

## European COVID-19 Survey

### Results Highlights

IV 2020



# Overview (1/2)

## The survey

- Over September and November 2020, we conducted interviews with our clients' across Europe, the Middle East and Africa to gather their views on the impact of COVID-19 on the payments industry and their strategic response.
- We surveyed 50 firms across 7 European countries (UK, IE, FR, DE, IT, ES, SA).
- 44% of firms surveyed were banks, building societies (mortgage banks) or other credit institutions. 46% were PSPs, technical service providers and trade associations. 10% were merchant acquiring banks, most were universal or predominantly retail focused, with a more limited number being focused on corporate payments.
- In Italy the interviewed firms were:
  - Two among the top Banking Groups
  - An industry utility of the Italian financial services sector
  - One Banks partner providing ICT services
  - An International Technology Firm
- Respondents were drawn from a wide variety of senior roles. Most common were 'heads of' business lines including those responsible for Payment Operations, Resilience and Business Continuity, and Product. The survey was structured in four sections:
  - General
  - Operations and fraud
  - Change and transformation
  - Strategic impact
- As usual in all surveys, not all respondents provided responses to every question. To bring out the most useful insights, the summarised results represent the proportion of actual responses, and any questions with more than 25% "no response" is excluded from our analysis.



## Overview (2/2)

### Europe results highlights

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- COVID-19 is and will continue to have the impact of accelerating transformation and adoption of digital payments with the 96% of respondents opining the pace of change has increased by as much as 3-5 years.
- Almost 60% of respondents expect up to a 30% reduction in cash usage when the pandemic ends as consumer behaviours toward adoption of contactless, digital and mobile payments are increasingly embedded.
- 68% of Banks did not experience any material interruption to services or major incidents despite remote working requirements.
- 58% of respondents agreed current fraud detection and prevention controls coped with increased threats from fraudsters during the pandemic. However, a significant number anticipate challenges resulting from increased digitisation of payments and particularly adoption of SEPA Instant (real-time payments).
- 55% of respondents did not require delays to inflight industry, scheme or regulatory changes as few firms experienced material impacts to their ability to deliver change during the pandemic.
- From a strategic perspective, 74% were focussed on enhancing their digital capabilities and customer propositions including: improving online banking mobile applications; increasing the control customers' have to manage services; improve loyalty and rewards; expand digital wallet offerings.
- 20% of firms were strategically focused on open banking related offerings with a majority anticipating open banking propositions to become a focus in 12-18 months.

### Italy results highlights

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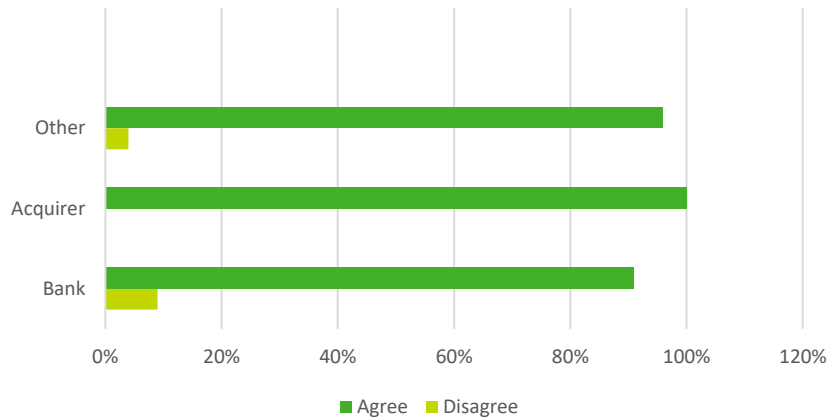
- In Italy, ATM cash withdrawals decreased by 20% until December, and the cash usage has been decreasing from banking transactions. This is remarkable for Italy, because it has always been a cash-based country. Moreover, all the respondents expect cash usage will return to only 0-30% of pre-COVID-19 levels. This expectation is also due to Italian government's initiatives, aimed at limiting the use of cash.
- The use of Smartphones increased exponentially, both for Mobile Banking and eCommerce. The total volume of transactions on Mobile Banking grew by 56%. Smartphone usage reached the PC for Digital Banking operations. Mobile Commerce is worth 51% of the total eCommerce market.
- Banks are accelerating the transition from paper-based instruments to digital tools through the acceleration of remote dialogue solutions with customers, new digital identity, digital onboarding and the automation of internal processes.
- Half of respondents are oriented to alternative digital payment methods and to offer several digital services and experiences across consumers and SMBs. The strategies adopted to pursue the goal are establishing partnerships with fintechs, launching new VAS and promoting Big Data fields.
- Some players will not discourage the ATM usage in general, because it is an important channel for "traditional" customers that still use non digital payment methods.
- To prevent fraud, Italian major banks are aligned to the European ones regarding the interest in KYC, but strongly believe that the digitization of the onboarding process, Fraud and Analytics and AI-based solutions can identify the best offers.

# General questions



# General Questions

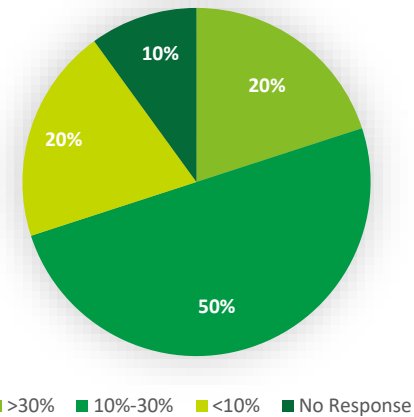
**Do you agree that the COVID-19 crisis will accelerate the speed of digitisation of commerce and payments?**



**96% of European respondents expect COVID-19 will accelerate the speed of digitisation of commerce and payment.**

- European respondents agreed the speed of digitisation is and must continue to accelerate to keep pace with changing consumers' expectations for convenient and frictionless in-store and online payment journeys.
- ATM cash withdrawals decreased 20% in Italy during the first six months of 2020 compared with the same period of 2019. The trend remained unchanged until last December, with cash that has come to be increasingly ousted from the transaction, that is quite surprising for a cash-based country like Italy.
- According to BankIT, Digital Transactions, both with credit, debit, prepaid and with smartphone through NFC went from 35% (during pre-lockdown) to more than 55%. Local lockdowns have limited consumer access to retailers, resulting in increases in online spending.
- Bricks and mortar merchants established online channels in order to survive.

**Compared to the period prior to the COVID-19 pandemic, to what extent will cash usage return?**



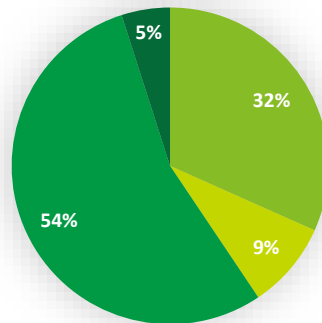
**58% of European respondents expect cash usage will return up to only 30% of pre-COVID-19 levels**

- Despite this, in Italy all the respondents expect cash usage will return to 0-30% levels.
- Both European and Italian respondents think that physical payments volume should continue to decrease also after the pandemic and the duration of the pandemic and restrictions on retail are likely to entrench consumer adoption of electronic forms of payment and online spending in place of cash.
- In Italy, the total volume of transactions on Mobile Banking grew by 56%: among these, wire transfers and account transfers recorded an increase of 75%.
- In Italy the use of smartphones has now reached the PC for Digital Banking operations (86% for PCs vs. 83% smartphones), while the use of tablets is completely marginal
- In Italy, Mobile Commerce is now worth 51% of the total eCommerce market. +80% of smartphones or wearables in-store payments with more than €3,4 Mld. New payment methods (pay per link, qr code, geo-localization,...) were adopted to allow users to pay without any type of contact: this is fundamental for the user's choice.



# General Questions

How will your organisation respond to the impact of COVID-19 on cash?

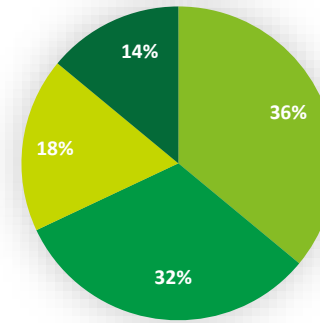


■ Accelerate ■ New Strategies ■ Existing approach ■ No Response

**86% of European bank respondents noted there are either existing plans in place or they are accelerating plans.**

- In Europe cash withdrawals are half of normal levels (-56%)
- 44% of European consumers are using mobile banking to make payments at least once per week.
- 64% of Irish consumers use bank branches less than once a month or never, while in Italy 35% declares to have established a new relationship with a bank (bank account, investment, financing, prepaid card) using only digital tools and channels
- The majority of banks have already undertaken strategies including reduced ATM network, increased cost of cash, launching and promoting digital forms of payments and banking. In Italy, despite half of respondents are oriented to alternative digital payment methods, others are not pushing to reduce these not to discourage traditional customers.

How is your organisation responding to declines in traditional payment related revenues?



■ Strategic change ■ Cost Reduction ■ Existing plans ■ No Response

**In Europe 36% of respondent firms were focussed on strategic change and 32% of firms are focussed on cost reduction.**

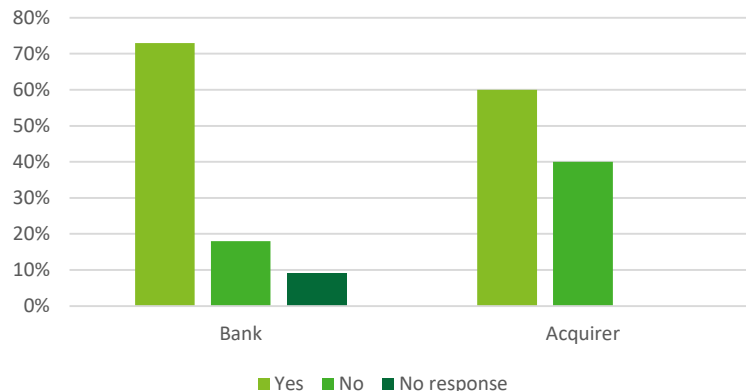
- We expect an uptick in the number of European firms focussing on cost reduction due to the unexpected duration of the pandemic
- Some European respondents noted their strategies have not changed, but prioritisation of certain strategies have been adapted in response to COVID-19 i.e. limitations on travel.
- In Italy, half of respondents are contributing to the establishment of cashless society (supporting the government 2025 strategy with innovative instruments non paper-based)
- Main strategies applied by European respondents are: provide customers with several payments methods; build loyalty through account related rewards on electronic payment usage (e.g. cashback); provide SMBs enabling managing AP/AR and collection of electronic payments; develop lifestyle banking capabilities enabling customers manage their finances.

# Operations and Fraud



# Operations and Fraud

## Does your organisation outsource payment services to third parties?

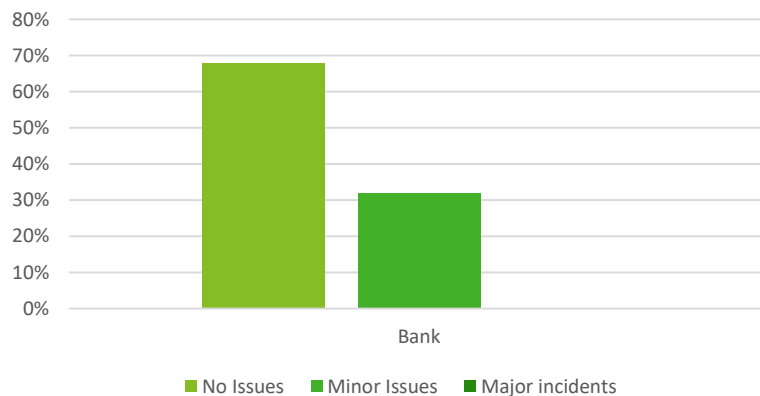


**60% of European banks and acquirers outsource some technical processing and some secondary operational services to third parties.**

- The majority of European banks rely on third party processors for card issuing and card payment processing including; TSYS, FISERV, among others.
- Some European banks outsource some secondary payment operations services like chargebacks to off-shore providers.
- In Italy, in some cases banks even strengthened the partnerships to foster the level of innovation of their offerings with the aim to jointly develop value-added functionalities based on the highest market standards and to foster the level of innovation of the Open Finance offer.



## Did you experience any material operational incidents during the crisis?



**68% of European bank respondents experienced no material operational incidents.**

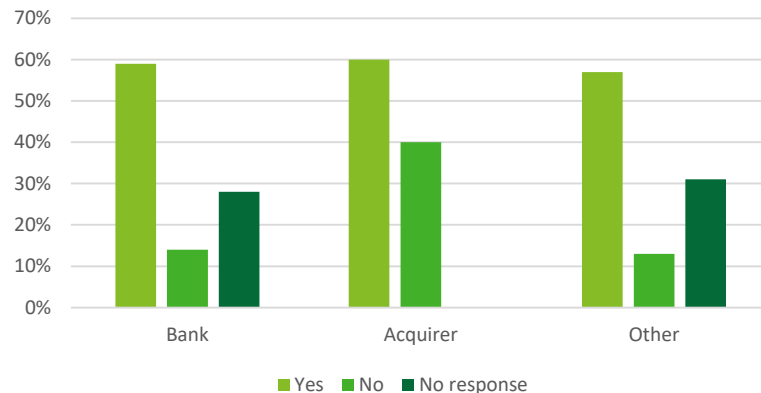
- European respondents noted thorough business continuity and business resilience planning enabled a smooth transition to remote working among staff.
- Third parties providing technical and operational services also did not experience issues.
- A minority of European respondents experienced issues with manual processing relating to significant increases to volumes of direct debit cancellations and cardholder chargeback claims and cash in transit collection and deliveries.





# Operations and Fraud

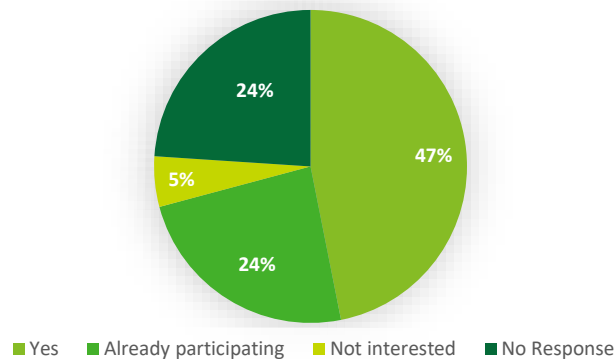
**Are your organisation's fraud monitoring capabilities fit for purpose as the shift to digital and real-time payments accelerates?**



**58% of European respondents view current fraud monitoring capabilities as fit for purpose but note challenges lie ahead.**

- Whilst European respondents are generally satisfied with their current fraud capabilities there is a general acceptance that change is required to respond to increasing digitisation and adoption of e-commerce, mobile payments, emergence of the internet-of-things (IOT) and adoption of real-time payments.
- Many European respondents noted the need for increased industry cooperation and consideration for sharing of fraud data amongst payments firms
- In Italy, Fraud prevention is a must for all the involved banks and anti-fraud systems are all in line with recent PSD2 requirements. Some banks have had several fraud attempts through Phishing or Malware schemes, therefore they are investing in Cyber Security and AI paradigms and continuous improvements of their anti-fraud systems.

**Do you think your organisation would be interested in participating in industry shared utilities?**



**68% of European bank respondents either noted they were interested or already were participating in shared utility services.**

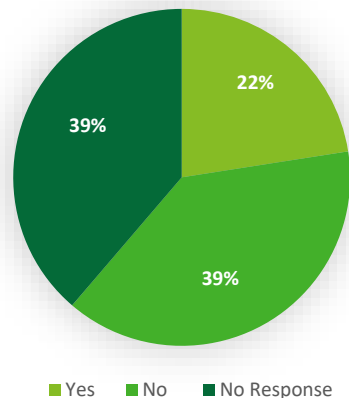
- In Europe banks, acquirers and other respondents expressed interest or participation in shared utilities for eID, fraud, AML/KYC.
- In Italy, KYC, AML and Analytics are primary topics of interest for industry shared utilities for most of the respondents. One of Italian major banks said they are especially interested in KYC and strongly believe in the digitization of the onboarding process, Fraud and Analytics, studying AI-based solutions to identify the best commercial offers for their customers. Some of the respondents confirm that are already eligible for the role of industry utility.

# Change and Transformation

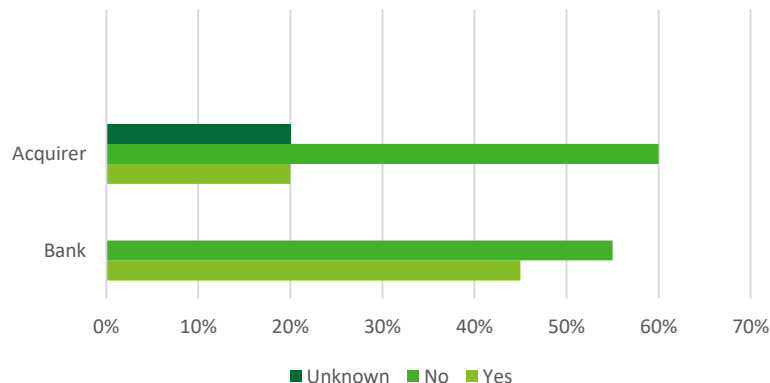


# Change and Transformation

**Has the COVID-19 crisis affected your organisation's plans or schedule for inflight or planned discretionary changes?**



**Considering the impact COVID-19, do you feel delays to the deadlines for industry led standardisation initiatives should be considered?**



**55% of European respondent banks stated COVID-19 had no material impact on delivery of planned and in-flight changes.**

- The majority of European firms noted the speed of adoption to remote ways of working and continued efficiency in change deliver.
- In Europe some firms noted the impact of COVID-19 had resulted in reprioritisation of some planned or some in-flight changes i.e. travel loyalty programmes no longer of short-term benefit.
- In Italy, some banks already planned to invest in digital technologies to enhance the use of e-payments. The current outbreak has shown the need to accelerate the transition from paper-based instruments to digital tools and confirmed the path that most of the banks had started to follow. We assisted to the acceleration of remote dialogue solutions with customers, where the new digital identity, the completely paperless online contracting and the automation of internal processes represented the main pillars for banks

**58% of European respondents stated industry initiatives and regulatory changes should not be delayed.**

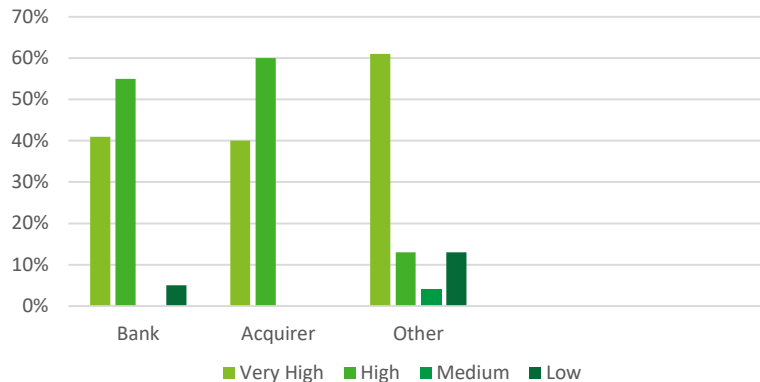
- European respondents noted changes to the EBA Target System were already delayed, but that no other major initiatives have been delayed.
- Several European respondents stated negative experience relating to delays to major industry led initiatives which are in-flight.
- In Europe respondents expressed the view that further delays to PSD2 Strong Customer Authentication should not be permitted whilst acknowledging the challenges presented to merchants and PSPs to ensure on-time adoption.

# Strategic Impact



# Strategic Impact

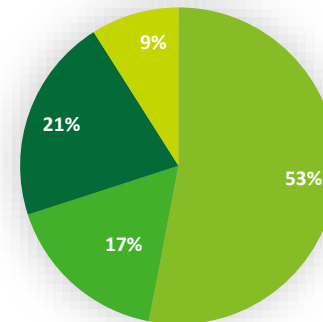
## What is the overall ambition level of your payments strategy?



### 57% of European firms stated a 'high' (1-2 major transformations in the coming 12-24 months) ambition for their payments strategy

- While in Europe there are some respondents (5% of banks, 17% others) that have a medium low ambition level, in Italy all the interviewed players declared that they have an overall 'high' or 'very high' level of ambition.
- In Europe digitisation of payments, increased competition, regulatory and scheme initiatives are driving significant transformation across all payment service provider types i.e. SEPA Instant, ISO20022, Open Banking, Fraud Management, an Open Finance ecosystem in which both the Public administration and retail and corporate customers have easy access to e-payment functionalities
- 41% of European banks stated a 'very-high' and 55% stated a 'high' payments strategy ambition.
- 40% of European acquirers stated a 'very-high' and 60% stated a 'high' payments strategy ambition.
- 61% of other European firms stated a 'very-high' and 13% stated a 'high' payments strategy ambition.

## Where are banks focussing their efforts?



■ Digital Payments ■ Open Banking ■ SMB ■ Instant Payments

### 74% of European banks are focussed on developing digital payment propositions across personal and SMB customers with only 17% focussed on Open Banking and 9% on Instant Payments

- European banks recognise the role payments play in customer loyalty and are focusing on developing best user experience propositions (enabling make and receive payments, finances management,...)
- In Europe some banks implemented new payment processing engines, SEPA Instant, fraud monitoring, ISO20022.
- Some regional based acquirers noted major changes to implement scheme card bin (6-8 digit), global license expansion, credit risk transformation.
- In Italy 60% of firms are focused on Open Banking and digital technologies, not related only to payments but also to digital solutions (such as open finance services, digital onboarding, integration with ERPs, the development of Supply Chain Finance products based on technological partnerships and Open APIs). In order to improve these efforts, respondents established partnerships with Fintechs.
- In Italy firms are also promoting Big Data fields, launching new VAS (e.g. . partnership with local administrators for parking services)

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