly increased digital payment volume taking place, and to provide consumers with a channel to transfer funds directly to other consumers. The key challenges the fintech industry will struggle with are similar to those of many other merchants: maintaining investment or managing capital to maintain consistent growth.

FINTECH

Enhancing the purchase experience





- Fintechs are enhancing both the online and in-store payment experience by providing greater convenience, safety and speed. Without a vaccine for COVID-19, people are keeping their distance from others and are limiting contact points in their daily routines. Along with POS terminals allowing for contactless payment and online ordering in advance, there are a number of innovative solutions to encourage safe distancing.
- Lightspeed, a Canada-based fintech, has built a business out of providing additional value to a transaction for both the merchant and the consumer through payments. The company provides tailored payment solutions that include inventory management, customer support, marketing tools, payment acceptance infrastructure and loyalty programmes focused on enhancing the customer experience. In the first quarter of 2020, Lightspeed's revenue increased by 70%, driven by merchants' rapid transition to online payments. The company also provides in-store payment solutions for a post-pandemic environment. These manage safety concerns and social distancing in the payment process.

Conclusion

The COVID-19 pandemic has had far-reaching effects on consumers and industries around the world. The payment space is not exempt from impact, but was well positioned to adapt in an increasing online and digital capacity that allows for social distancing and in-home solutions. Card networks are well positioned to assist their merchant and issuing customers to facilitate commerce. Financial institutions are applying lessons from previous recessions in order to meet consumers' needs. Fintech is innovating to provide solutions to a range of problems facing retailers and consumers. Through a coordinated effort, the non-cash payment space is likely to emerge in a recovery stronger than before.

Challenges and opportunities in the payment landscape

Card networks

- COVID-19 presents a number of opportunities for card networks to cement the transition away from cash and to increase the overall value of consumer payments for consumers and merchants. Through partnerships with card issuers, merchants and fintech companies, there are a variety of tools to increase the security and convenience of payments. For in-store payments, this will mean ensuring contactless technology is adopted. The sharp decline in cross-border payments, lower overall consumer spending and weaker issuing partners could challenge the card networks over the forecast period.

Card issuers

- Prior to the pandemic, mainstream financial institutions across the world were being challenged by digital banks and alternative financial service providers. While many banks were adapting, there are likely to be some which are unable to compete with lower cost, higher reward competitors. However, financial institutions which have already changed reward programmes and provided relief to impacted consumers and small business are likely to emerge stronger following the pandemic. Bank branch networks, like many physical stores, will need to be redesigned or consolidated to reduce the overall cost of operations.

Fintech

- The rise of fintech across the world was well timed for the challenge of a global pandemic, with companies already well established in every region of the world. The pandemic will increase the pace of growth for many fintech companies that provide access to financial products and services, enable merchants to move their businesses online, increase the security of payments and provide tools to improve the consumer and merchant relationship. There will continue to be partnership opportunities for fintech throughout the payment process, and in some markets the potential to disrupt and replace key payment systems.

Data parameters and report definitions

- CAGR – compound annual growth rate.
- 2020 figures are provisional and based on part-year estimates.
- All volumes expressed in this report are in US dollar terms, except where noted.
- All forecast data cited in this report are expressed using a 2019 fixed exchange rate. Conversely, all historical data use a year-on-year exchange rate. A 2019 fixed exchange rate is applied for those situations in which historic and forecast data are used together in the same graphic.
- All forecast data cited in this report are expressed in constant terms; inflationary effects are discounted. Conversely, all historical data are expressed in current terms; inflationary effects are taken into account. In situations where there are both historic and forecast figures in the same graphic, the data are expressed in constant terms.
- The banked population refers to those individuals aged 15 years and older who have a relationship with a formal financial institution defined by one – or a combination – of the following products: transactional account, demand deposit accounts or credit card. A member of the underserved population, though, has only one of these products.
- CNP: Card not present.
- SMEs: Small and medium-sized enterprises.

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Our global market research database, Passport, provides strategic intelligence on consumer goods. It offers shared access to all of our internationally comparable statistics, analysis and datagraphics. Passport connects market research to your company goals and annual planning, analysing market content, competitor insight and future trends impacting businesses globally.

Thank you

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