

How much does it cost to make a payment?

Directorate General Payments & Market Infrastructure, Market Integration Division

COGEPS Meeting

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I. Motivation and scope



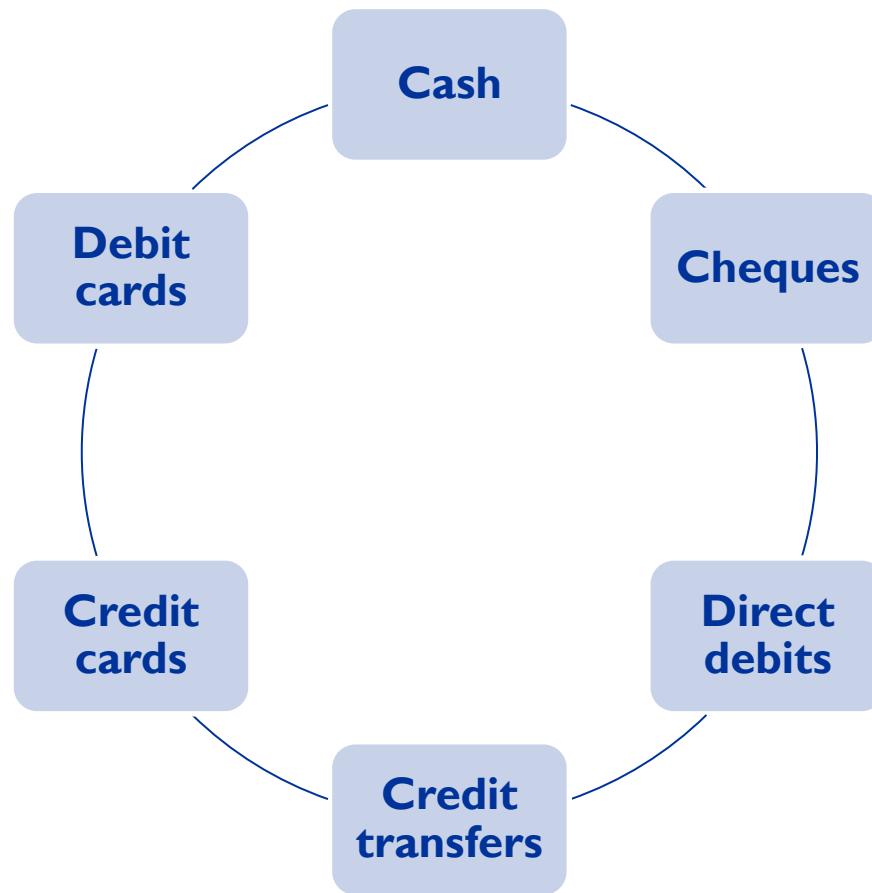
- **Need for harmonised European approach**
- **About facts & figures – not on payment policies!**
- **Social and private costs for different stakeholders**
- **Cross-country comparisons**

I. Motivation and scope

Review of literature

- **Little information on costs of payment instruments, although costs can be significant**
 - **Some Central Bank cost studies available,...**
 - ***...but different degrees of depth, methodologies and results***
- **Clarity on costs of different payment instruments is of everybody's interest**

I. Most used payment instruments included



- All instruments for at least 5% of payments volume per country
- All transactions below €50,000

I. Motivation and scope

Payment chain participants

Central
banks

Banks
& infra-
structures

Retailers &
companies

Cash-in
transit
companies

Consumers
(not included)

I. Concept of private and social costs

Private costs

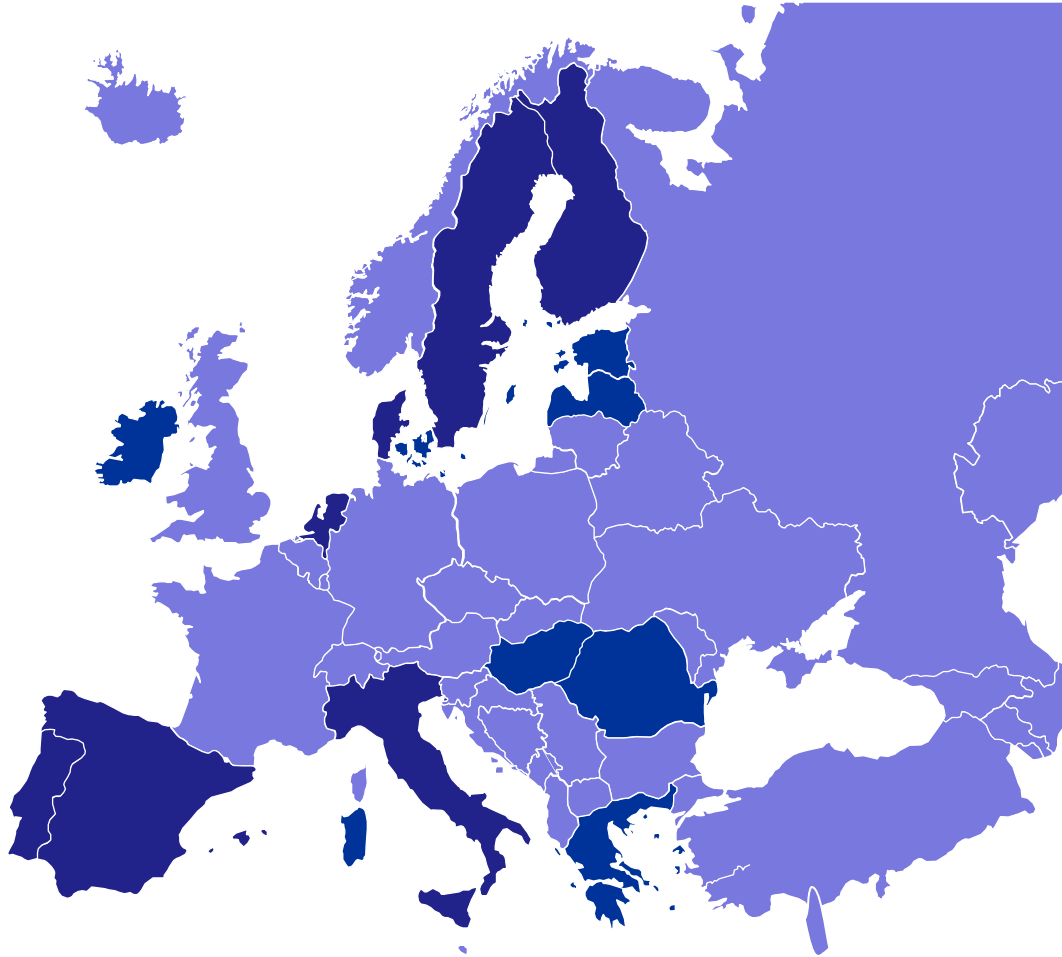
- incurred by individual participants in the payment chain
- Internal + external costs

Social costs

- Sum of all internal costs of participants in the payment chain to carry out POS and remote payments
- Aggregate costs to society

II. Organisation and conduct of the study

ECB in cooperation with 13 central banks



II. Organisation and conduct of the study

Representativeness

- 40% market share of EU 27 [volume]
- 46% of cash and 30% of non-cash payments
- At least one country per payment market cluster
- Extrapolation to EU27 Member States

Robustness

- Individually:
 - bilateral meetings and written consultations with NCBs
 - Data consistent with ECB's SDW
- Cross-country: costs are comparable across participants

Literature comparison

- Results fit into context of existing research

III. Key findings:

Social costs calculation (% of GDP)

	Private costs	Fees paid	Social costs = Private costs - Fees paid	% of total social cost	Social costs / Private costs
CENTRAL BANKS					
Cash	0.025%	0.000%	0.024%	3%	100%
- Fees paid for outsourcing cash services		0.000%			
- Fees paid to cash in transit companies		0.000%			
BANKS AND INFRASTRUCTURES					
Cash	0.193%	0.002%	0.191%		99%
Cheques	0.021%	-	0.021%		100%
Cards	0.158%	0.001%	0.157%		99%
- Debit cards	0.076%	0.001%	0.076%		99%
- Credit cards	0.081%	0.000%	0.081%		100%
Direct debits	0.051%	-	0.051%		100%
Credit transfers	0.070%	-	0.070%		100%
Total	0.493%	0.003%	0.490%	51%	99%
CASH IN TRANSIT COMPANIES					
Cash	0.008%	0.001%	0.008%	1%	93%
RETAILERS					
Cash	0.345%	0.075%	0.270%		78%
Cheques	0.016%	0.004%	0.012%		76%
Cards	0.099%	0.048%	0.050%		51%
- Debit cards	0.038%	0.014%	0.023%		62%
- Credit cards	0.023%	0.014%	0.009%		40%
- Combined cards	0.004%	0.000%	0.004%		100%
- Not split	0.034%	0.020%	0.013%		40%
Direct debits	0.053%	0.011%	0.042%		80%
Credit transfers	0.073%	0.010%	0.064%		87%
Total	0.587%	0.148%	0.439%	46%	75%
Overall	1.113%	0.152%	0.961%	100%	86%

III. Key findings

1. Social costs of retail payments are substantial

- 0.96 % GDP or €45 billion - 13 countries
- 1 % GDP or €130 billion - all EU27

2. Distribution of social costs:

- Banks and infrastructures: 51%
- Retailers and companies: 46%
- Central Banks: 3%
- Cash-In-Transit: 1%

3. Private costs for retailers higher than banks costs

- due to higher external costs

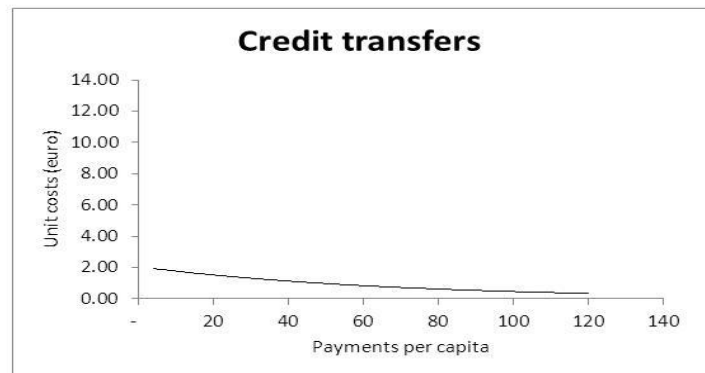
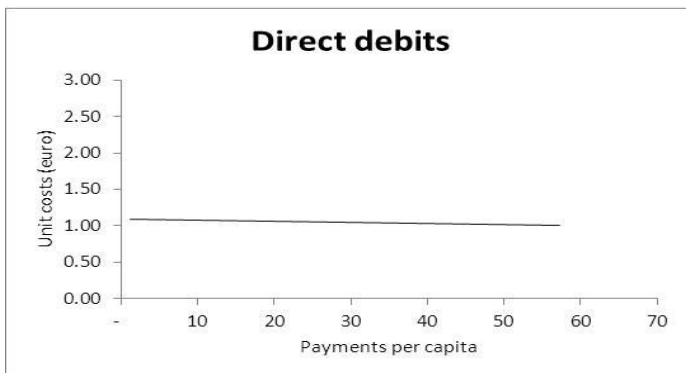
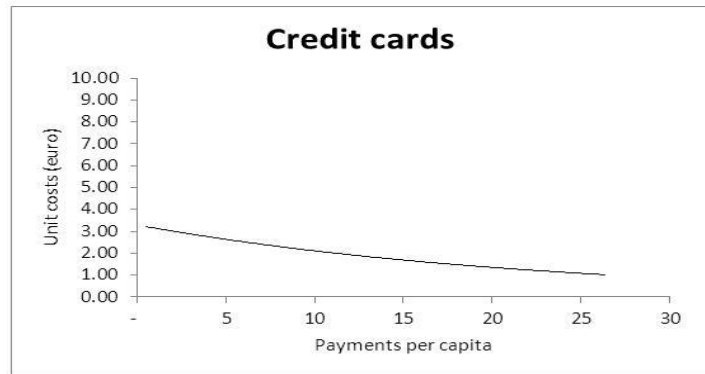
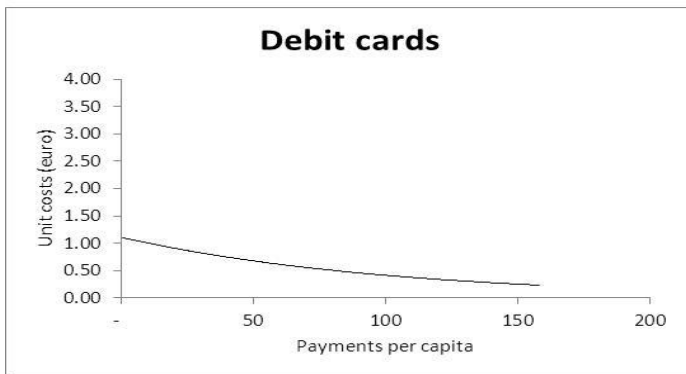
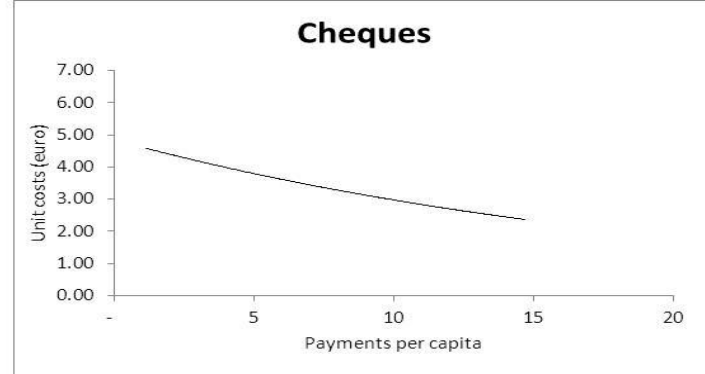
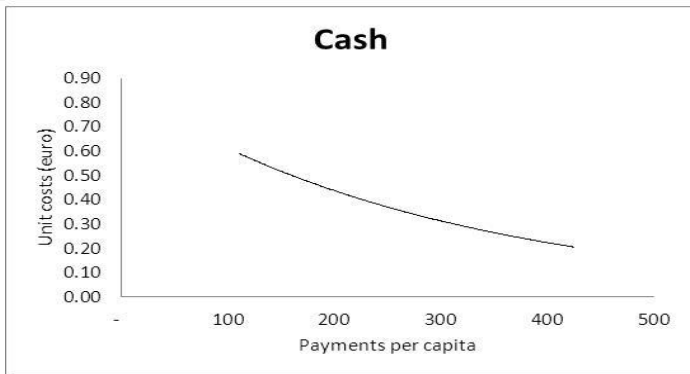
III. Key findings

- 4. Costs of cash to GDP nearly half of total social costs**
 - due to the relatively high usage of cash
- 5. Cash payments show lowest unit costs per transaction €0,42 (on average)**
 - followed by debit cards €0,70
- 6. Cross-country comparison, cash not always yields the lowest unit costs**
 - In one-third of countries costs for debit card transactions have lower unit costs than cash transactions

III. Social cost analysis: Social costs per stakeholder and payment instrument

	<u>Central bank</u>	<u>Banks and infrastructures</u>	<u>Cash in transit companies</u>	<u>Retailers</u>	<u>Total</u>
Cash	0.02%	0.19%	0.01%	0.27%	0.49%
Cheques	-	0.02%	-	0.01%	0.03%
Cards	-	0.16%	-	0.05%	0.21%
- Debit cards	-	0.08%	-	0.02%	0.10%
- Credit cards	-	0.08%	-	0.01%	0.09%
- Combined cards	-	-	-	0.02%	0.02%
Direct Debits	-	0.05%	-	0.04%	0.09%
Credit transfers	-	0.07%	-	0.06%	0.13%
Total	0.02%	0.49%	0.01%	0.44%	0.96%

III. Social cost analysis: Unit costs vs. payments per capita



III. Key findings

- 8. Economies of scale in retail payment services**
- 9. Retail payment industry is characterised by a relatively high proportion of indirect costs**
 - in particular for non-cash payment instruments
 - re-confirms **Activity-Based Costing** methodology
- 10. Household surveys**
 - Recent country level data suggests households' retail payments costs is about **0.2 % GDP**

III. Household survey

Social costs of households per payment instrument

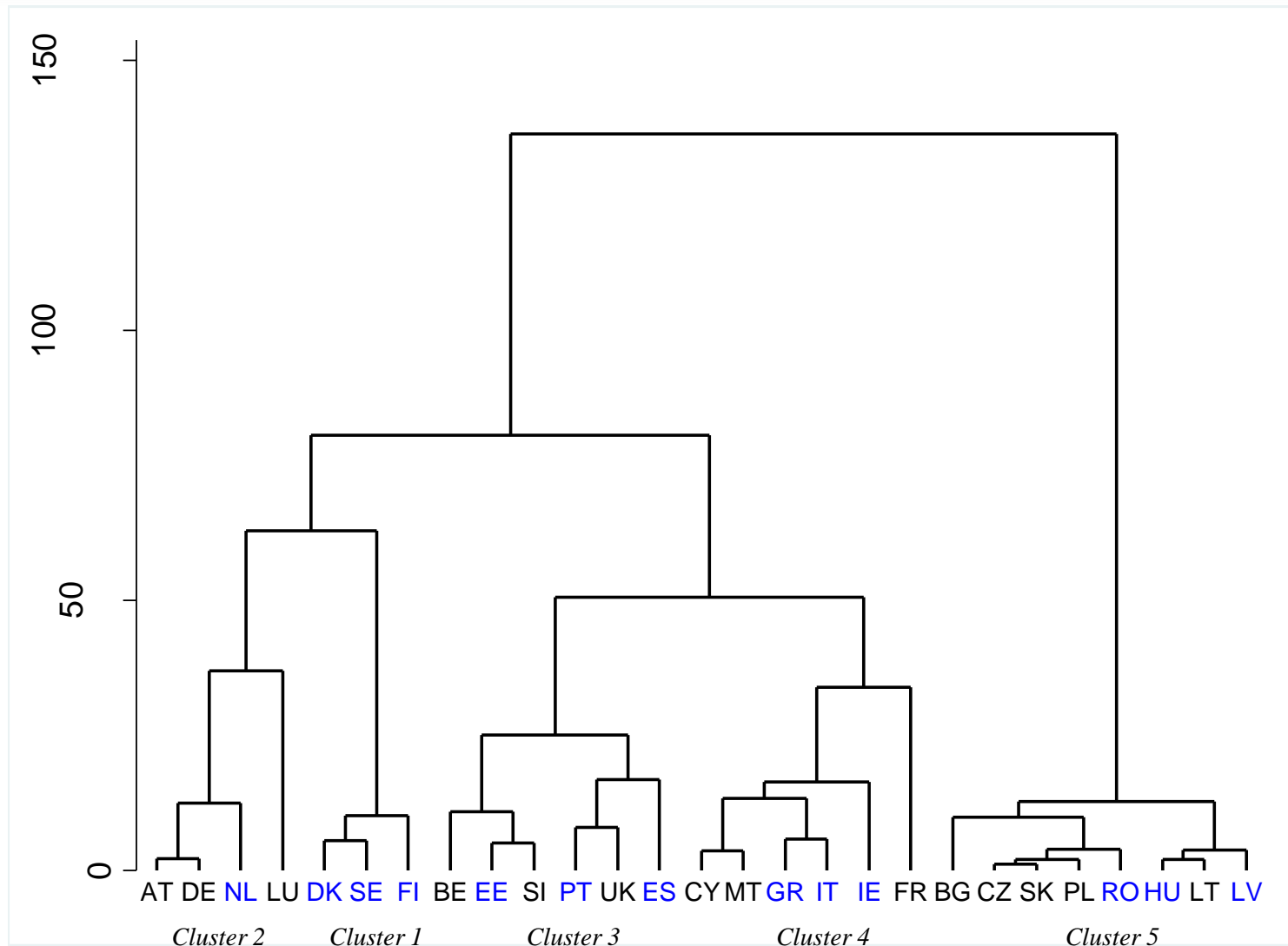
	Denmark		Hungary	
	<u>Million euro</u>	<u>% of GDP</u>	<u>Million euro</u>	<u>% of GDP</u>
Cash	184.04	0.082%	71.20	0.078%
Debit cards	100.63	0.045%	6.39	0.007%
Credit cards	2.85	0.001%	1.07	0.001%
Direct debits	12.40	0.006%	3.39	0.004%
Credit transfers	223.75	0.100%	82.37	0.090%
Total	523.66	0.234%	164.42	0.180%

III. Key findings

11. Five clusters of European retail payment market

- **EU27 Member State have unique retail payment markets and feature their own market characteristics**
- **However, some payment markets appear to be similar or closer to each other with respect to**
 - **costs of payment instruments**
 - **market development**
 - **payment behaviour**

III. Key findings



Note: Countries in blue participate in the study.

III. Key findings

	<i>Cluster 1</i> DK Denmark SE Sweden FI Finland	<i>Cluster 2</i> AT Austria DE Germany NL Netherlands LU Luxembourg	<i>Cluster 3</i> BE Belgium EE Estonia SI Slovenia PT Portugal UK United Kingdom ES Spain	<i>Cluster 4</i> CY Cyprus MT Malta GR Greece IT Italy IE Ireland FR France	<i>Cluster 5</i> BG Bulgaria CZ Czech Republic SK Slovakia PL Poland RO Romania HU Hungary LT Lithuania LV Latvia
Social costs to GDP (%)	0.80%	0.92%	1.11%	1.20%	1.01%
Average card transaction (euro)	38	58	41	75	38
Cash payments per capita	154	358	266	306	270
Cheque payments per capita	1	0	6	23	0
Card payments per capita	171	64	83	59	17
Direct debit payments per capita	25	77	31	16	5
Credit transfers per capita	98	102	55	24	35
Cards per capita	1.5	1.6	1.8	1.4	0.9
POS terminals per million inhabitants	25,072	14,034	20,628	25,643	7,722
ATMs per million inhabitants	480	868	1,156	766	484
GDP per capita (euro)	34,782	42,904	20,526	24,380	8,620
Number of countries	3	4	6	6	8

IV. Conclusions

- **First comprehensive, cross-country analysis of aggregated costs of making payments**
 - **ECB Occasional Paper No 137 – now available**
 - **Other national reports by respective NCB's**
- **Retail payments matter for European society**