

Future of payments – where will this journey go? And what can we do to get there faster?!

Milan Gauder, MasterCard Europe

Years to reach 50 million users

RADIO
38 years



Years to reach 50 million users



TV
13 years

Years to reach 50 million users

INTERNET
4 years



Years to reach 50 million users

iPOD
3 years



iPod application downloads hit **1 billion** in 9 months



AGENDA

How to develop our world to a cashless society?

- AS IS
 - Europe – big countries
 - Hungary
 - Challenges
- Where it could move – next 5-10 years
 - Worldwide
 - Europe
 - Hungary
- Recommendations to policy makers

Recent situation – Europe

Scandinavia is the closest to a „Cashless land”



















„Cashless day“ research – Europe 2010

- Each month, an average consumer pays about 20x in cash out of ± 36 payment transactions
- In Sweden, consumers only pay 12 transactions in cash every month, half as many as Italy or Poland
- Apart from groceries, there are notable differences in the way that nations shop
- Majority either feel indifferent or excited about a **Cash Free Society**
 - 45% feel indifferent,
 - 29% are excited,
 - the Polish most excited & Swedes most indifferent, Germans more anxious & Dutch feel most upset when they are not offered choice of their preferred method
- **War on cash: still a lot to do!!!**

Card is not always seen as „the“ solution

Blog participants' view on cash and debit cards

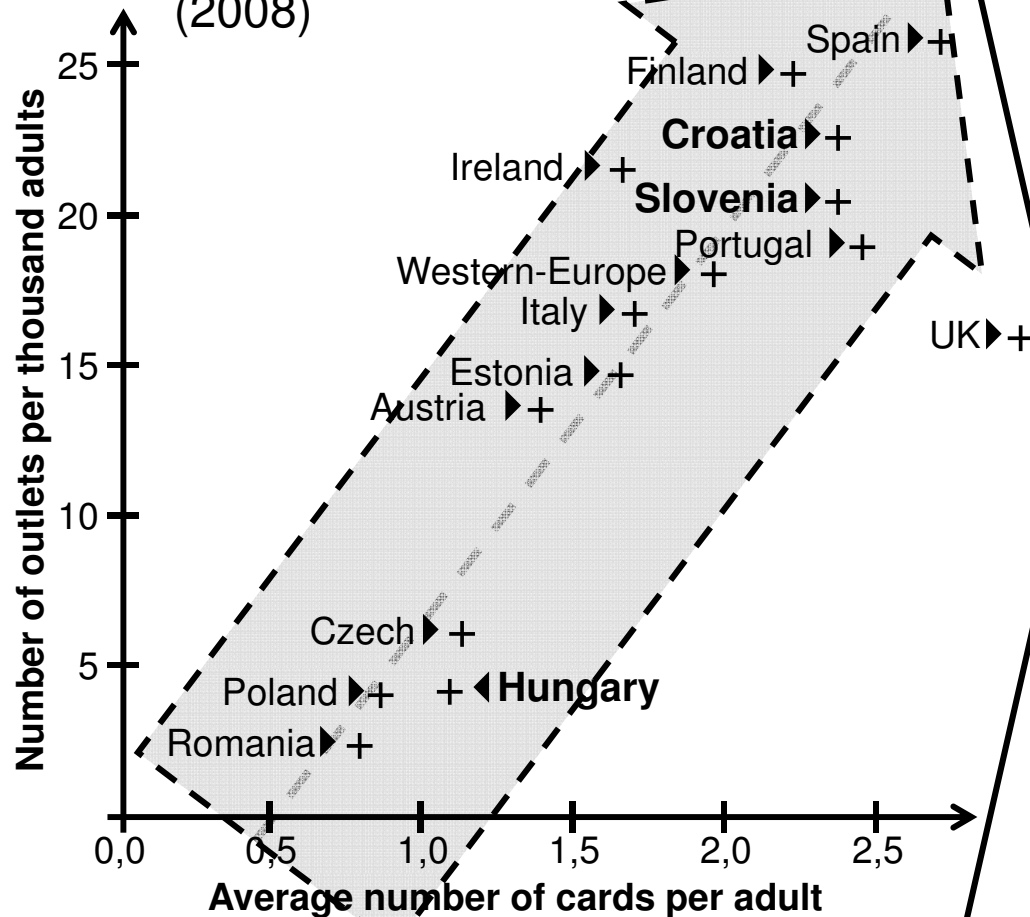
- | | |
|--|---|
|  Cash gives me power |  Card makes me feel liberated |
|  Feel empty without it |  I don't have to go to ATM all the time |
|  Physical incarnation of money (look, feel, smell) |  Card is easy – its widely accepted |
|  Cash is comfortable, its accepted everywhere |  Its safe |
| |  Its fast and easy |
|  Go with the norm - socially not always accepted to pay by card |  Less need to spend |
| |  Good to get to know other payment types |
|  ...unstoppable desire to spend it until last penny slips out of your hand |  Not accepted everywhere |
|  Not safe (carrying large amts & pick pockets) |  Card fraud |
| |  More electronic payments could mean less meaningful interaction with merchant |

Even Central-Eastern-Europe is heterogenous, having Croatia and Slovenia on high-end, while Hungary on the low-end



Card Market development matrix

(2008)



Issuing and acquiring are like a chicken and egg, one can not exist without the other:

- At more developed markets the statistical relationship between card- and acceptance penetration is 1:10 .
- Eastern-European markets* are usually at the low-end of both scales (<1card/adult and <10 location/1000 adults), having half of the Western card penetration but only 1/4-s of acceptance

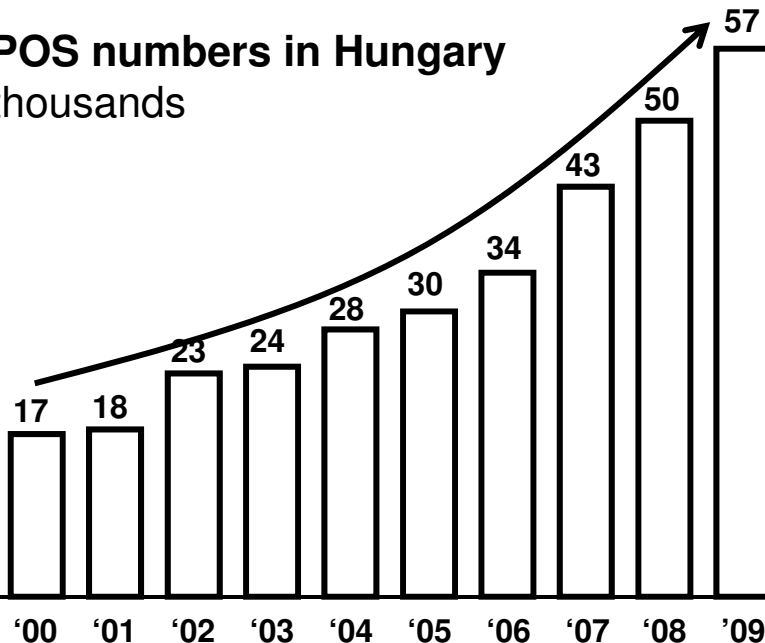
* Except the ex-Yugoslavian countries (like Croatia and Slovenia and the Baltics)
Source: Payment Cards Europe 2008

The growth has been exponential, doubling the POS usage in every 3-4 years

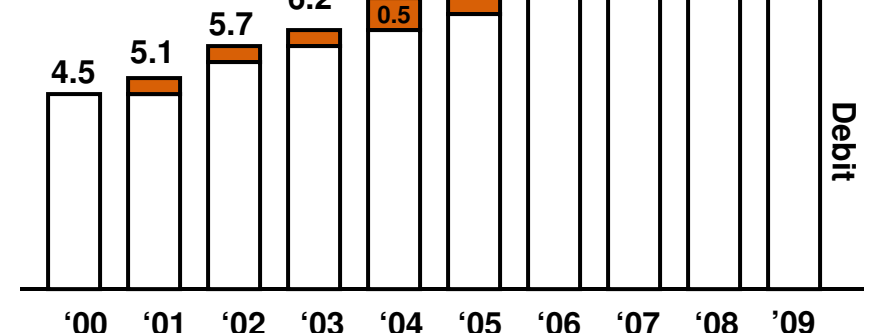


- Lately driven mainly by acceptance penetration with strong growth
- The number of cards has declined slightly in the crisis (decline mainly in credit cards)
- Usage grows again with double digit

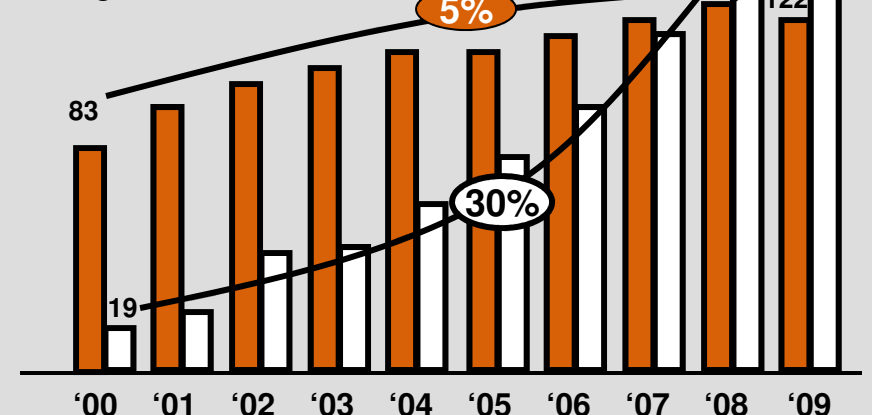
POS numbers in Hungary
thousands



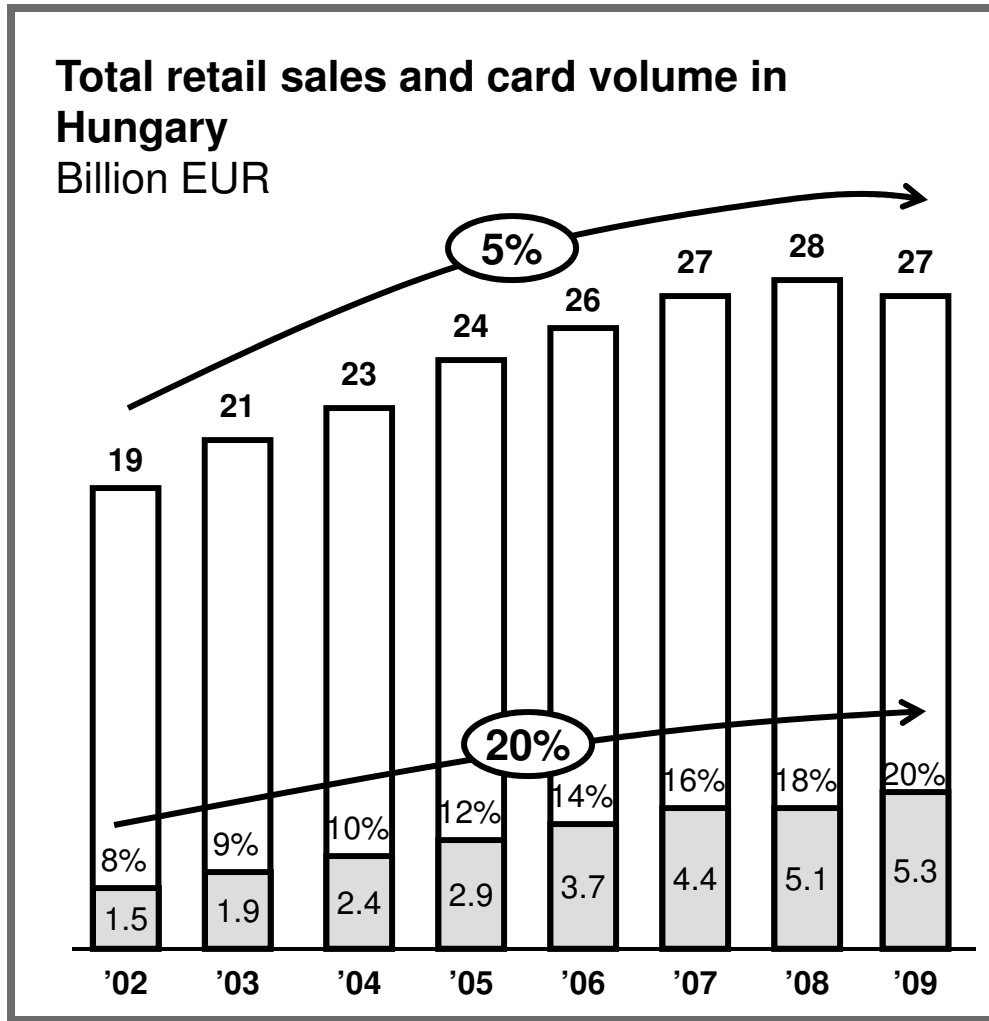
All Card numbers in Hungary
million



Domestic ATM (orange) and POS (white) trx numbers (all brands)
million



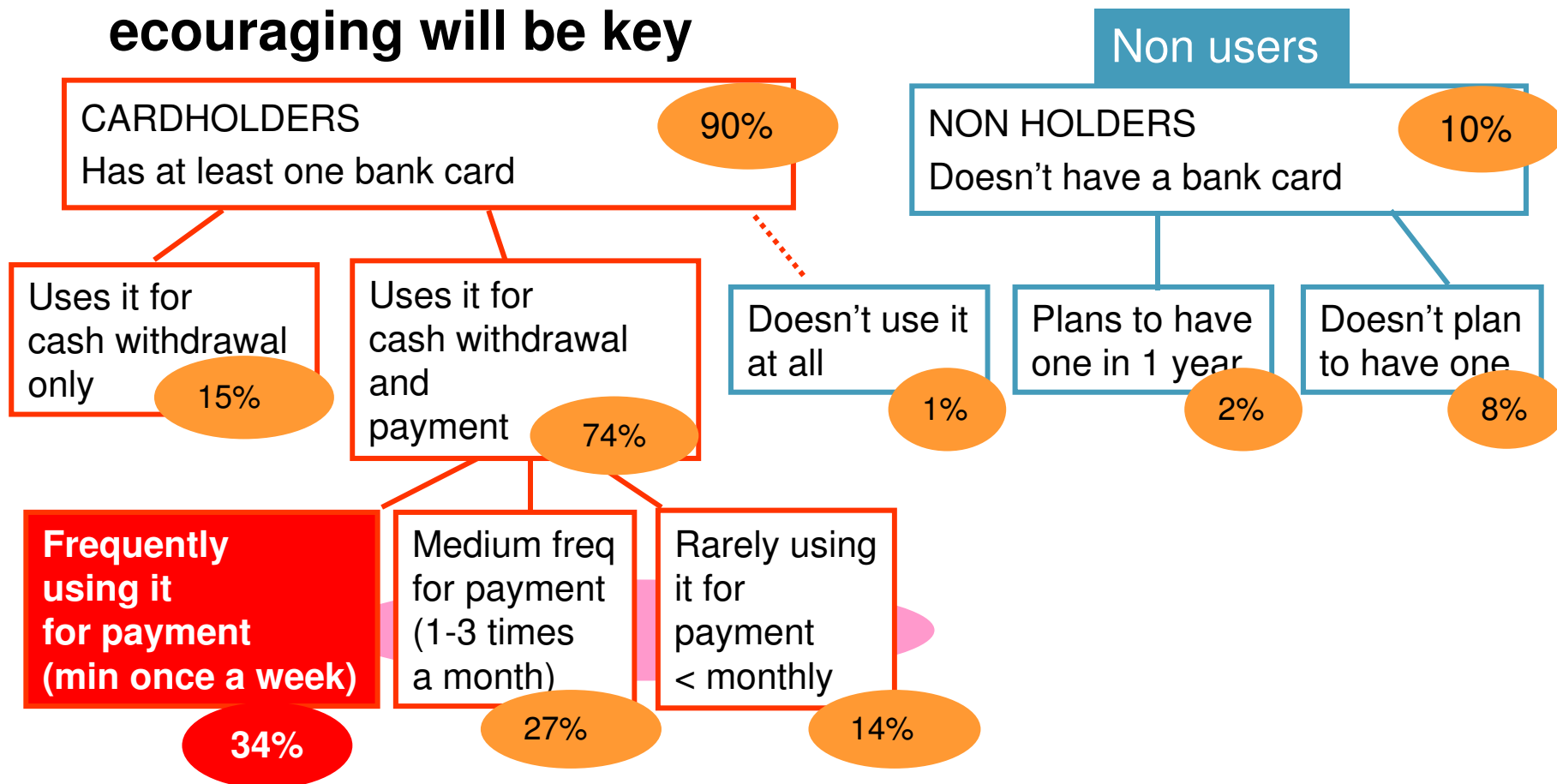
Card payment share from consumer spending has been steadily growing and reached 20% level last year



- Card payment has been growing by a cagr of 20% in the last 7 years
- During the same period total consumer spending has grown by 5%
- So the share of card payment vs cash (and other means) has more than doubled and reached 20%
- At major super- and hypermarkets card share is around 25-40%

Card usage preferences - Hungary

Good base for change behaviour, education and encouraging will be key



Challenges in Hungary

Different challenges bring regulators and private economy to the same shoes in fighting against cash

- Still weak acceptance in the **traditional merchant segments** (doubled recently, still 1/3 of benchmarks)
- Lack of acceptance in (kind of) **governmental segments** (parking, police, hospitals, public transport, utilities, post, e-government)
- Lack of card, **banking relationship** and strong cash based areas like social benefits, pension,
- There is still low investment into **education** of citizens to avoid cash payments – education still doesn't promote cashless thinking
- Complex issue: **black economy**, social „free riders“ – issue both on the cardholder and merchant side
- Views on improved card **security** solutions - bigger confidence in PIN-code, high score for SMS improved card payments significantly
- Reality and urban legends on **speed of card payment** create negative reputation

What the financial sector and MC can unite for?



Education, promotion and encouraging could be key

- There should be a consolidated, mid-term agreed plan for the country to achieve visible results against the cash-oriented retail economy
- Clear points, where MasterCard could be involved:
 - Educational campaigns
 - Further building base acceptance
 - Further development of card payments in non-traditional areas of card usage (card acceptance in bill payments, utilities, transit, parking, governmental services)
 - Introduction of innovative products to bring more and more people away from cash (contactless, mobile payment, e-commerce, ebpp)
 - Move paper based payment solutions to card
 - Create fully cashless environment for reference
- Recommendations to the financial services sector:
 - Significant investments to educate people to move from Cash usage to Purchase
 - To be open for non-traditional business models for innovative payment methods

Regulators – recommendations

Education, promotion and encouraging are key

- Recommendations to policy makers:
 1. Shift all governmental payment (**social benefit, pension**) to electronic ways (prepaid cards) and save costs
 2. Financially subsidies **terminalization at SME segment**
 3. **Promote** electronic payments against cash in **governmental services**, in each area
 4. Modify **education** standards (not only for the new generation) to prepare society for earlier adoption of new payment methods
 5. Give financial incentive to individuals to use electronic means of payment (**tax rebate**)
 6. **Regulate paper-based** cash alternatives (luncheon vouchers, holiday vouchers, transit ticketing) to move to electronic payment
 7. Create transparency in cost of payment at **utility bills**