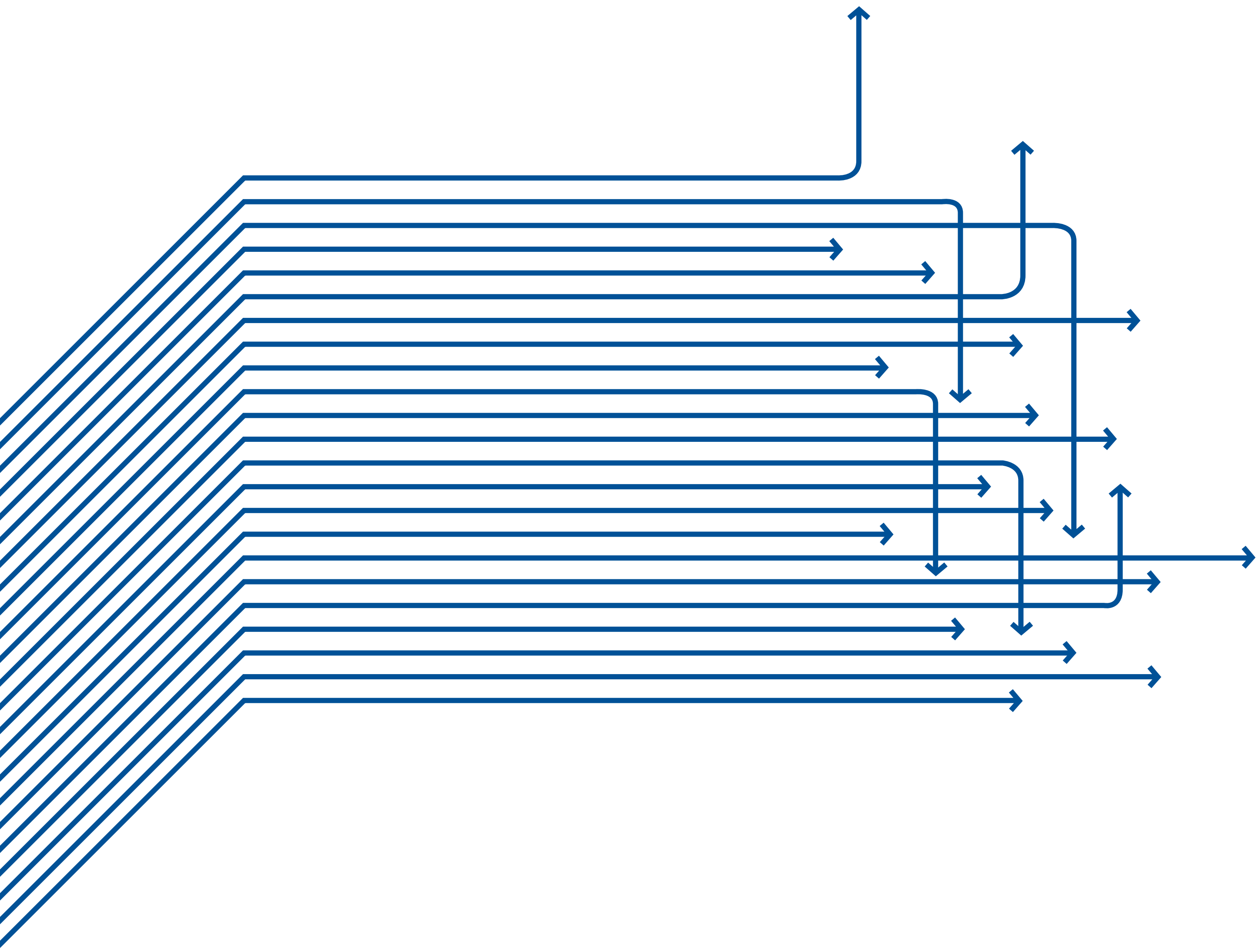
The future of electronic payments

Has our relationship with money and spending changed?



Introduction

At Visa Europe, we are passionate about payments.

We are convinced that an efficient, dynamic payments market is a prerequisite for a modern, healthy economy. We believe that the provision of innovative payment services can have profound strategic significance for our members' businesses. And we are genuinely fascinated by everyday consumer behaviour – pinpointing the factors which lie behind individual financial decisions and spending habits.

We want to share our enthusiasm and insights with everyone who has an interest in the Visa system, including retailers, governments, regulatory organisations, consumer groups and, of course, our members. We are therefore publishing a series of fact-based reports.

This is the second of our reports. It follows *The Future of Everyday Payments in Europe, Who Cares?* which can be downloaded from www.visaeurope.com

Back to business as usual?

Executive summary

During the final months of 2008, when the true extent of the economic crisis was becoming apparent, there were plenty of questions about the impact on consumers' everyday spending, saving and borrowing habits.

Would spending patterns and priorities be irrevocably changed? Would there be a flight to hard cash? Would people use every opportunity to pay down their outstanding debts? Would savings rates increase? Would it be the fall of flamboyance and the return to frugality? Would people ever trust the banking system again?

As Europe's leading payment system, the answers to these questions are highly pertinent to Visa Europe – as they are to our 4,000+ members.

In this report we assess and examine the changes that have occurred so far and consider the prospects for the future. Our focus is on six countries, France, Germany, Italy, Spain, Sweden and the UK, but the conclusions should be relevant for the region as a whole.

We draw on some new research, specially commissioned by Visa Europe, as well as the experience and expertise of our Marketing, Relationship Management and Visa Consulting teams. We also refer to a wealth of economic data which is largely available in the public domain. And, to provide an entirely independent perspective, we have invited two leading commentators to contribute papers:

Peter Fisk is a business innovator, strategist and marketer, who has worked with many of the world's best known companies. He is author of the best-selling book 'Marketing Genius', which has been translated into 32 languages. His other books include 'People Planet Profit', 'Customer Genius' and 'Business Genius'. He is founder and CEO of The Genius Works, and was previously the CEO of the world's largest marketing organisation, the Chartered Institute of Marketing.

We have asked Peter to provide his own perspective on the way that the downturn is influencing people's attitudes and behaviours. This appears in chapter 3.

Ahmad Rahnema is professor in the Department of Financial Management at the IESE Business School, University of Navarra, based in Barcelona. He has also lectured at institutions such as the AB Freeman School of Business, Istituto di Studi per la Direzione e Gestione di Impresa, Universitätsseminar der Wirtschaft and CEDEP. He is co-editor of the International Journal of Finance Education, a member of the editorial board of the journal Harvard Deusto: Contabilidad & Finanzas a member of the advisory board of the European Capital Markets Institute (Madrid).

We asked Professor Rahnema to provide his perspective on the prospects for Europe's economy and the evolving business environment in which our members will be operating. This appears in chapter 4.

During the final months of 2008, when the true extent of the economic crisis was becoming apparent, there were plenty of questions about the impact on consumers' everyday spending, saving and borrowing habits

Overview
In terms of the content and findings of this report

1

Chapter 1
What was said back then? reminds us of what the commentators were predicting when the severity of the crisis was becoming clear.

2

Chapter 2
What we now know takes a broad look at the picture we see today across Europe, in terms of confidence levels, household saving and borrowing rates and retail sales figures. It also provides an update on the transaction levels and point of sales spending rates for Visa Europe members.

We discover that, after some very sharp fluctuations, some of the key indicators are thankfully reverting to their historic norms.

Throughout the crisis Visa Europe saw a steady growth continue primarily a result of debit cards displacing cash. And, in recent months, there has been a sharper than anticipated increase in transactions driven by higher point-of-sale spending – across practically every dimension of the business. The longer-term impact of the severe crisis that remains in several southern European markets and the stringent austerity measures being imposed in others remains to be seen.

3

Chapter 3
What do the people say? is where things get really interesting. Here we replicate a research study that was undertaken in 2008, tracking changes in what people are saying about their financial circumstances and preferences.

We discover that the extent of the changes vary dramatically, according to your personal experience of the crisis, the environment in which you are living and your attitude to the future. Even so, six broad themes emerge:

- The past 18 months of crisis have had no more of an impact than the previous six years of growth and prosperity. Between 2008 and 2010 we have seen some very significant shifts in beliefs and behaviours. But the changes between 2002 and 2008 were no less dramatic.
- The most significant changes can be seen among those who have been directly affected by the crisis. Both those who have suffered and those who have benefited have made definite changes to the way they organise their finances and spend their money.
- People have generally become much more careful – for example, by being more aware of their personal financial circumstances, by taking extra care to balance their spending with their earnings and by keeping a closer eye on their everyday spending.
- Price has become even more of a factor in people's buying behaviour. The downturn has encouraged them to buy more on promotion or special offer, to shop in discount stores or buy value product lines.
- Although business results indicate otherwise, people say they like the reassurance of hard cash – and more people say that they now prefer to pay in cash for everything they buy.
- The internet is figuring even more prominently in people's decision-making behaviours as well as their spending habits. More people are referring to the internet before making a purchase, more are shopping online and large numbers are going online for tips about how to do things more cheaply.

4

Chapter 4

Where to from here? provides a preview of our work with The Futures Company, where we identify the ten mega trends which are set to shape the lives of consumers around the world. These are characterised as:

- Stop-go lives
- Seeking the genuine article
- Seeking experiences
- Professional consumers
- Networked connections
- Making the most of me
- Navigating wellbeing
- Making a difference
- Living with risk
- Evolving identities

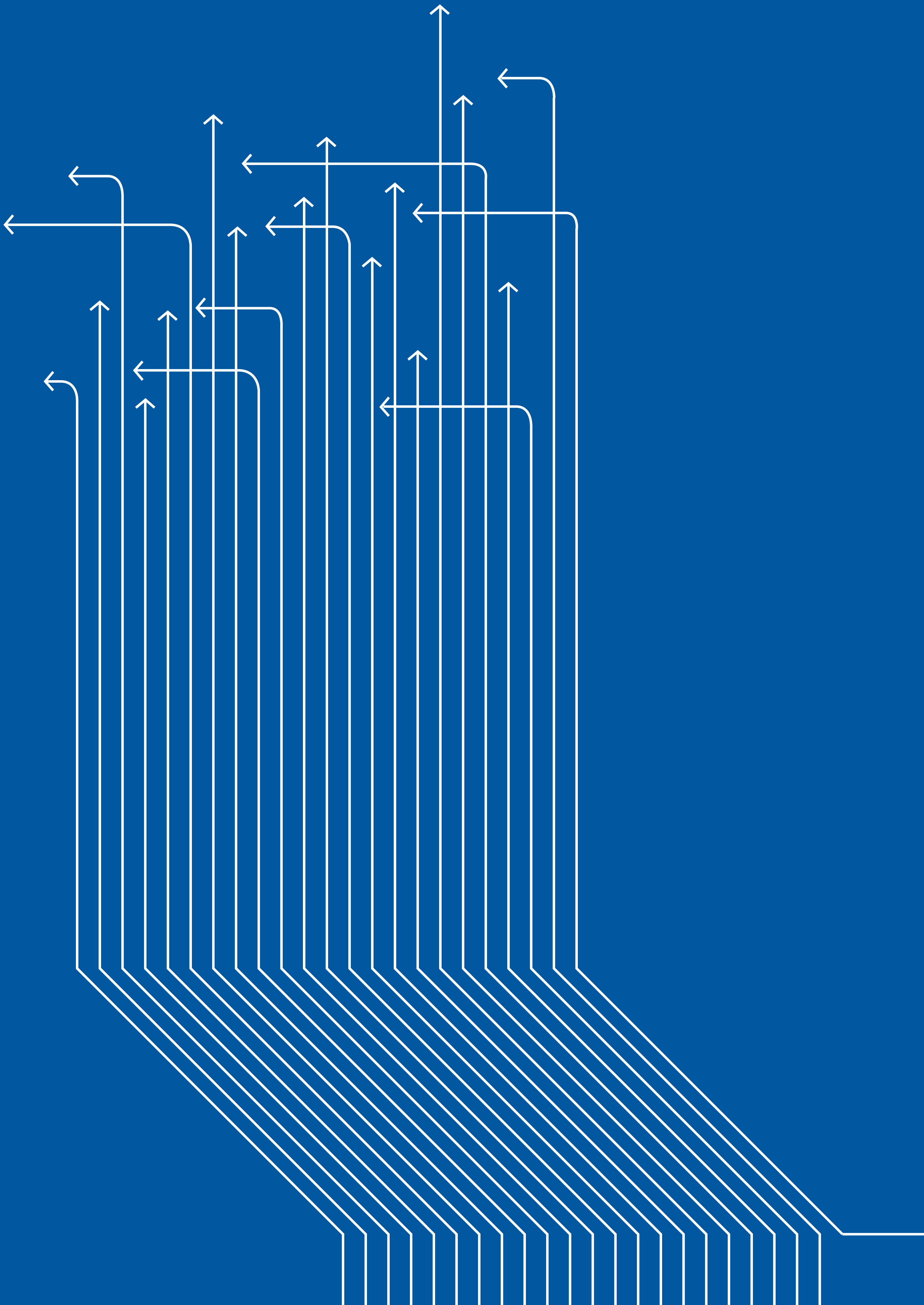
We discover that, after some very sharp fluctuations, many of the key indicators are thankfully reverting to their historic norms

5

Chapter 5

So what? looks at the implications, as we see them, for our members. Here, we identify seven big themes:

- It will be necessary to work even harder to develop products and propositions that truly meet the needs of specific segments. The challenge is to find that sweet spot where a viable business opportunity intersects with a particular unmet consumer need.
- There is an opportunity to respond to the more considered mood of consumers by actively assisting them with their everyday finances – partly by helping them to track, monitor and control their spending, and partly by providing individual customers with a wider repertoire of payment options.
- Despite the changes in people's actual payment behaviour, a majority are still drawn to the concept of cash. So there is a definite opportunity for new payment products and services that offer the same attributes as cash and which, ideally, outperform cash.
- People may be more cautious about borrowing money, but they have not turned their back on it completely. And there is an opportunity for card-based borrowing to meet their needs – partly by developing a wider range of 'pay later' propositions, and partly by repositioning card-based lending as a sensible tool within a smart, safe money management repertoire.
- As the diversity of consumer behaviour and self-expression escalates, our members will have a definite advantage. They can capture and use spending data to cross-sell other products and services, to develop more compelling loyalty programmes and to create more productive relationships with, for example, retailers or consumer goods companies.
- From a payments perspective, the serious growth is coming from e-commerce. But this is also where the incumbent payment card industry sector faces the biggest threat from alternative providers. The industry must therefore supplement its existing online payment solutions, offering greater convenience and, at the same time, greater levels of consumer confidence.
- During the same general time period as the crisis, we have witnessed the rapid development of mobile. It is inevitable that the world of payments and the world of mobile will soon converge. Any payment provider that is not planning for this eventuality is likely to leave itself exposed.



What was said back then?

Cast your mind back to the final months of 2008.

The global banking system had teetered on the brink of collapse. The state had stepped in. The true extent of the financial crisis was becoming apparent. And the prospects for the future were decidedly uncertain.

1

As well as poring over the causes of the crisis, many different commentators were considering its likely consequences. Particular attention was paid to the impact on consumer attitudes and behaviours. Serious questions were being asked about the future of consumers' everyday spending, saving and borrowing habits.

Even conservative business publications were making dramatic predictions.

"The golden age of spending for the consumer has ended," reported the Economist. "A new age of thrift likely has begun."[1]

"If the recession is long, as appears likely, new attitudes and behaviours are likely to become ingrained," suggested the Financial Times. "Coping mechanisms often involve collaborations with family, friends and neighbours that become a satisfying part of daily life."[2]

Another article in the same newspaper followed a similar line. "Plunging household incomes are causing dramatic changes in the way people around the world buy household goods and amuse themselves, with shifts towards cheaper items and in-home entertainment expected to last for years."[3]

Comparable opinions were being voiced across Europe.

In Spain, for example, Expansión proclaimed that "the consumer has become rational," and that a radical change in their habits would require a complete rethink from those companies that serve them[4]. In Germany, meanwhile, a headline in Der Spiegel shouted out that "The world, as we know it, is going under."[5]

Commentators everywhere were talking of truly fundamental change. Consumers would inevitably turn their back on borrowing. People would have to start saving again. It was surely the end of credit-fuelled luxury and flamboyance. Every provider of consumer goods and services would be affected. None more so than the retail banks.

The Financial Times reported, "In no industry will the challenge of understanding customer behaviour and market segmentation be greater than in retail financial services. Consumer trust has been severely shaken as the share prices and integrity of hitherto stalwart institutions have been undermined."[6]

In the UK, for example, the Daily Telegraph reported that the annual sales of piggy banks were soaring by more than 150 per cent. This, it declared, was an indication that people now preferred hard cash in their hand to notional value in their bank account. People were clearly "turning their backs on the borrow-and-spend culture of the boom years" and, at the same time, "turning their back on the banks."[7]

A flight to cash?

Within the payments industry itself, there was real concern about the impact on the way people would choose to pay. Would consumers come to associate all payment cards with the causes of crisis? Would the mistrust in banks extend as far as their ability to process and honour payments? Would we see a flight to cash?

At Visa Europe we had just completed our biggest ever pan-European study of consumer attitudes. It confirmed that, for many European consumers, debit cards had indeed become the new cash. In their perception (as figure 1 demonstrates), their debit card had become largely interchangeable with cash – sharing many of the same attributes.

That was a significant achievement for the industry. But in the new environment, did it also represent a risk? Was there a risk of consumers reverting to the familiarity of cash?

What about credit cards? In Ireland and the UK, the use of revolving credit cards had actually stalled well before the crisis hit. Elsewhere in Europe the market for revolving credit cards was still very much in its infancy. Judging by the media coverage and commentary of the time, the crisis threatened to accelerate the decline in Ireland and the UK, and strike a killer blow to the market in continental Europe.

1 Cash and debit cards are seen to share many of the same attributes

	SPAIN			SWEDEN			UK		
	Cash	Debit card	Credit card	Cash	Debit card	Credit card	Cash	Debit card	Credit card
Speed	408	125	34	299	235	29	392	109	57
Acceptance	464	63	41	379	131	49	417	82	53
Least hassle	363	133	57	236	272	40	224	195	92
Habit	238	222	109	136	375	55	157	247	139
Portability	139	319	105	122	398	67	115	315	149
Security	113	104	291	257	233	38	148	135	172
Sellers preferred method	461	82	37	136	379	47	297	159	60

Key: Index 120+ Index 100-119 Index 80-99 Index <80

Note: Credit card includes charge cards
Source: Visa Europe, TNS 2008

What we now know

Almost two years on from the crisis, and with several European countries slowly emerging from recession, it is an opportune time to assess the extent of any changes – in terms of people's everyday spending, saving and borrowing habits.

In doing so, we can make use of a range of publicly available measures and statistics. We can also take a close look at Visa Europe transaction data, accounting as it does for more than €1 in every €9 of everyday consumer spending across Europe.

2

Feeling confident?

The European Commission has been tracking consumer confidence across each of the EU Member States on a monthly basis since 1990. This shows that EU consumer confidence hit an all time high in August 2000 (when it was expressed as 0.2), and plunged to an all time low in March 2009 (at -32). The long term average is expressed as -11.

But where does it stand right now?

In March 2010, the level of confidence was expressed as -14, and it had been hovering around this level for the previous four months. As demonstrated in figure 2, this is relatively close to the long-term average and a very considerable improvement on the previous year's low ebb.

This level of confidence was based on the fact that most people had been relatively content with retail prices over the previous year. They generally felt that their own country's economic situation would improve over the coming year. But there was much more caution about one's own financial situation, and little appetite for making major purchases.

The highest levels of confidence were achieved in the Nordic countries of Denmark, Finland and Sweden, where confidence was actually well above the long-term average. The lowest levels were seen in some of the newer Member States such as Bulgaria, Cyprus, Hungary and Romania and, for understandable reasons, in Greece.

Historically, there has been a fairly close correlation between consumer confidence and private consumption, as is also demonstrated in figure 2. During the course of 2009, the level of private consumption (as measured by the European Commission) saw very steep reductions. But, if one were to make a prediction by extrapolating the historical trends, it would be reasonable to foresee a return to growth within the coming months.

On the other hand, it would be wise to regard consumer confidence as a very fragile commodity. It will inevitably have been shaken once again by recent commentary on high levels of public debt, particularly in Southern Europe. And it will be highly vulnerable to any further shocks.

Saving or spending?

What about levels of saving, borrowing and spending?

It was widely assumed that consumers would take every opportunity to pay down their existing debts – and that saving levels would soon escalate.

Saving

In fact, figures from Euromonitor (see figure 3) suggest that, as a proportion of disposable income, household saving levels have actually fallen in several European countries (including France, Germany and the UK). And the increases elsewhere have been relatively modest.

Meanwhile, the European Commission reports that, across the eurozone area, household savings rates began to fall in the third quarter of 2009 for the first time since the start of 2008 – a trend which continued in the final quarter[8].

Borrowing

With regards to borrowings, again according to the European Commission, loans to households actually increased in 2009 (albeit by just 0.3 per cent) – and this trend has continued into 2010 when the figures for March were up 1.8 per cent on the previous year.[9]

However, these headline figures mask huge levels of diversity by country and lending method. For example, according to Euromonitor, in 2009:

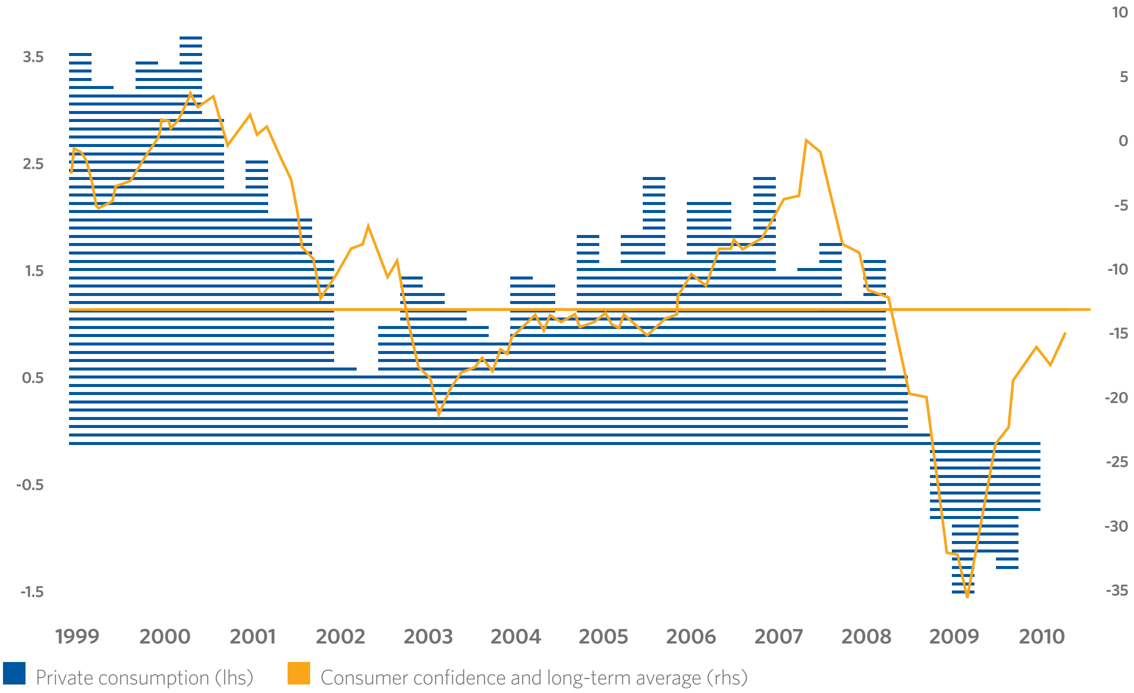
- Gross lending on cards increased (often quite dramatically) in countries such as Germany, Italy and Sweden, but fell back in France, Poland, Spain and the UK.
- Gross lending for car loans fell back quite considerably in countries such as France, Poland and Spain but increased in Germany and Italy (probably in response to government incentives to assist the motor trade).

Similar levels of diversity can be seen for other types of lending. There have been some big increases (in the UK for example, lending for education increased by 12 per cent). There have also been some notable decreases (home lending in Spain plummeted by 58 per cent).

In some areas, established historical trends have continued with little fluctuation (auto lending has been on the wane in Sweden for more than five years and the 13 per cent fall in 2009 was entirely consistent with each of the previous years). In other areas there have been very sudden changes.

We can expect certain consumer segments to be very much more cautious than in the past. But the evidence suggests that the European population, as a whole, has not turned its back on credit.

2 Consumer confidence and private consumption



3 Savings ratio as a % of disposable income

Geographies	2004	2005	2006	2007	2008	2009
France	15.8	14.9	15.1	15.6	15.3	15
Germany	15.2	15.1	14.9	14.8	14.9	13.8
Italy	15.4	15	14.6	14.5	14.9	14.9
Spain	11.2	11.5	11.3	10.2	10.5	10.9
Sweden	6.6	6.7	6.9	7.2	7.5	7.5
United Kingdom	0.7	1.2	0.9	-1.7	-1.1	-1.6

Source: Savings Ratio: Euromonitor from trade sources/national statistics

Spending
How about retail sales values?

Again, according to Euromonitor, there has been considerable diversity across our featured countries. But some distinct trends have emerged.

Most notably, one particular retail sector has seen growth across all six countries, namely internet retailing – with the annual increases (from 2008 to 2009) ranging from six per cent in Spain to 23 per cent in Italy.

Similarly, grocery retailing (that is, the supermarket sector) saw positive gains (in the region of one to four per cent) in five of the six countries – and only fell back by a modest amount (less than one per cent) in Spain. Also health and beauty specialist retailers fared relatively well, with modest growth in each of the six countries.

However, most countries saw declines in the clothing and footwear retail sector. Leisure and personal goods retailers also struggled – as did electronic and appliance retailers.

The findings from Euromonitor are echoed in a many surveys across Europe. For example, in Italy, a 2009 study from Università Cattolica di Roma suggested that sales of bread and pasta had grown at the expense of fresh fruit during the crisis[10]. In the Netherlands, research company GfK reported that consumers are spending less on clothes, food and cosmetics[11], and, in Switzerland, NZZ newspaper noted that consumers were spending less on the staples but continuing to buy certain luxuries, such as expensive coffee machines[12].

One can perhaps deduce that consumers have been more selective and considered in their purchasing decisions. But, again, they have not turned their backs on consumption.

A matter of trust?

During the depths of the crisis, the commentators suggested that many different parties were complicit. The financial services industry may have made the credit available. The regulators may have allowed the situation to go unchecked. But consumers had been urged on from all quarters – to spend more, acquire more and experience more, irrespective of what they could actually afford.

So would the scale and the severity of the crisis undermine public trust in general? Would the entire business world be treated with suspicion? Would scepticism be reserved solely for the banking sector? Or would everyone escape unscathed?

Several studies into public trust have since been conducted, one of which is the Edelman Trust Barometer. This confirmed that trust in the world of business had indeed sunk to historic lows in 2009. But, as demonstrated in figure 4, it rebounded in 2010 – with gains of 26 per cent in Italy, six per cent both in France and Germany and three per cent in the UK.

As one would suspect, the banking sector was not part of this rebound, with levels of trust continuing to fall – by 16 per cent in France, 17 per cent in Germany and 20 per cent in the UK[13].

These findings have been echoed in several other studies.

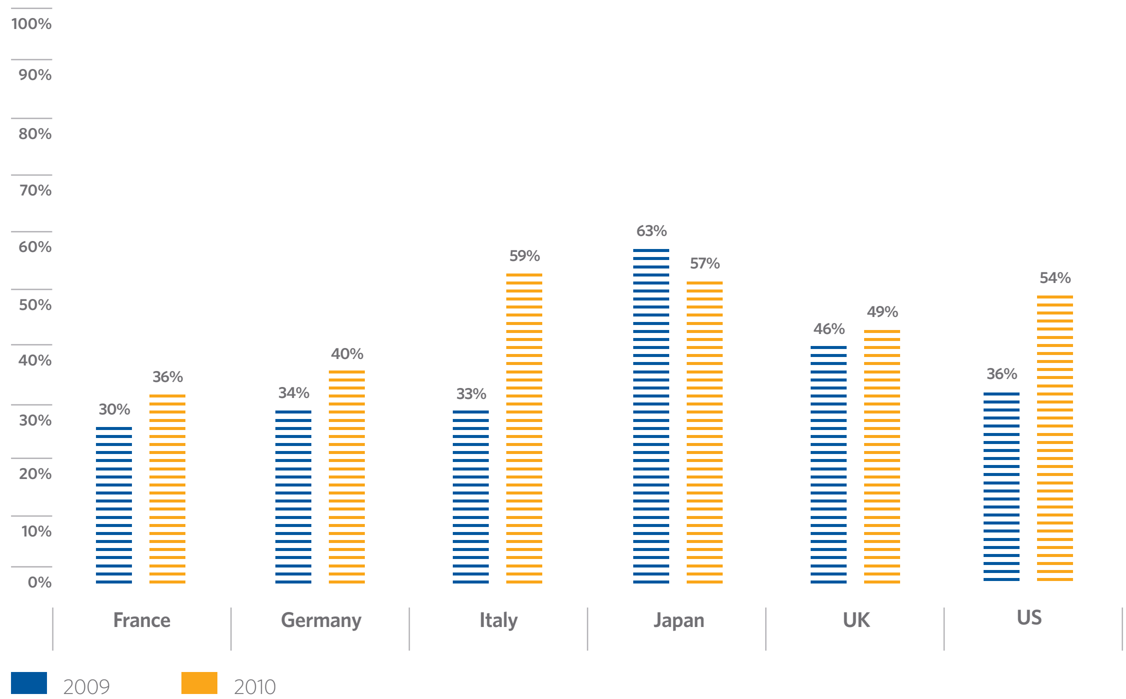
In its annual analysis of the 100 most valuable brands, Millward Brown calculated that, between 2008 and 2009, the total brand value in the financial services category had fallen by 11 per cent. For those bank brands directly associated with the crisis, the fall was much, much larger. But, says Millward Brown, "Payment cards in general are doing better than banks. Determined to gain better control of their finances, consumers are increasingly relying on debit cards"[14].

A recent pan-European stakeholder survey, conducted on behalf of Visa Europe, paints a similar picture. Overall, favourability for banks had fallen from 66 per cent to 55 per cent, whereas favourability for payment cards had only dipped from 84 per cent to 80 per cent[15].

Analysis from Gartner reinforces the message: "The financial crisis has spurred consumer dissatisfaction and lack of trust with banks. However, Gartner data shows that consumers generally trust their debit and their credit card providers to support their payment needs[16].

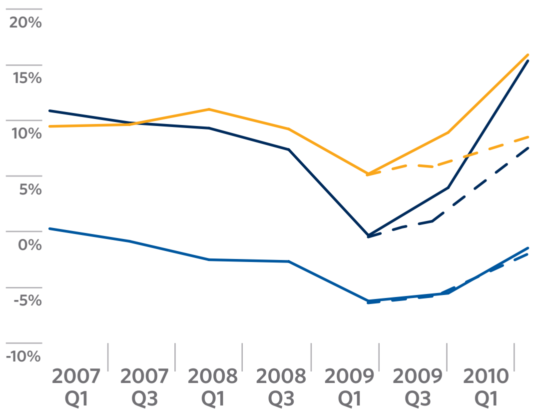
4 Trust in business

How much to you trust business to do what is right?



Responses 6-9 only on 1-9 scale; 9=highest (informed public ages 25-64 in 20 countries)
Source: Edelman Trust Barometer 2010

5 Card transaction growth (2007–2010)



Transactions ATV – Average transaction value
POS – Point-of-sale
Dashed lines show 'like-for-like' transactions excluding new business wins

Paying with Visa?

So how about the propensity to pay by plastic?

Did the fears of a 'flight to cash' ever materialise? Has the use of payment cards held steady? Or can we see the continued displacement of cash?

Given the scale of the Visa Europe system, our figures give a good indication of everyday payment habits.

2008–2009

From October 2008 to September 2009, as demonstrated in figure 5, the number of Visa cards issued in Europe was up by more than four per cent to exceed 380 million, and point of sale spending was up by more than three per cent to €856 billion.

Importantly, the number of point of sale transactions grew by more than seven per cent, suggesting that consumers were using their Visa cards for an ever increasing proportion of their everyday spending. Consequently, the average value of these point of sale transactions fell by four per cent to €50.30.

This trend towards everyday spending was particularly evident in our debit business, which accounts for almost two thirds (64 per cent) of all European Visa cards, and three quarters (75 per cent) of total sales volume. Here, the number of point of sale transactions increased by nine per cent, with the value of point of sale spending increasing by more than six per cent to reach €596 billion.

By contrast, the credit card sector was more exposed to the economic downturn and, consequently, the figures remained relatively constant compared to 2008. For example, many issuers had tightened their risk controls, and consumers were less inclined to make use of credit facilities. Overall, Visa Europe credit card numbers fell very slightly (by less than 0.5 per cent), with the number of point of sale transactions up by a little less than two per cent. However, card numbers did achieve high double digit growth in several countries (such as Finland, Lithuania, Poland and Romania), as did the number of point of sale transactions (in Bulgaria, Finland, France, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia, Sweden and Turkey).

2009–2010

For 2009-2010 we braced ourselves for a similar performance.

In fact, growth through to the end of 2009 rebounded more strongly than anyone had dared anticipate and, based on the volume of transactions now being processed, the growth trend looks set to continue.

As demonstrated in figure 5, growth in transaction numbers and point-of-sale spending has reverted to the type of levels we last saw in 2007. It is encouraging to note that this funding is relatively uniform across all of the Visa Europe business – by debit and by credit, and also across the majority of European countries.

This is not to say that people are spending more; but they are using cards for a greater proportion of their everyday spending.

Looking at the headline figures one could be lured into assuming that it is, back to business as usual. Consumer confidence is reverting to its historic levels. Personal consumption levels should follow the same course. There have not been any truly cataclysmic shifts in either saving or borrowing rates. And total sales in most retail sectors appear to have been relatively resilient.

So, the macro-picture of aggregated data could give the impression of a marked but relatively short-lived fluctuation. But does the micro-picture, involving real individuals interacting with real businesses, reveal some more fundamental shifts?

What do the people say?

When considering the effect on real people living real lives, the question that concerns us is this:

To what extent has the financial crisis led 'consumers' to change the way that they actually 'consume' – and what is the impact on their everyday spending, saving and borrowing behaviour?

3

At Visa Europe, we conduct regular research into people's payment-related attitudes and behaviour.

In mid-2008, just before the collapse of Lehman Brothers and the subsequent state rescue packages, we were conducting our largest ever pan-European consumer research programme, the 'Consumer Payments and Borrowing Lens'[17], which included an in-depth analysis of prevailing attitudes towards spending, saving and borrowing.

Then, in April 2010, in order to understand the nature and extent of any subsequent changes, we decided to replicate parts of this survey across six countries[18]. To provide historical context, we can also track selected findings back to a similar survey from 2002.

But what do the results actually tell us?

It is clear that, in just 18 months, there have been some fairly significant changes to the way that people behave. But, unsurprisingly, the nature and extent of these changes depends on a whole range of different factors such as:

- The impact that the crisis has had on you, personally
- The type of person you are
- The country in which you live
- Whether or not you think the worst is over – or if you believe that there is more pain yet to come

So, let's begin by trying to understand the financial impact that the crisis has had on the population at large. Then, let's identify some of the broad trends that have emerged. And, finally, let's consider the way different people have responded.

What's the impact on one's own financial situation?

One of the characteristics of this crisis has been the uneven impact.

During the big downturns of the past almost everyone suffered. In the 1970s, for example, we were all exposed to galloping inflation, massive fluctuations in interest rates, plummeting asset prices, the threat of energy shortages and so on. Businesses and consumers both lost out.

This time around there have been winners as well as losers.

If, for example, your job or your income remained secure, you will have enjoyed relatively stable prices with low levels of inflation. As retailers and manufacturers tried to stimulate sales, you could have picked up some real bargains. There has probably never been a better time for you to buy a new car, improve your home or choose a luxurious holiday. And interest rates have stuck at an historic low.

At the other extreme, we have seen some very extensive job losses, thousands of businesses have faced a real struggle, there has been a clamp down on public spending, and banks have been keen to limit their exposure to bad debts. Consequently, millions of people have faced deep personal crises.

So, what does the Visa Europe research tell us about the severity and scale of the impact?

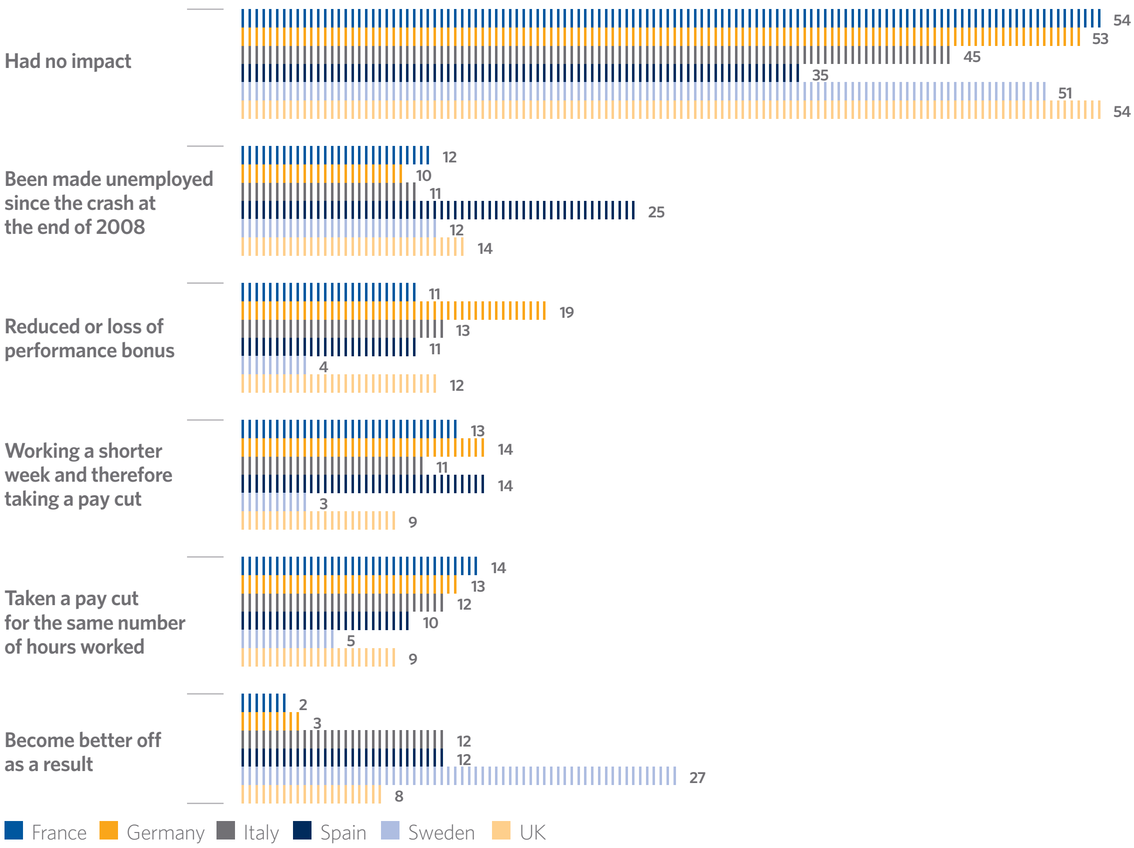
- As indicated in figure 6, a substantial proportion of consumers actually tell us that the downturn has had no direct impact on their own financial situation. This ranges from 35 per cent in Spain through to 54 per cent in France and the UK. And, in every country except Italy and Spain, this is the majority view.
- At the same time, a substantial proportion has suffered from a direct negative impact on their financial situation. This ranges from a little less than a quarter (24 per cent) of people in Sweden through to more than half of the population in Spain (60 per cent).

  Alarmingly often, this has been due to job losses (ranging from ten per cent in Germany right up to 24 per cent in Spain), so it can be presumed that many of these people are under acute financial pressure. Other less dramatic causes include the loss of bonuses, the imposition of a shorter working week, and so on.
- Across the region, a sizeable minority does admit to being better off as a direct result of the crisis. The figure may be just two per cent in France, but it rises to a quite considerable 27 per cent in Sweden.

There is also extreme uncertainty about the prospects for the future. The economic data may suggest that many European countries are now struggling out of recession but many commentators – and millions of consumers – are yet to be convinced.

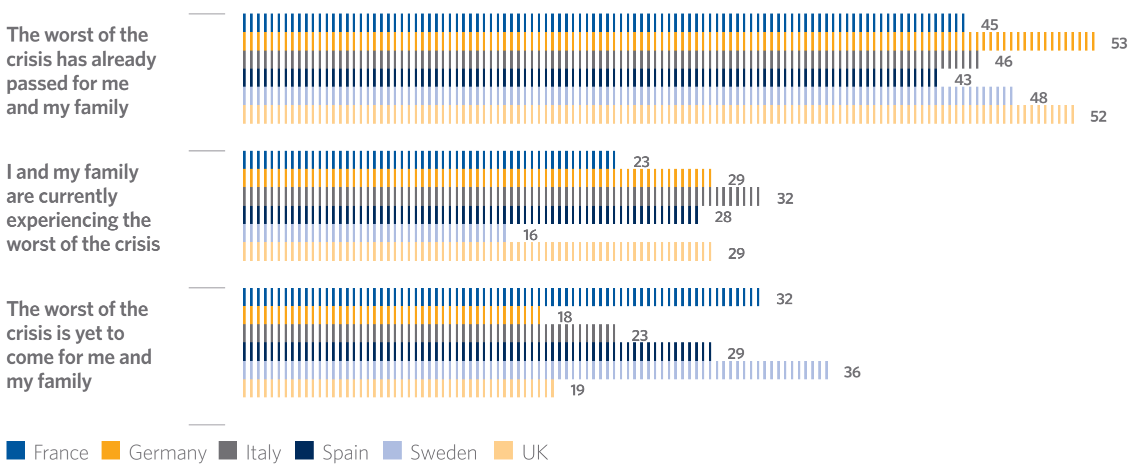
As indicated in figure 7, the largest proportion of people (around a half in each of the six countries) believes that the worst is, in fact, over. But sizeable proportions believe that we are still in the depths of the crisis, or that the worst is yet to come. And their attitudes and behaviours inevitably reflect this mood of pessimism.

6 The direct impact of the crisis



Source: Visa Europe, TNS 2010, Question "In which of the following ways has the financial crisis impacted you?"

7 View of the crisis



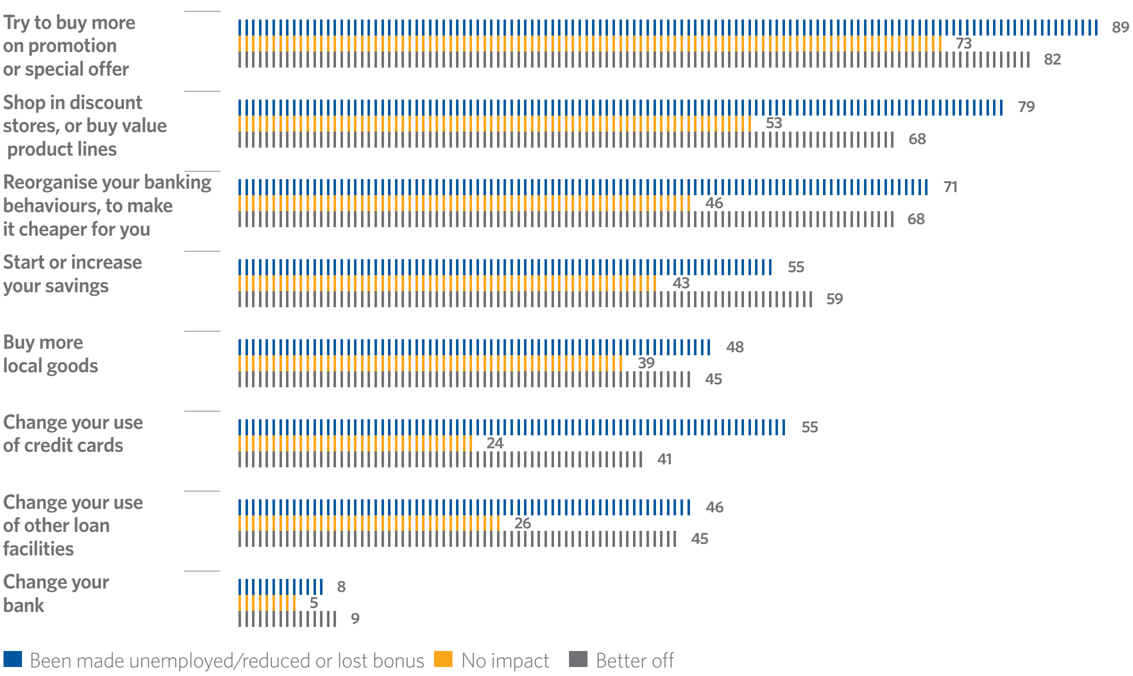
Source: Visa Europe, TNS 2010, Question "There has been a lot of talk about the financial crisis. Which statement comes closest to what you believe?"

8 The scale of the changes

France	2002	2008	2010
I am open to borrowing money in order to buy the things I want today	26	25	20
I save money so I have some financial protection in the future	69	60	60
I am more aware of my personal financial circumstances than I used to be	73	49	50
I try to balance my spending with my earnings	91	86	88
I prefer never to borrow or lend money	58	52	62
I watch every penny I spend to avoid getting into debt	76	74	79
Germany	**2002**	**2008**	**2010**
I am open to borrowing money in order to buy the things I want today	11	11	9
I save money so I have some financial protection in the future	77	60	61
I am more aware of my personal financial circumstances than I used to be	70	62	62
I try to balance my spending with my earnings	82	85	84
I prefer never to borrow or lend money	72	52	68
I watch every penny I spend to avoid getting into debt	64	44	57
Sweden	**2002**	**2008**	**2010**
I am open to borrowing money in order to buy the things I want today	10	19	20
I save money so I have some financial protection in the future	72	53	58
I am more aware of my personal financial circumstances than I used to be	65	52	55
I try to balance my spending with my earnings	88	73	83
I prefer never to borrow or lend money	30	38	50
I watch every penny I spend to avoid getting into debt	63	37	50

Source: Visa Europe, TNS 2002, 2008, 2010, Question " Now here are some more general statements that other people have said about different attitudes towards personal finances and the way they manage money. Please can you tell me the extent to which you personally agree or disagree with each of the following statements?

9 Behaviour as a result of the crisis – France



Source: Visa Europe, TNS 2010, Question "I would now like to ask you some questions relating to the global financial crisis… How has your behaviour changed in relation to each of the following:..?"

10 Price matters more

Source: Visa Europe, TNS 2010, Question "Has the financial crisis encouraged you to…?"

11 I prefer to pay with cash for everything I buy

	2002	2008	2010
France	29	9	16
Germany	65	31	55
Italy	59	28	45
Spain	69	33	50
Sweden	61	18	29
United Kingdom	54	18	35

Source: Visa Europe, TNS 2002, 2008, 2010, Question "Here are some statements that other people have said about their different attitudes towards buying and paying for different sorts of products and services. Please can you tell me the extent to which you personally agree or disagree with each of the following statements?"

What are the broad trends?

Given the unevenness of the impact, and the diversity of opinion about the future, it would be naïve to expect a uniform pattern in peoples' response. Even so, we can still detect some broad trends:

- First, it is important to keep things in context.

  Yes, between 2008 and 2010, we did see some fairly fundamental changes in the things that people believe and the way that they behave. But, in truth, these changes are not any more fundamental than those that we saw between 2002 and 2008.

  In other words, the past 18 months of crisis have had no more of an impact than the previous six years of growth and prosperity. And, in some instances, the changes between 2008 and 2010 have actually been less marked.

  As we can see from figure 8, this is particularly the case in Sweden which, of course, lived through its own national crisis in the early 1990s so the population is probably more resilient. But the same general trend can also be detected elsewhere.

- Second, we can see that the most significant changes have occurred among those who have been directly affected by the crisis. Both those who have suffered and those who have benefited have made definite changes to the way they organise their finances and spend their money. But, despite living with a constant barrage of coverage and comment on the downturn, those in the middle are far less likely to have rethought their priorities or rebalanced their behaviour.

  In figure 9, as an indicative example, we look at France and the way that people say their behaviour has changed as a result of the crisis. The same general pattern is duplicated in every country.

- Third, we can deduce (again from figure 8) that people's core beliefs and values probably remain intact.

  Attitudes towards saving, borrowing and spending may have been rebalanced, but they have not been turned upside down. What has changed is that people have generally become more 'considered' – for example, by being more aware of their personal financial circumstances, by taking extra care to balance their spending with their earnings and by keeping a closer eye on their everyday spending.

- Fourth, price appears to have become even more of a factor in people's buying behaviour. Across all countries, and irrespective of whether they are better off, worse off or unaffected, a large proportion of people say that the crisis has encouraged them to buy more on promotion or special offer, shop in discount stores, or buy value product lines, as indicated in figure 10.

- Fifth, people do seem to prefer the reassurance and perceived control of hard cash. Across every country, this was one of the biggest and most uniform shifts. As indicated in figure 11, very many more people say that they now prefer to pay in cash for everything they buy.

  This finding would appear to contradict our own business performance (see page 17). It could mean that consumers want something that is cash-like (such as debit or prepaid cards), but not necessarily cash itself. It could mean that people are saying one thing and doing quite another. It could also mean that those segments of the population who were stubbornly sceptical about payment cards have become more so – whereas those who are happy to use cards are using them in more places and more frequently.

  It should also be recognised that, although we may have seen a marked dip since 2008, the long-term trend since 2002 is still away from cash.

- Sixth, the internet is figuring even more prominently in people's decision-making behaviours as well as their spending habits. More people are referring to the internet before making a purchase, more are shopping online, and large numbers are going online for tips about how to do things more cheaply.

  In figure 12 we have another indicative example, this time from Italy. But again, the same trend is evident elsewhere in the region.

12 More people going online more often – Italy

	2008	2010
I often refer to the internet before making a purchase	53	65
Since the crisis, I am shopping online more		26%
Since the crisis I have started to shop online		13%
Since the crisis I have looked online for tips about how to do things cheaply		56%

Source: Visa Europe, TNS 2008, 2010, Question "I would now like to ask you some questions relating to the global financial crisis... How has your behaviour changed in relation to each of the following:..?"

13 Money and security

I am more aware of my personal financial circumstances than I used to be						
	France	Germany	Italy	Spain	Sweden	UK
worse off (unemployed etc)	53	66	74	66	54	81
no impact	46	59	66	50	53	66
better off	91	63	71	67	60	68
In a job, security is more important than money						
	France	Germany	Italy	Spain	Sweden	UK
worse off (unemployed etc)	52	64	72	64	52	59
no impact	48	58	75	64	47	56
better off	73	66	75	67	51	54

Source: Visa Europe, TNS 2010, Question "Now here are some more general statements that other people have said about different attitudes towards personal finances and the way they manage money. Please can you tell me the extent to which you personally agree or disagree with each of the following statements?

14 How likely would you be to recommend your bank?

France	55%
Germany	72%
Italy	70%
Spain	58%
Sweden	71%
United Kingdom	66%

Source: Visa Europe, TNS 2010, Question "Based upon your experiences, or what you may have seen or heard, how likely would you be to recommend your main current/cheque account bank to a family member, friend or co-worker?"

How about the devil in the detail?

Although some broad trends have certainly emerged, it would be a big mistake to assume that we are contending with a new, all-pervasive European zeitgeist. If anything, our research findings suggest that levels of diversity have escalated, with European companies now having to work even harder to understand the conflicting needs and expectations of specific consumer segments.

In this short paper we don't have the space to consider all of the nuances. However, to give a sense of the diversity, consider the following example.

If you take a look at figure 13 you can see some of the ways in which people say they have reacted to the crisis across our six European countries. In general, people say that they are more aware of their financial situation than they used to be and that, in a job, security is more important than money.

But, take a closer look at the figures for the UK and France.

In the UK, the most cautious are those who claim to be worse off as a result of the crisis. By comparison, in France those who are better off are more cautious.

The conclusion?

Don't take anything for granted. And don't assume that a heightened awareness of financial circumstances will be confined to those people who have suffered in the downturn.

Attitudes to banks and bank relationships

Among many commentators, blame for the crisis was placed squarely at the door of the banking community. As discussed in the previous chapter, trust in the sector does appear to have been badly damaged.

But what has been the impact on people's actual behaviours? Have they reorganised their banking relationships? What's their attitude towards the institution they actually bank with? Are they more open to receiving banking services from the new types of entrant springing up in the wake of the crisis?

A brief look at the surface could tempt you to believe that, in fact, all is well.

In every single country (as indicated in figure 14) a majority of people said that they would be likely to recommend their bank to others. In certain countries and among certain segments, these levels of advocacy were reassuringly high. In Germany for example, 34 per cent of those who had benefited from the crisis said that they would be extremely likely to recommend their bank. Similarly, In the UK, 13 per cent of those people who believed that the worst of the crisis was over would make a similar recommendation.

But, once again, the detail tells a different story.

As indicated in figure 15, large numbers of people are saying that the crisis has encouraged them to change their bank. The actual proportion may be just one-in-twenty (five per cent) in Sweden, but it ranges right up to nearly one-in-five (19 per cent) in Spain.

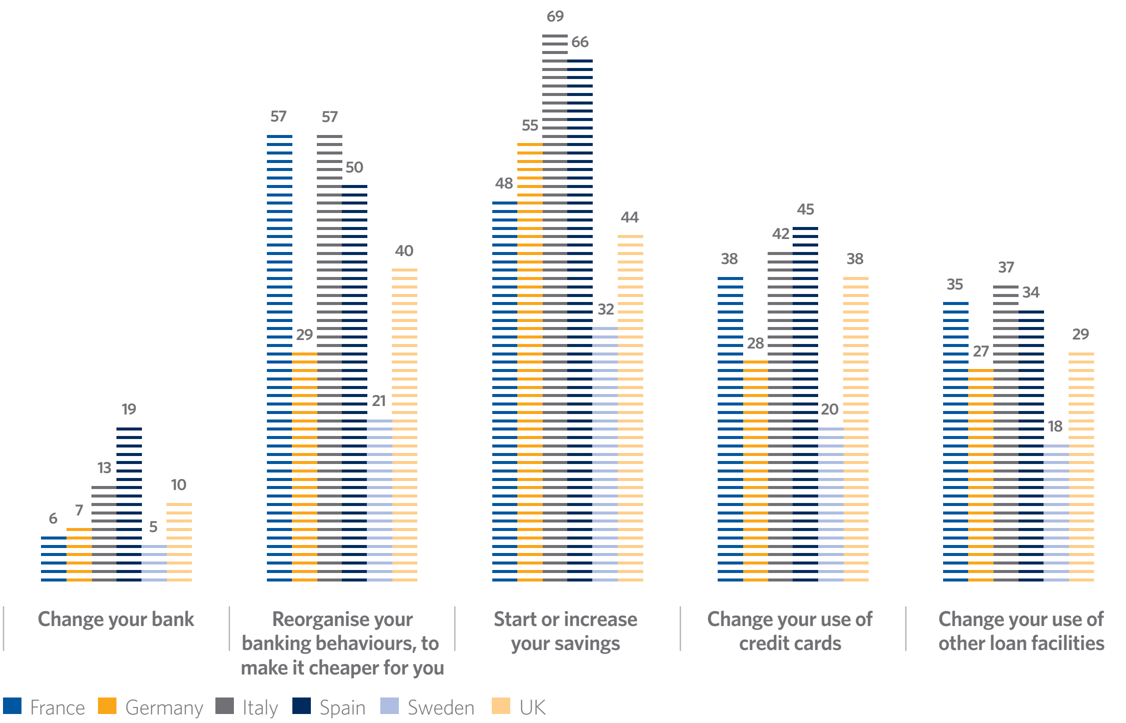
Consequently, many people do say that they are open to receiving banking services from new suppliers. The proportion who said they would be interested ranged from 17 per cent in Sweden to 41 per cent in Spain. And people's individual experience of, or attitude to the crisis had little bearing on the figure.

The more cautious and considered mood also means that people have been encouraged to rethink their banking behaviour. This may be by trying to make their banking cheaper, changing their use of credit cards or loan facilities, or increasing their savings.

In many cases we can see some dramatic shifts. In France, for example, 57 per cent of people said they had been encouraged to change their banking behaviours. And, across five of the six countries, more than 20 per cent of people said they had been encouraged to change their use of credit cards (with the norm being closer to 35 per cent).

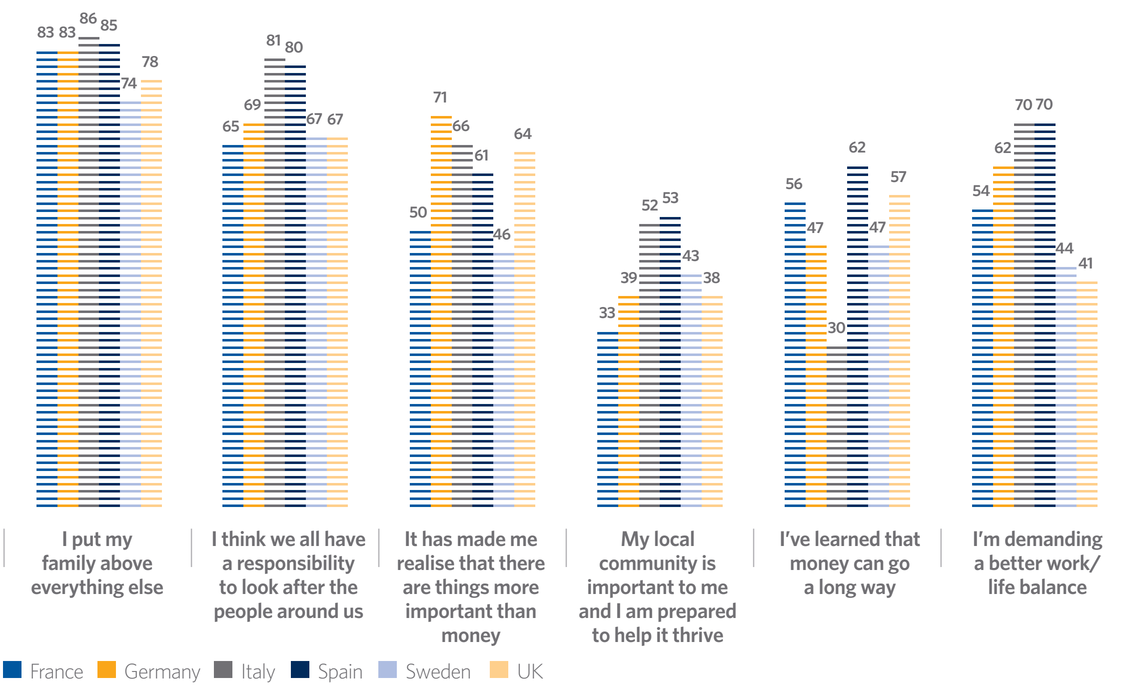
Again, those people who have been directly affected by the crisis are the ones who are most likely to change the way they behave. Both those who have benefited and those who have suffered do seem quite determined. And, by contrast, those who have seen no impact are more ambivalent.

15 Impact on banking behaviours



Source: Visa Europe, TNS 2010, Question "Has the financial crisis encouraged you to...?"

16 Response to the crisis



Source: Visa Europe, TNS 2010, Question "Finally which comes closest to how you feel or what you have done following the crisis ?"

A more caring, sharing environment?

Another commonly held belief during the depths of the crisis is that it would make way for a more 'caring and sharing' environment – in which consumers would be less obsessed with consumption. Money would be less important. Community and family life would become more of a priority. And people would seek and find pleasure in the simple things in life.

So, where does the research lead us?

When asked about the impact of the crisis on their views and values, it would appear that money does indeed matter less – a finding that, as demonstrated in figure 16, is consistent across all six countries.

For example, at least a half (and often much more) of all people say that the crisis has made them realise there are things that are more important than money. More than three quarters say that it has made them put their family above everything else. A similar proportion agrees that we all have a responsibility to help the people around us. And people across the whole of Europe appear to be demanding a better work-life balance.

High proportions of people also say that, in a job, security is more important than money. Significant numbers say that they are prepared to pay more for environmentally friendly products.

But, where we are able to track the findings back to 2008, the conclusions are not quite so clear. In two countries (France and Germany) fewer people now say that the way they spend their time is more important to them than the money they make. Elsewhere the shifts tend to be marginal. And, compared to 2008, many more people across Europe now believe money to be the best measure of one's success.

Before drawing definite conclusions, it's worth looking at this in more detail and considering people's plight, and their attitude to the crisis. This reminds us that, if money is tighter for people, or if they fear that there is worse to come, they will be more mindful of their everyday financial realities.

By contrast, those who have not been negatively affected, or who believe that we have put the worst of the crisis behind us, will be far more relaxed about money – and much more open to community and environmental concerns.

And the conclusion is?

Yes. There have been some definite changes over the past 18 months. These changes are far deeper than one would normally expect to take place over such a timescale. But they are not more significant than the changes we have seen in the past. And they are far from uniform – there is a polarisation of attitudes.

Indeed, one's own personal experience of the crisis will have had far more impact than the related commentary.

There is, therefore, no unifying mood of the times. Rather, there are many different moods. And the moods are most dramatic among those people whose situation has actually changed – irrespective of whether those changes have been for the better or for the worse.

Money matters less: what you do with it matters more by Peter Fisk, 25 April 2010

We don't like change. We prefer what we know, even if it's not perfect, rather than the unknown. Anything that disrupts our norms, initially at least, we dislike, fear and try to avoid.

As California's sub-prime mortgage crisis raged across our television screens, stock markets crashed, energy prices rose, and the structures of our society seemed in peril, we lost confidence. Of course, lurking behind this panic was a debt mountain that we had created, growing uncontrollably for too long.

While the pain of economic crisis has been real and acute for many businesses – and obviously banks – for most of us, as consumers, it has been more of an emotional rollercoaster. And those irrational, often unconscious reactions have changed our attitudes to money and what they do with it, in a way which is set to stay long after stock markets recover.

And while the economic crisis affected each of us in different ways, for all of us it felt bad. Some people lost their jobs, or had salaries reduced while others enjoyed the benefits of low interest rates and reduced mortgage payments. But none of us like change, and it felt like things were changing, dramatically. We felt vulnerable, fearful, and cautious.

And now there is no going back. The emotional shock has changed our attitudes to money and what we do with it, forever.

We have moved from conspicuous to cautious consumers, from mindless to mindful in our attitudes, from extrovert to more introvert in our behaviours. There is less extravagance, less frivolity, less materialism, less impulse, and less trust. We don't want to 'flash the plastic' or be seen weighed down by designer bags anymore. It doesn't seem right, or cool.

There is a new altruism, a new sense of responsibility, which could be summed up as "money matters less, but what they do with it matters more".

We think more about what we spend our money on, we are a little slower and more thoughtful when making decisions, weighing up their options, and the consequences for ourselves and others. Success is no longer defined by how much stuff we have, but by what and how we buy. And we intuitively seek to de-risk our lives too, avoiding the irrational excess and debt of old.

So beware any company, bank or retailer, who seeks to encourage us to get back to the old ways – those who shout about interest-free credit deals, and encourage us to spend beyond our means. No longer do we see this as a fast track to our dreams. Instead we see them as irresponsible, or worse.

The economic crisis has also made us think differently in broader ways too.

We appreciate the inter-connectedness, and fragility, of our society – both globally and locally. The consequences for rainforests of one action, or for local communities of another, have suddenly come into mainstream focus. Social and environmental issues are no longer a charitable issue, but a direct part of our daily choices in the supermarket and at homes, introducing new and complex trade-offs.

And at the same time as all of this, digital technologies have rapidly changed the way we understand all these issues, and respond. We are more intelligent, connected and more in control than ever before. Transparency enables us to judge companies on their ethics and fairness, as well as price and promotions. Websites and communities enable us to work together and with companies in new ways. As a result, advocacy has replaced advertising, as people trust people.

Together, these forces of change – economic, social, environmental and technological – are enabling us, the consumers, to rise up in new ways. We are more thoughtful, more responsible and more powerful. We are ready to redefine and rebuild markets on their terms.

So what has changed most for us, the consumers? What is this 'new normal'?

Five new priorities stand out – themes that have risen up the consumer agenda in response to these turbulent times. These are the new factors which drive our perceptions and choice, and together form our new value equation, against which we will judge every bank, retailer and brand.

1. People are more considered
We recognise the consequences of our actions; we realise that every choice we make is a trade-off, and we reject the superficiality of fast living.

We are more responsible, more thoughtful. This might be in terms of environmental and social impacts, but equally in terms of consequences for our families and futures. Value is no longer judged in terms of transaction amounts but on longer-term, more holistic qualities.

Businesses are responding to this in many ways, putting more purpose into their brands, and embracing sustainable innovation. From the carbon footprint attached to every Patagonia item of clothing, to the lead of Spain's Iberdrola in non-carbon energy, we look beyond the product, price and promotion.

2. People are more resourceful
We can do so much more for ourselves, if only you'd give us the tools to do it, and let us get on with it. We want to be useful and practical, and apply our skills and creativity.

We want to be enabled rather than just served. We want support in achieving our specific tasks, rather than just being sold a product, and then forgotten about. We are keen to develop our own skills, to roll up our own sleeves. Value is now about what a product enables us to do, much more than how much it simply costs.

Low cost airlines from Air Baltic to Easyjet have encouraged us all to become independent travellers, while the likes of Tripadvisor gives us trusted advice from other people like us. From home improvements to vegetable gardens, we are empowered as never before.

3. People are more human
In this incredibly commercialised, global, branded world there is often something missing: a focus on real people, and humanity. We resent being viewed as averages, or as transactions.

We care more about ourselves, and those around us. We care about people inside companies too. We care about our health and happiness, things which money can't buy, and which can come without expense. We want to be recognised as individuals, as real people, with needs and dreams, but also with principles. Value and values are now symbiotic.

Realness, localness and personalisation matter more. Starbucks is debranding its stores to reflect local neighbourhoods. Organic cafes and local gyms are full of people trying to improve themselves for their own good, not just their looks.

4. People are more participative
We are so much more than the passive partner in a sales transaction. We have ideas to contribute like you could never imagine. We are not dumb, ignorant 'consumers'.

We want to be part of it. We want to be involved in making, shaping and promoting what we buy. We also want to connect with other people like us, to share our interests and passions – be it for wildlife, music or running marathons. Value is now defined by our participation.

Lego is less about making plastic bricks, much more about enabling people to share their photos of the amazing models they make. Threadless enables you to design your own t-shirts, vote for the best ones, and buy from the limited editions each month. The best brands are no longer defined as suppliers, but as communities with a purpose.

5. People are more escapist
As doom and gloom are replaced by goodness and responsibility, we still like to indulge a little. While this is not the extravagance of before, we seek small ways to make us smile.

We want to express ourselves in small and subtle ways – accessorising our clothing or furnishings with a dash of colour or quirkiness. We love the aesthetic simplicity of great design, iconic features that can have emotional rather than rational purpose.

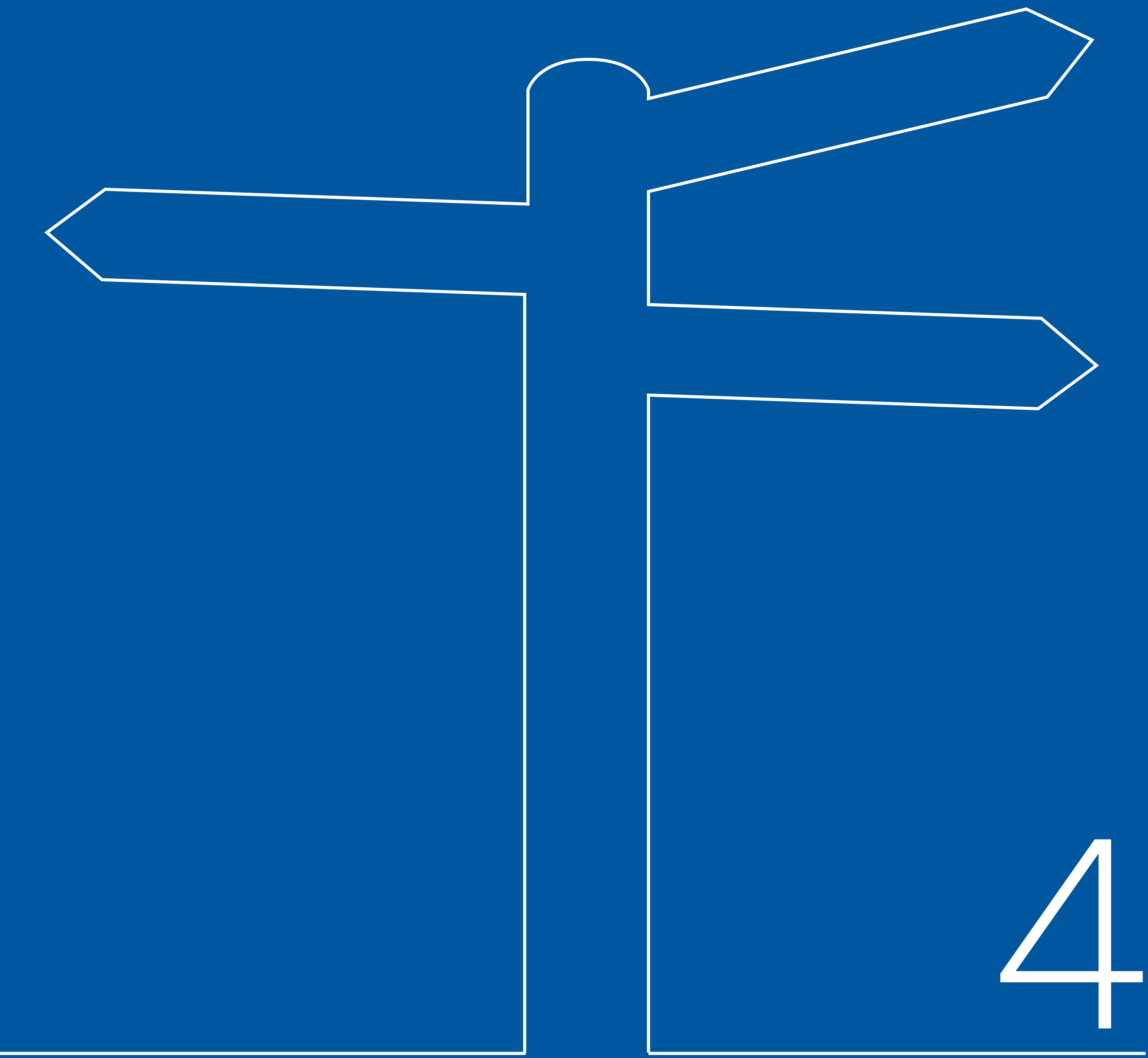
Our iPods and iPhones have become essentials not luxuries. We are happy to pay a little extra to see Avatar or the Mad Hatter in 3D. And instead of the outdated egotism of a Ferrari, we now feel comfortable in the funky chic of a Fiat 500.

Money matters less to people, but what they do with it matters more. People who at first lost confidence, have now come to terms with a changing world, and found their new priorities. Business and brands now need to catch up, to explore these white spaces with more thoughtful innovation – to do more for consumers, and for society as a whole – and to seize the new opportunities to get back to profitable, sustainable growth.

Peter Fisk, 25 April 2010
Peter is the bestselling author of "Customer Genius". He is an expert in consumer trends, marketing and innovation, and founder of the Genius Works, specialising in accelerated business innovation.
www.theGeniusWorks.com

Where to from here?

Knowing exactly what people are doing, thinking and feeling right now is one thing. Understanding how attitudes and behaviours will evolve in the future is quite another.



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As well as understanding how the market and economic environments are likely to evolve – and, as well as knowing how parallel and emerging technologies (like contactless and mobile) are set to converge – we also need to appreciate the way that real people living real lives are likely to react and respond.

With this in mind, we are working with The Futures Company, a leading global trends and futures research and consultancy business, to understand the 'mega trends' that are shaping the lives of consumers around the world – and the way that these will play out in the consumer financial services and payments markets.

So, looking ahead over the next few years, what are these mega trends?

In our work with The Futures Company, ten big themes or 'energies' have emerged:

- **Stop-go lives**
  The pace of everyday life is going to get even faster. The temptations and demands of modern society mean that people will be living increasingly full and flexible lives. They will be looking for ways to do the routine things more quickly and for solutions that reduce complexity.
- **Seeking the genuine article**
  We will see a shift in emphasis towards a more down-to-earth and applied form of authenticity. In an increasingly uncertain world, this authenticity will be grounded in real and tangible consumer benefits such as trust, reassurance and dependability.
- **Seeking experiences**
  It will no longer be a matter of pushing the boundaries to the extreme. Instead, people will want to make the most of life by revelling in simple, everyday pleasures that provide an escape, release and antidote to the pressures of modern living.
- **Professional consumers**
  We will continue to see a move away from indulgent forms of consumption. This will be progressively replaced by a more savvy, intelligent and considered form of consumption that is less about indulging in luxury and more about getting the right product at the right price.
- **Networked connections**
  There will be a re-emphasis on the depth and quality of support and the reciprocal nature of relationships. Rather than manically seeking countless so called 'friends', people will be looking for a smaller number of more active and trusted networks that provide real benefits and true support.
- **Making the most of me**
  We will see a major shift of emphasis away from the quest for conventional success and recognition. Instead, we will see a more inner-directed desire and thirst for self-improvement, in order to reach more self-defined goals.
- **Navigating wellbeing**
  Consumers will still want to improve their personal health and wellness. They will take personal responsibility for this, but will need help and guidance in doing so. They are also likely to become more prudent about the health choices they make.
- **Making a difference**
  People will continue to recognise the importance of social and environmental issues. They will increasingly appreciate that many such issues require collective action from individuals, businesses and governments in order to be addressed effectively.
- **Living with risk**
  The financial crisis has re-opened people's eyes to the realities of risk. Indeed, with the return of economic uncertainty, the question of financial risk will be a definite consideration in the way that consumers make their decisions.
- **Evolving identities**
  People will still feel free to express their identity. But, in doing so, they will be much more aware of the attitudes of others. They will therefore avoid any displays of self-expression that could be seen as offensive to those around them.

Having identified these mega trends, the next step is to assess which of them are most relevant to the European payments industry – and offer banks a viable opportunity to develop their propositions accordingly.

Europe: riding out of recession

Prof. Ahmad Rahnema IESE Business School, University of Navarra

All of the latest figures show that the global economy has recovered well from the economic crisis since the dramatic drop in the winter of 2008/09 – when the world financial system was practically paralysed by the collapse of Lehman Brothers.

The general diagnosis of the economic climate is that it seems to be stabilising and a partial recovery is currently underway. This is reflected in the most recent GDP figures for the last quarter of 2009. These early signals clearly indicate that growth has resumed, and this growth is probably set to last.

The European economy also looks as though it is on the recovery path but is struggling to get going. The recovery made to date is largely attributable to the very loose and accommodative monetary policy and government stimulus packages. However, narrowing the focus to what is happening on the ground in the European economy (and boosting the hope that economic recovery is gaining momentum), growth will continue mainly because of:

- More stable financial markets
- Global economic growth
- Low inflation expectations
- Increased confidence

The rapid and coordinated reaction of the major European governments to the dramatic escalations of financial crisis and global downturn was crucial for stabilising financial markets. Early stage bank bail outs, tax cuts and tax relief, and the introduction of comprehensive stimulus packages (such as the car scrapping schemes, short-term working arrangements and higher public spending) all helped to avert a market meltdown. The positive equity market performance and lower spreads of corporate bonds over sovereign bonds in the first quarter of the 2010 show an ongoing stabilisation of the financial markets. This will reduce corporate funding costs and thereby improve, though very slowly, the investment environment. On the other hand, uncertainties about the new regulatory framework to be imposed on the banking sector, the ongoing correction of the housing markets in some European countries, and the debt crisis of eurozone periphery countries will slow down the growth of the domestic demand in 2010.

The collapse of the Lehman Brothers had a devastating impact on international trade. A significant proportion of orders was postponed or cancelled. Exports, the main driving engine of many European countries, collapsed worldwide. For example, German exports fell by more than 20 per cent in 2009; while the world trade deficit slumped by as much as 12 per cent in the same year. This resulted in a simultaneous slide into recession.

But in exactly the same way, the synchronised global economic upturn is now stimulating the European economy. The recovery of the eurozone economy has so far been essentially driven by exports. During the last quarter of 2009, foreign trade contributed positively (at 0.5 per cent) to GDP growth, mainly due to the revival of exports. Given the strong demand from Asia, and the positive pace of recovery of the global economy, foreign markets will most probably grow once again in 2010. Moreover, one could expect an additional boost in European exports throughout the remaining part of 2010 as a consequence of a cheaper euro.

Another reason for expecting an ongoing recovery is the persistently low level of inflation in Europe. The dramatic drop in capacity utilisation during the economic downturn, together with weaker wage increases, is reducing the likelihood of price increases in Europe during the current year. Consequently, the negative output gap is likely to continue to exert downward pressure on underlying inflation by the end of 2010.

A further factor supporting continued recovery and growth in Europe is the increased confidence level, especially in industry. The purchasing managers' economic sentiment index (PMI) in the eurozone, has been showing a steady improvement since the end of 2008. This suggests that industrial growth will continue to flourish in 2010. In fact, the global economic downturn resulted in a drastic reduction in industrial demand during the 2008. This in turn triggered a sharp drop in capacity utilisation, and thereby a decline in revenues accompanied by an increase in costs. The result was a deterioration in company earnings. The improvement in the PMI, together with an increase in the earning trends of companies in the last quarter of 2009, could be interpreted as a signal that the worst is probably over.

While the improvement in business confidence is sending encouraging signals, aided by the recovery in the global economy and normalisation in world trade, data on consumer spending is far more lacklustre. During the last quarter of 2009, private consumption fell by 0.6 per cent.

Against a backdrop of continuing labour market deterioration, with an unemployment rate of 10.5 per cent forecast for the end of 2010 (compared with 9.9 per cent in January 2009), private consumption will barely pick up, as low incomes erode households' purchasing power. Moreover, the removal or reduction of the government support measures, and planned tax increase in some countries (higher VAT in Greece and Spain, for example, and higher income tax in Portugal) will further penalise private consumption.

Given the weak recovery of private consumption, for some European countries (Ireland, Spain and the UK to name but three) what drives demand in the next few years will not be household consumption or housing investment so much as exports and business investment. This is basically due to the fact that private households lack the financial means to increase their demand. Furthermore, they have to consolidate their finances (for example, by reducing debt and increasing savings).

That said, given that the proportion of the private consumption alone in European GDP is currently three times greater than that of export and business investment combined, there is very limited room to compensate for the decline in private consumption. To put it another way, a one per cent drop in private consumption must be offset by a three per cent increase in exports and business investment.

Moreover, given the high level of government budget deficits, there will be no further government support measures. States will have to consolidate their public finances. Not only will taxes and other charges be increased in order to do this, but spending will also be cut. Clearly, this will affect public investment in Europe.

While improving exports and investments could play an important role in economic recovery, without doubt it is private consumption that plays a pivotal role in the evolution of post-crisis economic growth and recovery in Europe, as it accounts for almost 59 per cent of GDP.

Consumer behaviour in the coming months, and the evolution of consumption, will be the main factors determining the speed and scale of the recovery. Moreover, what happens on the ground to consumption will definitely have very important implications for consumer goods companies and retailers in Europe. Knowing how consumers have been responding to the economic downturn and detecting any likely change in their behaviour is crucial for the consumer goods companies and retailers in their struggle to weather the downturn.

Businesses need to keep a close watch on the key drivers of private consumption: consumer confidence, purchasing power, the cost of living, and the availability of credit. A glance at the evolution of these drivers during the economic recession and their expected evolution in the post-crisis period could shed some light on the likely speed and scale of the European recovery.

During the second quarter of 2009 the European consumer confidence index dropped to its lowest level (-32.5) in recent history. However, the trend has since been upwards and reached -15.8 in the first quarter of 2010. The recovery looks set to continue but will be slower, and undermined by the widening contrast between the different European countries due to the restructuring of public finances and structural problems. While household confidence and consumption in France, Germany, the Netherlands and the UK has been on the rise during the first quarter of 2010, the ballooning of the budget deficit of peripheral eurozone countries (Greece, Ireland, Italy, Portugal and Spain) has slowed down the improvement in consumer sentiment in these countries.

Data on the evolution of unemployment rates, and housing prices in 2010 (the main determinant of the consumers' purchasing power) is also lacklustre. Employment rates are likely to remain weak, with unemployment rising towards roughly 10.5 per cent in 2010, compared with 9.9 per cent in the last quarter of 2009. But the deterioration is uneven. The domestic labour markets seem to have responded differently to the recent economic downturn. While the so-called core countries unemployment rose at a relatively modest pace, despite a steep drop in GDP, it rose much more sharply in the peripheral countries.

Considering the relatively unfavourable development of the labour market in the peripheral countries, household purchasing power (and thereby consumption) looks set to stay flat again in 2010.

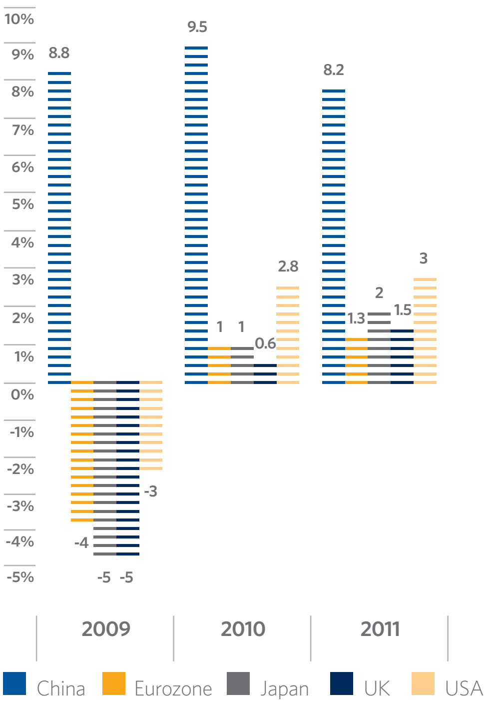
The housing sector remains fragile but is improving. In the third and fourth quarter of 2009, investment in the construction sector fell at a rate of 1.5 per cent, quarter-on-quarter. While house prices in some countries (for example, Germany and the UK) have improved, downward price pressure is likely to continue at the European level. These declining housing prices are reducing household wealth and will translate into reduced purchasing power.

Another factor affecting consumer behaviour and attitudes is the cost of living or inflation. Lower inflation rates ease pressure on the cost of living. Also, the virtual stagnation of wages and low capacity utilisation will noticeably depress the unit cost of production.

17 Real GDP, % year-on-year

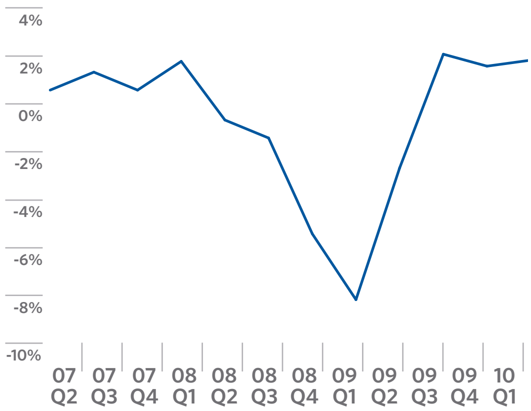
	2008	2009	2010E
Asia	6.5	-4.8	6.7
Eastern Europe	4.3	-5.5	2
Eurozone	0.6	-3.9	1.5
Japan	-1.2	-5.5	0.7
Latin America	4.2	-2.2	3.3
Middle East	5.2	1.2	3.1
UK	1.3	-4.9	1.8
US	0.4	-2.5	3.7
World	3	-1.2	3.9

18 GDP growth forecast (constant prices)



Source: Global Insight

19 Europe: Export of goods and services



Source: GFD

This means there will be no need for companies to increase prices significantly. Consequently, over the next two years at least, the forces of inflation are likely to remain very moderate and thus provide a positive effect on the cost of living.

However, as monetary and fiscal policies remain extremely loose at present, the risk of an upturn in the inflation rate does loom for the longer-term. Moreover, the stagnant wages, resurgent energy prices, and demographic trends (such as the ageing population) appear to be poised to continue to squeeze the purchasing power of European households.

During the recession the availability of consumer credit was sharply reduced by the banks. This, together with deterioration of the labour market and a drop in consumer confidence, resulted in an upswing in consumer saving rates. For example, in the first quarter of 2010 among Spanish families, the rate of saving as a percentage of disposable incomes reached 18 per cent (compared to about seven per cent at the end of 2007).

Who are the new savers? The results from consumer surveys undertaken in different European countries indicate that households display distinct patterns for cutting their spending. While the majority of consumers tend to eliminate everyday indulgences such as eating out, leisure purchases, and alcohol and tobacco, some look to save on necessities such as groceries by switching to unbranded products or cutting back on bigger-ticket discretionary items such as holidays and home furnishing.

During the first quarter of 2010 the lending conditions for households have slightly improved. The slow recovery in consumer lending is mainly due to uncertainties about the new regulatory framework to be imposed on the European banking sector. Political interference is considered to be the biggest risk in the banking industry since it creates moral hazard, and increases uncertainty about how and when government financial support will be removed. Closely linked is the risk of too much regulation as a consequence of an over-reaction to the crisis.

In the banking sector one of the main areas of concern is consumer credit (primarily credit cards and car loans) where many European banks believe that bad debt 'has not yet bottomed out'.

Even if lending conditions have shown signs of improvement in recent months, any recovery in private consumption is expected to be weak in 2010, partly due to a dearth of credit but more importantly due to the uncertain economic prospects.

Overall, against a backdrop of continuing improvement in consumer confidence, stabilising inflation, increased consumer lending, and labour market difficulties, private consumption will remain modest in 2010.

That said, European companies (especially consumer goods companies and retailers) should re-examine their marketing, communication, product innovation and pricing strategies. Those who anticipate the impact of changing consumer behaviours and align their strategies with the evolving demand stand the best chance of riding out of recession.

To summarise, at the time of writing, the recovery of the world economy is progressing and the financial and economic crisis is gradually being overcome:

- The prospects for the European economy in 2010 are brightening with a boost from more stable financial markets, improvements in the global economy, low inflation expectations, and increasing confidence levels.
- The synchronised global economic upturn is now stimulating the European economy. New orders increased strongly in the first quarter of 2010, and exports continue to recover. Business confidence is also strong.
- The dramatic drop in capacity utilisation during the economic downturn together with weak wage increases is reducing the likelihood of price increases in Europe during the current year.

However, a number of factors will slow down the recovery in Europe:

- The recovery in private consumption is expected to be weak in 2010, partly due to credit constraints and, more importantly, the uncertain economic prospects.
- The labour market situation will not only remain tense, but will deteriorate – further dampening private consumption.
- Although improving, the financial markets are becoming increasingly worried about the deteriorating fiscal balances of the peripheral eurozone countries.

Finally, given the fragile nature of the recovery, consumer goods companies and retailers should re-examine their marketing, communication, product innovation, and pricing strategies and align themselves with the rapidly evolving behaviours of consumers.

So what?

In this paper, we have considered the ways that the financial crisis has led 'consumers' to change the way that they actually 'consume'.

5

But what are the implications for European banks and payment providers?

The answer may vary, quite dramatically, depending on the individual institution, the nature of its customer base and the environment in which it is operating.

There are also the wider economic factors to consider, such as the level of public debt in several European countries, the austerity packages that are being implemented, the way that market sentiment will evolve and the consequent impact on consumer and business confidence.

Even so, we can identify some broad implications for banks.

- **More diverse**
  'One size does not fit all'. It may sound like a cliché but, like many clichés, it is based on a fundamental truth – and a truth which is all the more relevant in today's post-crisis payments market.

  Our research reveals significant differences in the way that people have responded to the crisis, depending on their direct experience of it, the environment in which they live, and also their outlook on life.

  Comparisons between 2002, 2008 and 2010 also reveal real fluidity in people's beliefs and behaviours, with some quite significant changes taking place.

  In other words, we are faced by extreme diversity. And, judging from the mega trends that are set to shape consumer behaviour in the coming years, this diversity is set to escalate.

  Banks will therefore need to work much harder to understand the nuances within their customer bases and to develop products and propositions that meet and track the shifting needs of different segments.

  The challenge is to find that 'sweet spot' where a viable business opportunity intersects with a particular unmet consumer need.

- **More considered**
  One of the themes that comes through our research, and is reinforced by our commentators, is the fact that people tend to be far more considered in the way that they think and behave.

  They are less likely to act on impulse and far more likely to think through the ramifications of their decisions. There are many ways in which payment card issuers can respond to this new mood of caution.

  For example, there is an opportunity for banks to keep people better informed about their spending levels and also their available balances – through, for example, SMS alerts and updates, or through richer information on online banking sites (perhaps categorising all card transactions by merchant category, or helping consumers to track and manage different types of spending).

  There is also an opportunity to help customers to segment or ringfence different types of spending across various payment products. In the past, people generally used a repertoire of different payment methods (such as cash, cheques, bank transfers, travellers cheques, luncheon vouchers, gift tokens and so on). So these could be replaced by card-based alternatives such as immediate debit, deferred debit, prepaid and credit models.

  With EMV chip card technology there is now the opportunity to incorporate two such products on a single card. This would enable consumers to choose how they want to pay, on a transaction-by-transaction basis.

  Also, the more savvy providers will move from a product lifecycle management approach to a more holistic portfolio lifecycle management approach – taking full account of the way that individual customers use a range of different payment products.

- **More committed to the concept of cash**
  A significant finding of the research from a Visa perspective is that so many more people say that they now prefer to pay by cash.

  This is both a potential threat and also an opportunity.

  Given the level of Visa transaction growth and point of sale spending we are now seeing, it could be tempting to overlook this finding. But let's not be complacent.

  What the research may be telling us is that people are more committed, not to cash itself, but to the concept of cash. And, in response, banks may be wise to introduce new products and solutions that can behave more like cash or, ideally, out-compete cash on its core attributes.

  This could be done, for example, by:

  - Beating the speed and convenience of cash (through, for example, contactless payments)
  - Making it even easier to keep track of spending (again, through SMS updates or perhaps through new smart phone applications)
  - Enabling people to 'count down' their spending (perhaps through a Visa Prepaid shopping account)

  Banks should also be aware that people may be that much more inclined to use debit rather than credit cards. This means ensuring that any such change in behaviour doesn't also mean a change in provider.

- **More selective about borrowing**
  Our research confirms that many people claim to be more cautious about borrowing money. But they have not turned their back on borrowing per se.

  At some stage in their life, almost everyone will want to borrow something from somewhere. And the challenge is to ensure that, when they do so, they consider some form of card-based borrowing. In some cases the flexibility of a traditional revolving credit card may suit their particular purposes. But many people are looking for more structure and certainty.

  This is partly about developing a wider range of 'pay later' propositions (including, for example, deferred debit, fixed loan or instalment models). It is also about the repositioning of card-based lending as a useful tool within a smart, safe, sensible money management repertoire.

- **More insights to gather**
  The research, combined with the mega trends, indicates that we are likely to see a real escalation of diversity in consumer behaviour and self-expression. And, in this regard, payment card issuers will have a definite advantage.

  A valuable by-product of electronic payment products is the richness of transaction data generated. This means that issuers already have privileged insights into everyday behaviour, with a direct line of sight to people's buying habits and preferences. And, as card payment volumes increase, the pictures painted by this data become ever-more comprehensive.

  Clearly, this type and level of data has significant commercial value.

  It can be used by banks themselves and fed back into relationship management, thereby enabling the more effective cross-selling of other products and services. It can also be used to develop closer and more productive relationships with, for example, retailers or consumer goods companies.

  The big caveat here is, of course, the related data protection and privacy issues. In making use of this data it is vital to work well within the confines of existing legislation and to pay full account to customer attitudes.

- **More inclined to go online**
  Another consistent finding from the research, and also from the Visa Europe transaction data, is that people are even more inclined to go online. They are resorting to the internet for more of their shopping, for more of their banking, for more of their social interaction, and to help them in more of their decision-making. Indeed, research from Nielsen Online suggests that, on average, we already spend more than 20 hours online every month[19].

  From a payments perspective, e-commerce is where the serious growth is coming from. It is also where the industry faces the biggest threat from alternative providers.

  The implication is clear. Banks cannot regard the existing range of payment products and services as a final or enduring solution. Instead, the industry must find more ways to meet more needs more effectively. This means the industry must ensure that cards continue to be the easiest, most natural way to shop online. It also means that it must get smarter about authentication, bringing more certainty and security to buyers and sellers alike.

- **More mobile**
  A related point, and one that has not been highlighted elsewhere in this paper, is the incredible changes we are seeing in the mobile arena.

  During the same general time period as the crisis, we have witnessed the rapid development of the mobile broadband experience, the debut of the iPhone, and the arrival of all the other smartphones that have followed in its wake.

  For the smartphone user, more than 150,000 'apps' are now available. Collectively, these have been downloaded billions of times. And more and more payment-related 'apps' are emerging.

  It is therefore inevitable that the world of payments and the world of mobile will soon converge. And any payment provider that is not planning for this eventuality is likely to leave itself very much exposed.

Appendix

What was said back then?

1 The Economist, The end of the affair, 20 November 2008

2 Financial Times, Keeping a keen eye on consumer behaviour, 5 February 2009

3 Financial Times, Consumers dig in for a lengthy downturn, 28 October 2008

4 Expansion, El consumidor se vuelve racional, 29 October 2008

5 Der Spiegel, Die Welt, wie wir sie kennen, geht unter, 18 September 2008

6 Financial Times, Keeping a keen eye on consumer behaviour, 5 February 2009

7 Daily Telegraph, Piggy banks make a comeback as savers cold-shoulder real banks, 29 January 2009

What we now know

8 Key indicators for the euro area, DG ECFIN Reasearch Directorate, April 2010

9 Key indicators for the euro area, DG ECFIN Reasearch Directorate, April 2010

10 Il Sole 24 Ore, Salute e cibo nella morsa della crisi, 17 March 2010

11 Algemeen Dagblad, De 'crisisconsument' wordt doe-het-zelver, 6 April 2009

12 NZZ, Die Kaffeemaschinen-Tüftler und der Eiermann, 13 January 2010

13 Edelman Trust Barometer, 2010

14 Millward Brown Optimor, Brandz Top 100 Most Valuable Global Brands, 2009

15 IPSOS Mori European stakeholder survey, 2009

16 Gartner, Banks Must Invest in Payment Systems to Win Back Consumer Trust, 2009

What do the people say?

17 This study was designed to provide insights into the consumer payment and borrowing market. It was conducted in nine European countries and also the US, with fieldwork taking place during August and September 2008. The study spoke to more than 22,000 banked adults aged 16 to 65 (2,200 in each country). This created a database of 293 million data points, which can be analysed in many different ways. The study was designed and analysed by The Value Engineers, and fieldwork was conducted by TNS Global.

18 This study spoke to 6,000 banked adults aged 16 to 65 in six countries, and all of the fieldwork was conducted during April 2010. The study was specifically designed to make comparisons with the findings of the 2008 survey. Some supplementary questions regarding the impact of the crisis were also included. Again the fieldwork was conducted by TNS Global.

So what?

19 NielsenOnline, www.nielsen-online, 2010

Visa Europe business information

About Visa Europe

Visa Europe is the European payment system, owned and operated by its 4,147 European member banks and financial institutions. Although a participant in the global Visa network, Visa Europe is a privately owned, incorporated company, with an exclusive, irrevocable and perpetual licence in Europe.

As a European company
Visa Europe has a European product development and innovation function to focus on the distinct needs of European banks, retailers and consumers. For example, V PAY is a made-for-SEPA, chip-only debit solution for Europe. Similarly, the Visa Europe processing platforms are designed in Europe, for Europe.

As a membership association
Each of Visa Europe's members has a direct proprietary stake in the organisation. Through a range of national and regional governance bodies and forums all members can – participate in Visa Europe's decision-making, and have ultimate control over its strategic direction, its investments and its innovations.

As a not-for-profit entity
Visa Europe operates a low-cost business model. All services are delivered 'at cost' to members, and the organisation is closely focused on their respective business priorities. Visa Europe never seeks to make a profit – only to ensure that it is adequately capitalised as a business. For more information about Visa Europe, please visit www.visaeurope.com

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