The impact of proposed EU regulation on payment card systems: The perception of Greek cardholders

May 2014

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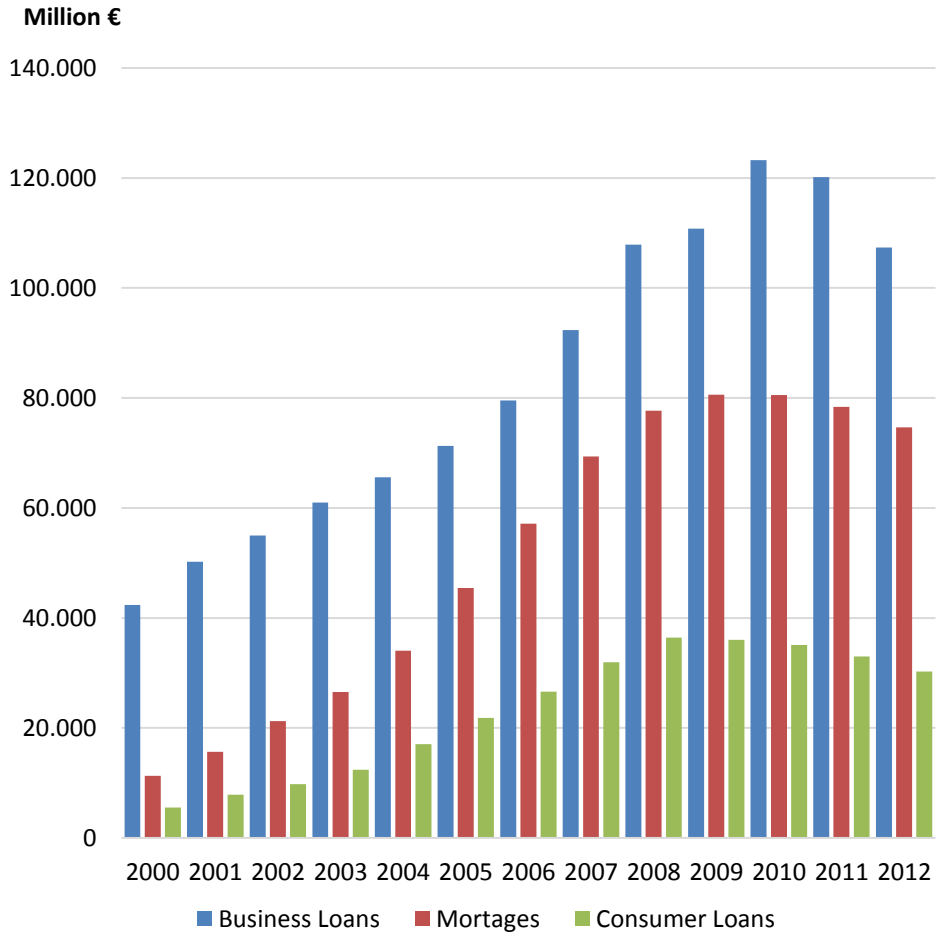
1. Introduction

Significant changes in the Greek banking system resulted in the expansion of the credit market up to 2010

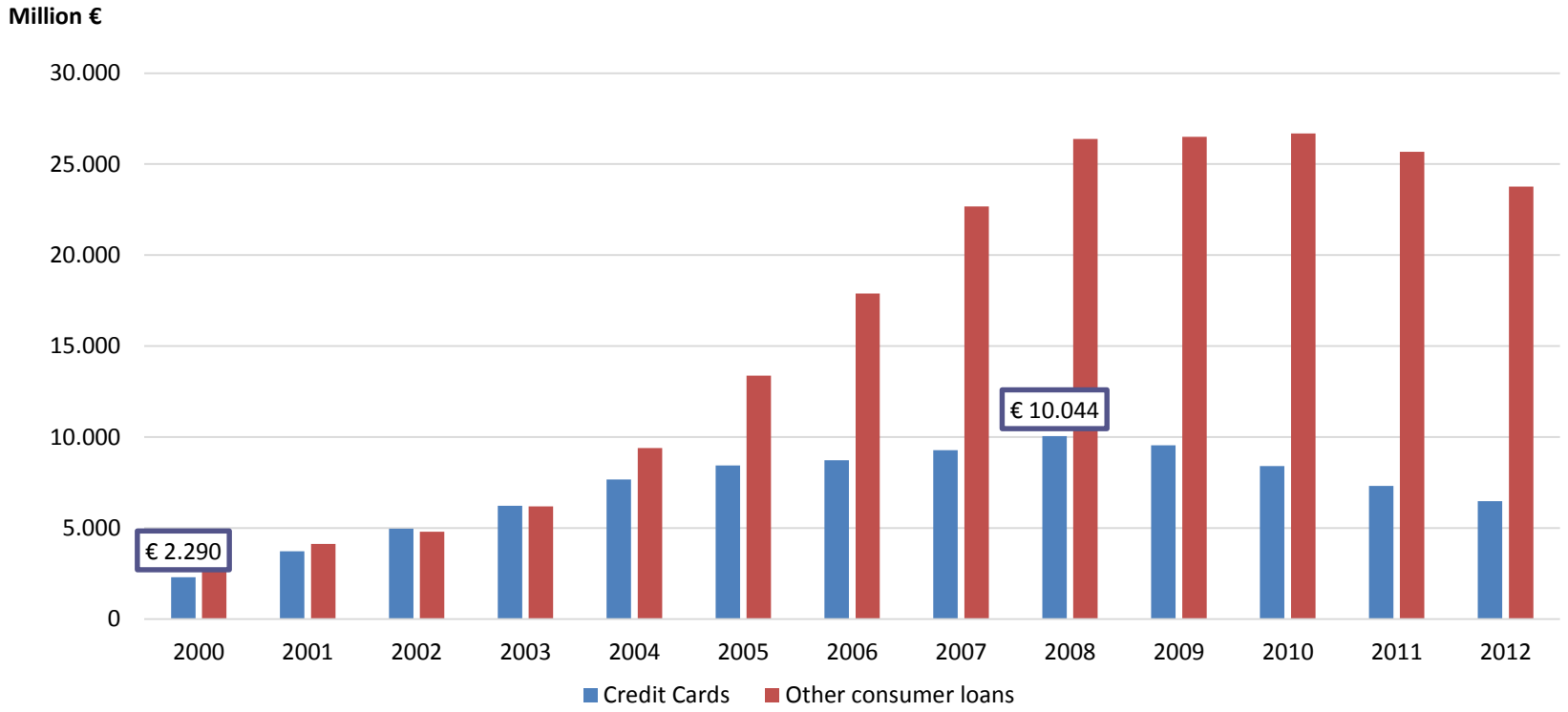
Changes in the Greek banking system during the last decades

- Deregulation of capital moves
- Privatization of publicly owned banks
- Fewer Special Purpose Banking Organizations
- No obligation to fund Public Debt through mandatory investments in Greek sovereigns
- Liberalization of Consumer Finance
- Permission for the banks to offer investment and insurance brokerage services



Source: Bank of Greece – Bulletin of Conjunctural Indicators

Total credit card outstanding almost quadrupled in 2000-2008, it has however been contained during the crisis

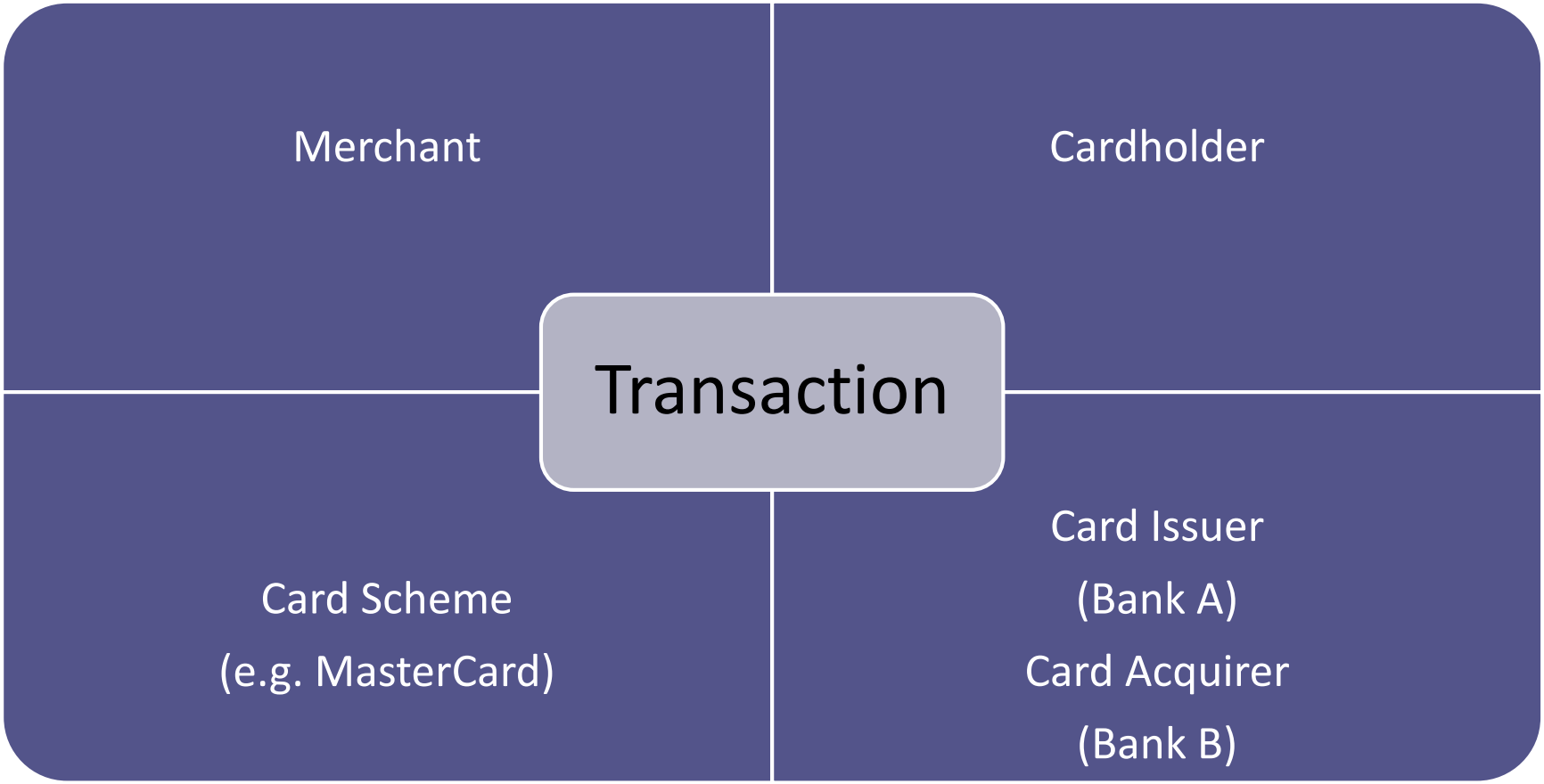


Source: Bank of Greece – Bulletin of Conjunctural Indicators

Imminent changes in the regulatory framework might limit credit card usage

2. Analysis Framework

Card Schemes & Stakeholders



EU Proposal on Interchange Fees – Key Changes

- **Multilateral Interchange Fees - MIFs**

  Interchange fees (incl. cross-border transactions) offered or asked by card schemes should not exceed (per transaction):

  - ✓ **0,2%** of the value of transactions made via **debit cards**
  - ✓ **0,3%** of the value of transactions made via **credit cards**

- **Honour All Cards Rules – HACR**

  - ✓ Merchants are allowed not to accept certain payment cards, even if these cards belong to a brand or type that is generally accepted by the merchant.

- **Multibranding**

  - ✓ It is possible to include multiple brand logos (Visa, MasterCard etc.) on a single card.

The Scope of this Study

The proposed changes might have an impact on the card payment status, leading consumers to limit the usage of their cards, in favor of underground economy

Hence, the impact of the proposed regulatory changes in Greece is very much dependent on how will the Greek cardholders react to these changes.

In order to identify possible reactions to the proposed changes we surveyed a number of cardholders in Greece.

Methodology

Survey conducted by Public Issue SA between April, 1st and April, 10th, 2014.

Sample representative of the Greek population (individuals over 18, across the country).

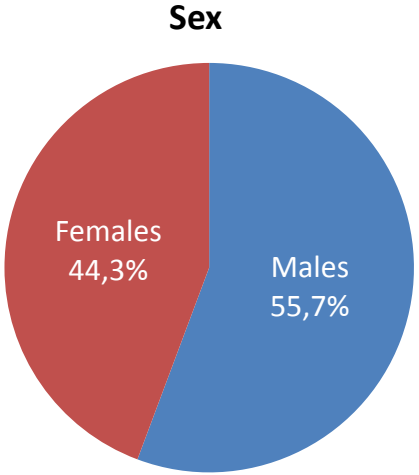
1.000 telephone interviews with cardholders / card users, out of a total 4.227 phone calls that have been placed

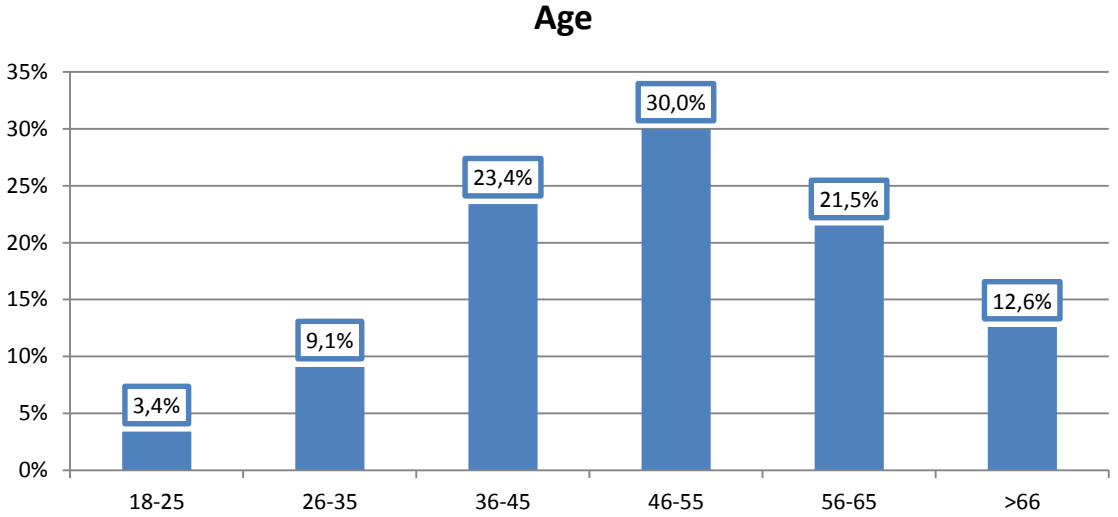
Use of questionnaire including 33 questions.

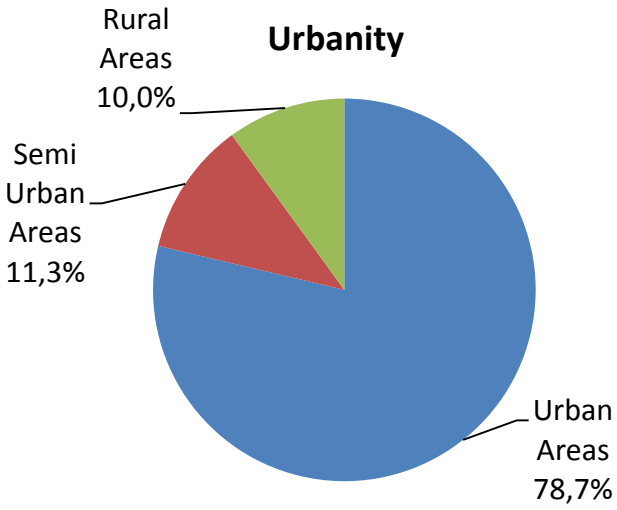
3. Field Research

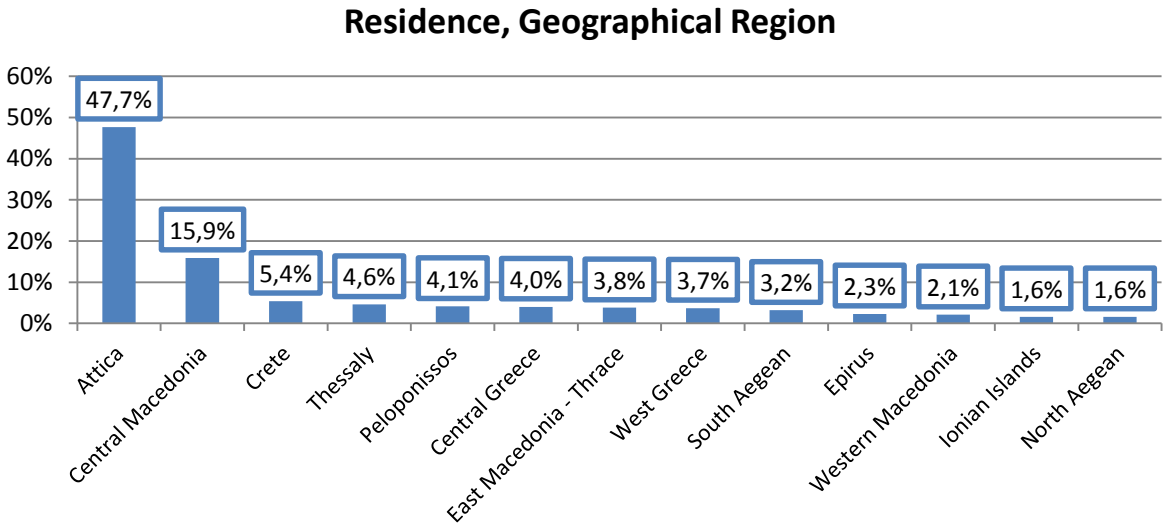
A. Cardholder Profile

Nearly 80% of the cardholders live in urban areas; 30% aged 46-55

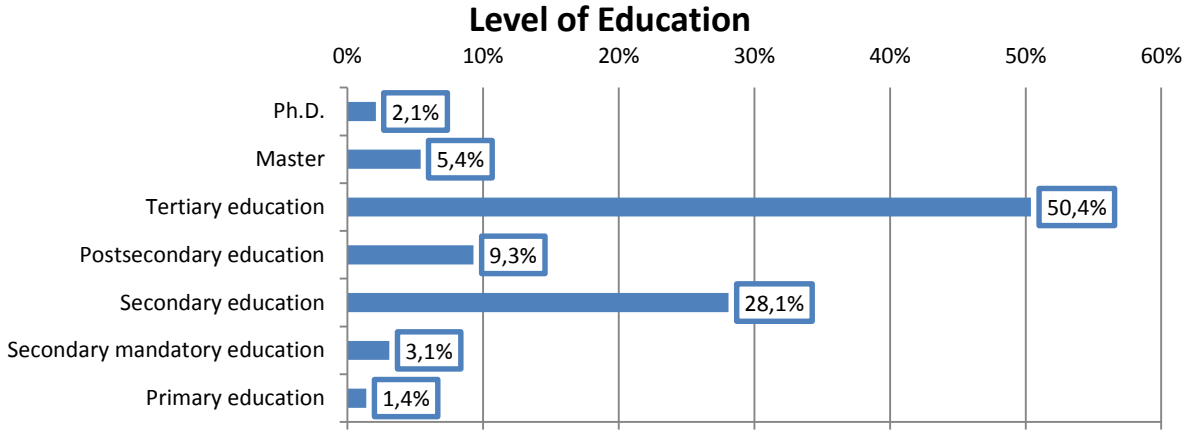






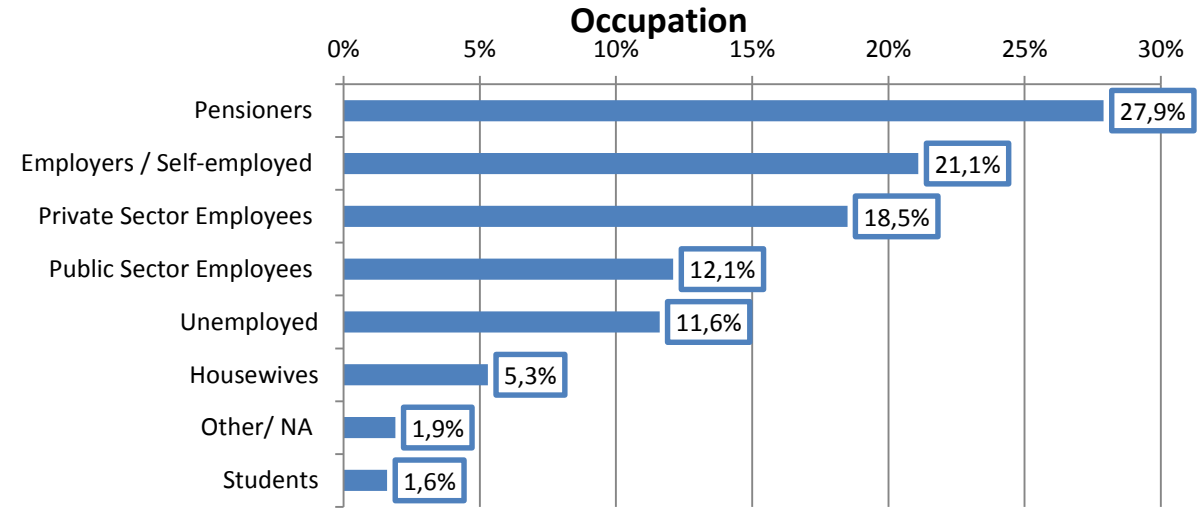


Half of the sample holds a university degree



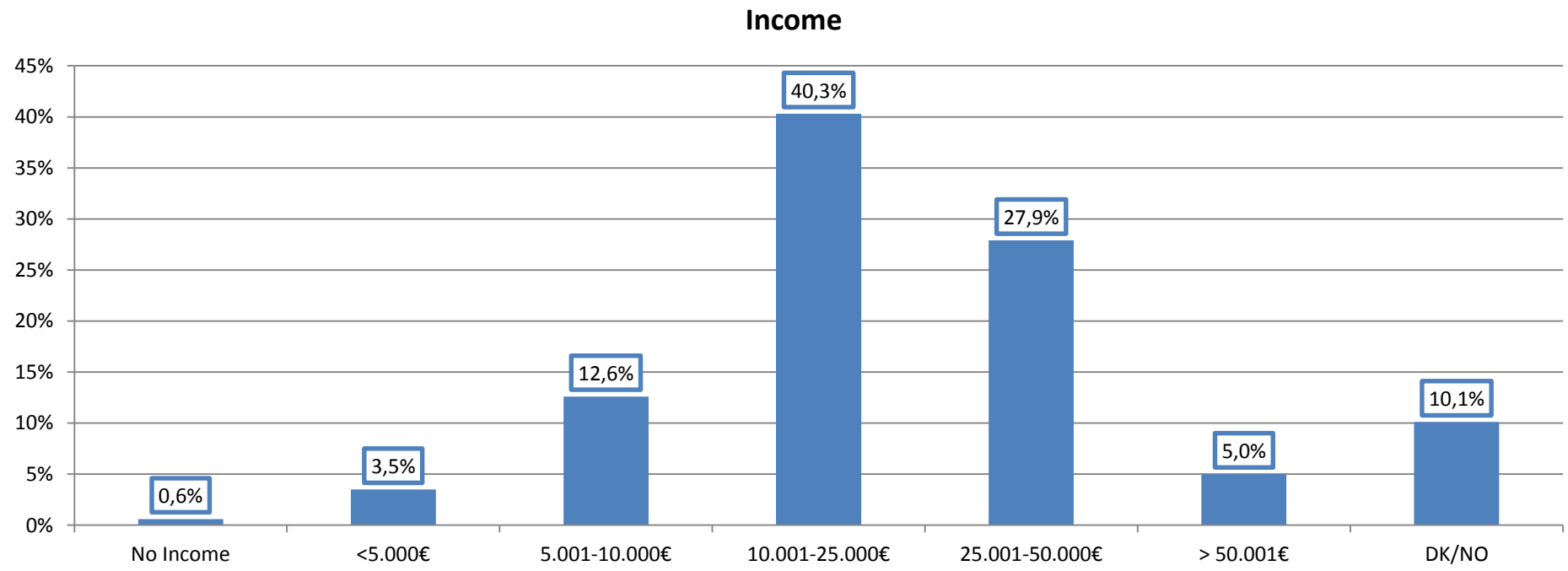
Strong correlation between education and income level

✓ 3/4 of the sample with income > 25.000€ hold university degrees, Master's degrees and PhDs



Significant representation of pensioners, employers/self-employed

Average Annual Income of cardholders 16.894€



Average Annual Income by card category:

✓Owners of Debit or Prepaid card only: 13.551€

✓Owners of Credit card only: 17.007€

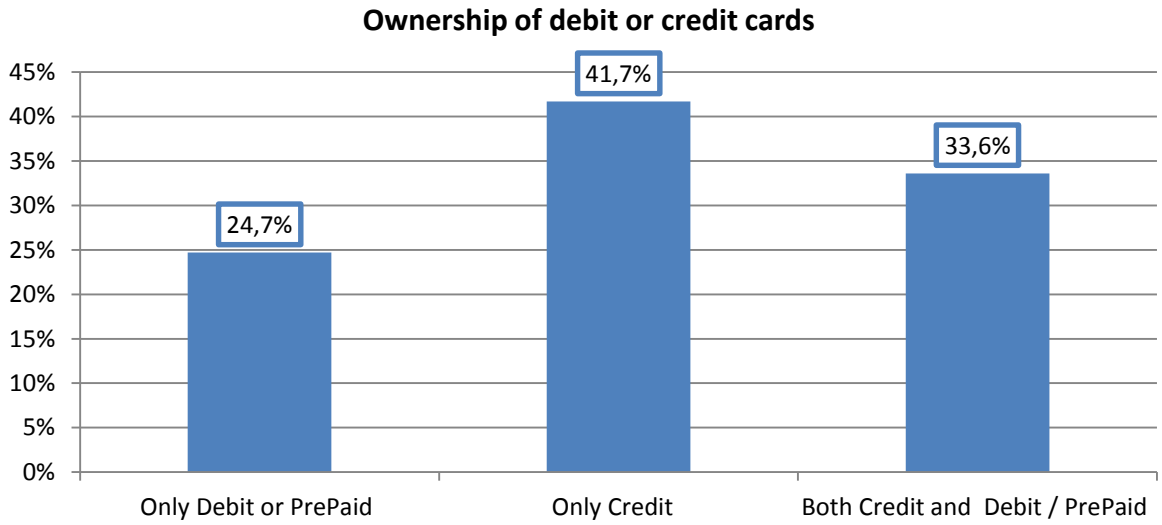
✓Owners of Both debit/prepaid and credit cards: 20.007€

3. Field Research

B. Card ownership / card use

Significant percentage of those owning credit cards only

25% of called individuals own a plastic card

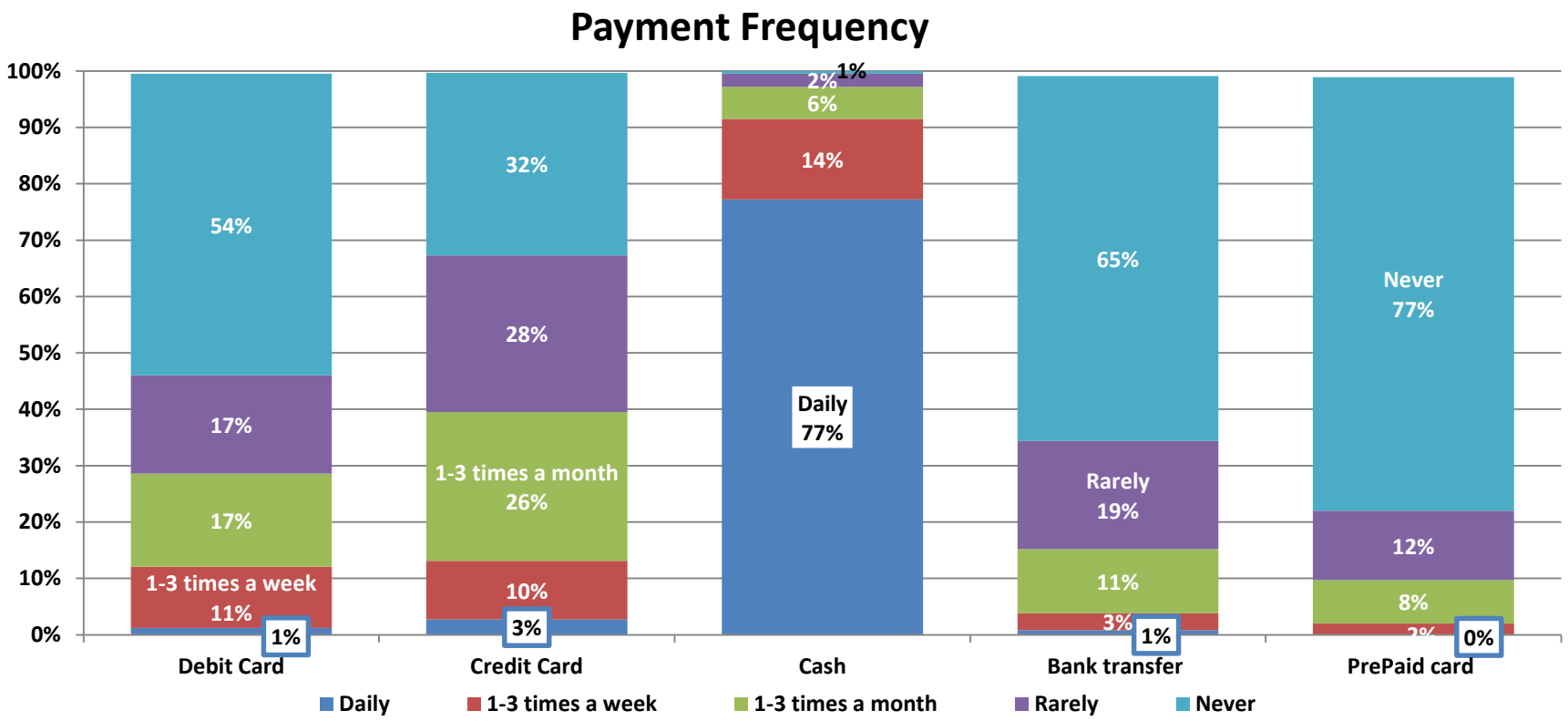


One credit card and **no** debit/prepaid the most common case (28,1%)

- 46% of cardholders with annual income > €50.000 opt for both debit and credit cards.
  - ✓To be followed by those earning €25-50.000 (41%).
- The preference over credit card only is stronger among those making less than €5.000 p.a., primary education graduates, elderly cardholders, housewives and people living in semi-urban regions.
- Debit/prepaid cards only, is a preferred option among women, younger people, students and university graduates.

Q. Are you personally, the owner of a debit or credit card?

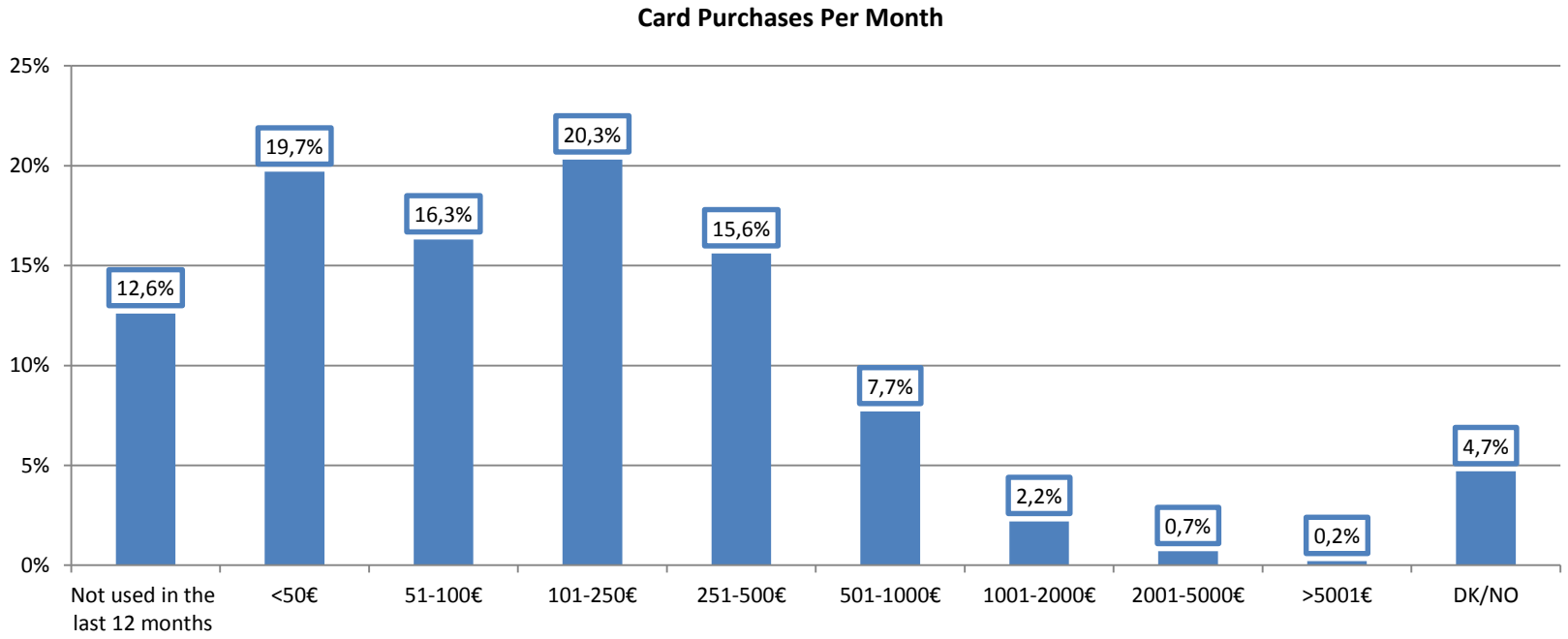
Limited use of payment cards on a daily basis. 12-13% of cardholders use their card once a week



E-banking and bank cheques among the most popular alternatives

Q. I shall read to you some different forms of payment and I would like you to tell me how often do you use each one. How often do you pay by means of …

1 out of 3 does not use his/her card or spends less than 50€



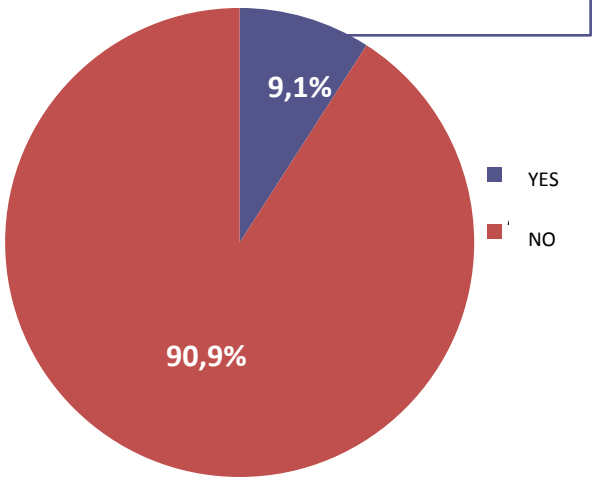
104€ is the average spending via payment cards

- **80**€ for those owning **only debit or prepaid** cards
- **103**€ for those owning **only credit** cards
- **129**€ for those owning **all 3 types of cards**

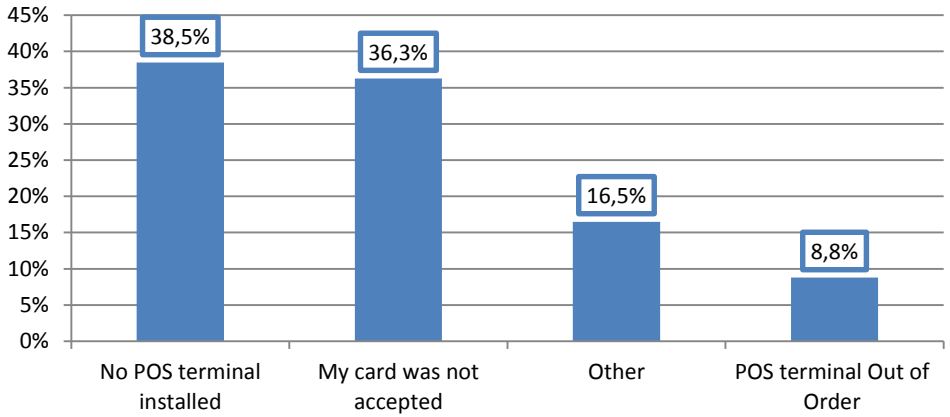
Q. What is, approximately, the value of the things you buy on card every month?

Only 9% of cardholders has had an issue with a card transaction…

Refusal to accept cards



Refusal to accept cards

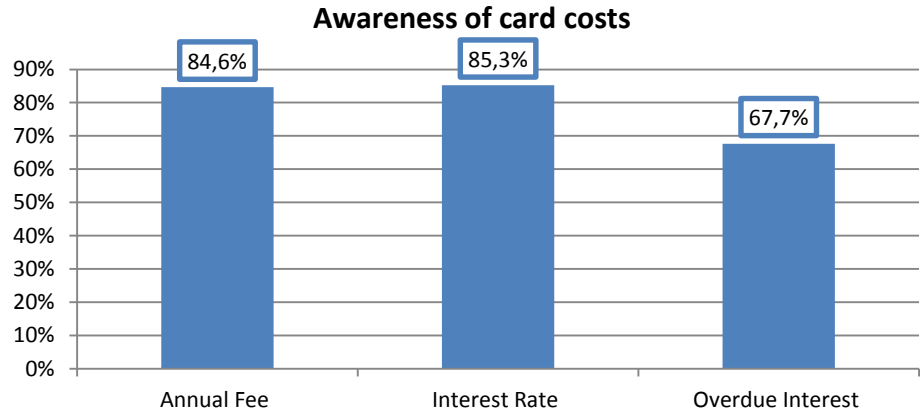


… of this 9% that had an issue, 1/3 said that the problem was related to the acceptance of his/her card

Café/bar/Restaurants more difficult in accepting payment cards

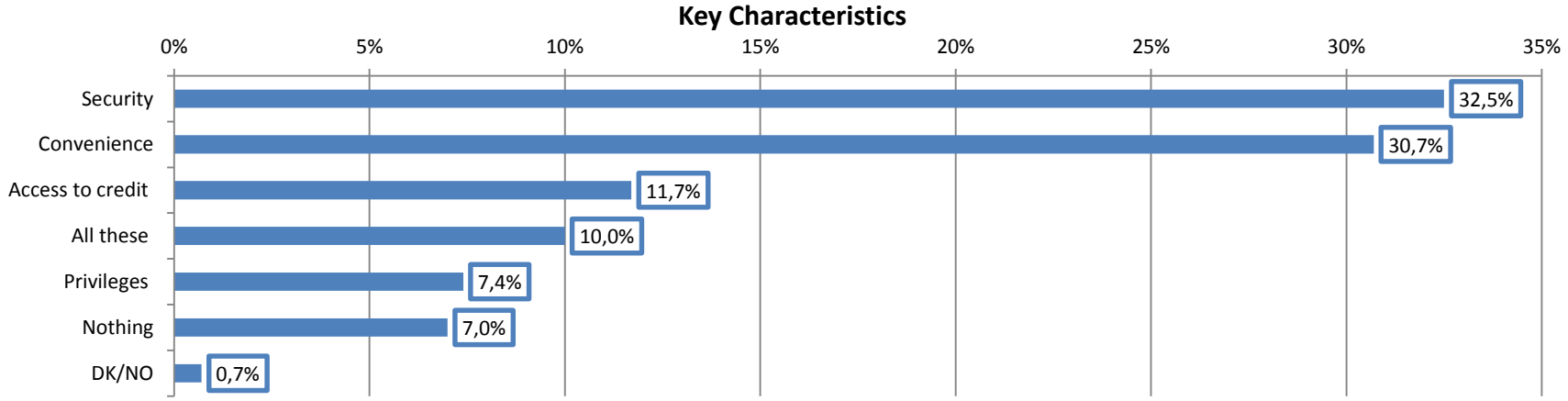
Q. In the last 12 months, have you come across retailers or other shop owners who refused to accept your payment card?

High Awareness of card costs; Security and convenience most value characteristics



✓ **59,1%** of card owners said they are aware of **all three card cost categories**

Q. Do you know how much your cards cost?



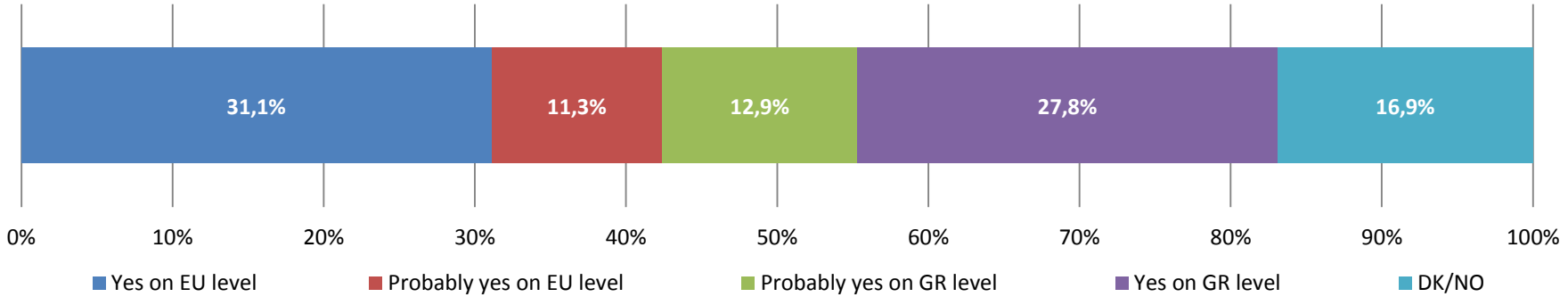
Q. You personally, what do you think is the most important characteristic of payment cards?

3. Field Research

C. Perception of cardholders of the proposed changes & potential reactions

Almost equal split between those preferring IF regulation on EU level, and those opting for domestic rules

Views on EU-imposed capping on Interchange Fees



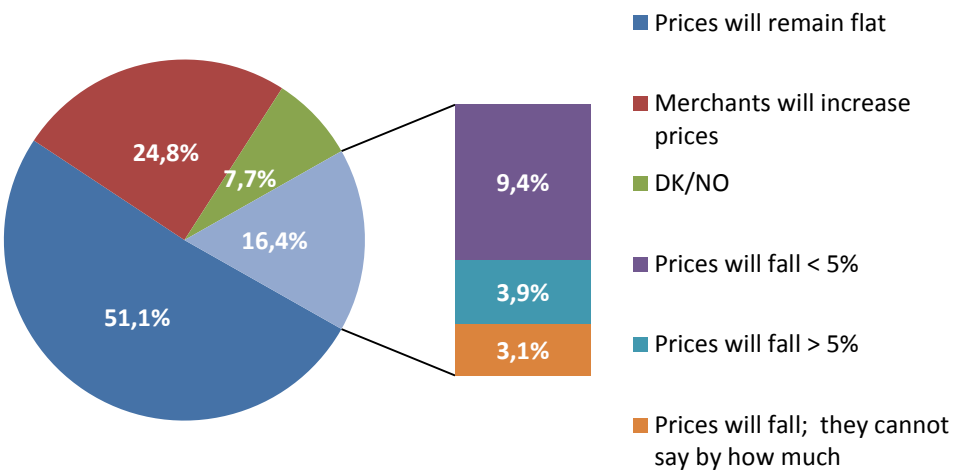
On European Level	
Group	Percentage
Males	56,3%
Age > 66 yrs.	60,4%
Postgraduate degree	68,1%
Income 0€ / 25.001-50.000€	75%/56,5%
Rural Areas	54%
Public sector employees	53,1%
Owners of Credit cards only	52,9%

On National Level	
Group	Percentage
Females	56,1%
Age 26-35 yrs.	59,8%
Secondary Education	52,6%
Income < 5.000€	57,7%
Semi-urban Areas	53,1%
Students	57,1%
Owners of Credit/Prepaid cards only	53,5%

Q. The European Commission intends to impose a cap on the interchange fees, paid by the merchant to his bank for each card transaction. What is your personal view, do you think that this an issue which must be regulated on EU or domestic level?

Only 16,4% of cardholders believe that a regulatory intervention would result in smaller or bigger price cuts at the point of sale, while half of them believe that the prices of goods and services will remain flat

Views on how a capping on IF could affect prices



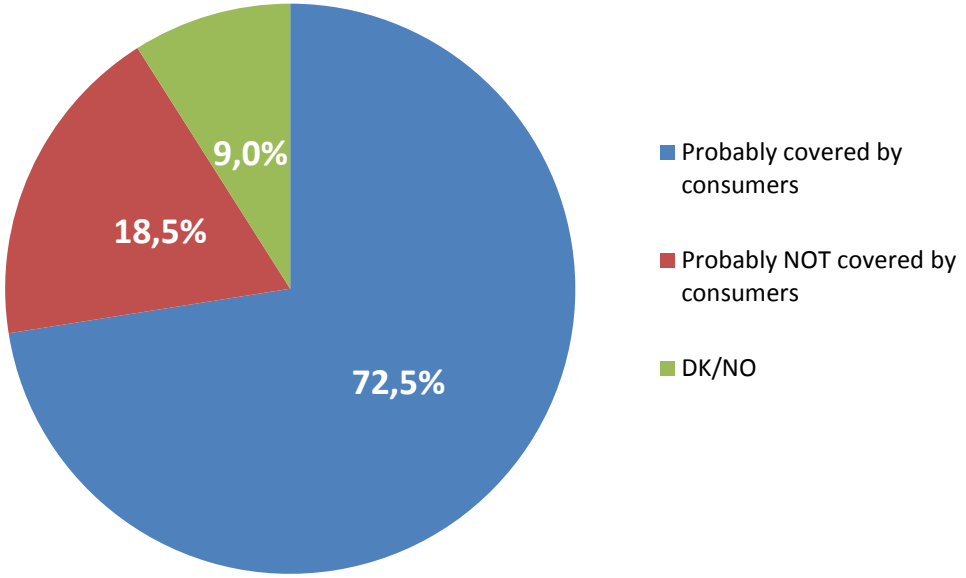
Merchants will reduce prices of goods	
Group	Percentage
Males	18,7%
Age >66 yrs.	yrs.27,9%
Secondary Education	22,4%
Income > 50.001€	22,4%
Urban Areas	18,1%
Students	37,5%
Owners of Credit cards only	19,1%

Merchants will not reduce prices of goods	
Group	Percentage
Females	83,4%
Age 26-35 yrs.	89,9%
Primary Education	75,0%
Income between 25.001-50.000€	84,0%
Semi-Urban Areas	84,5%
Housewives	89,1%
Owners of Debit/Prepaid cards only	83,6%

Q. According to the EC, a capping on Interchange Fees will reduce the costs incurred by the merchants. In your opinion, will the merchants pass this cost reduction on the end-price of the goods they sell? Will they keep prices flat or will they increase them ?

Almost 3 out of 4 express their concern that a potential reduction in bank revenues will be passed on the cardholders through higher fees

Views on banks' reaction after the introduction of a IF cap

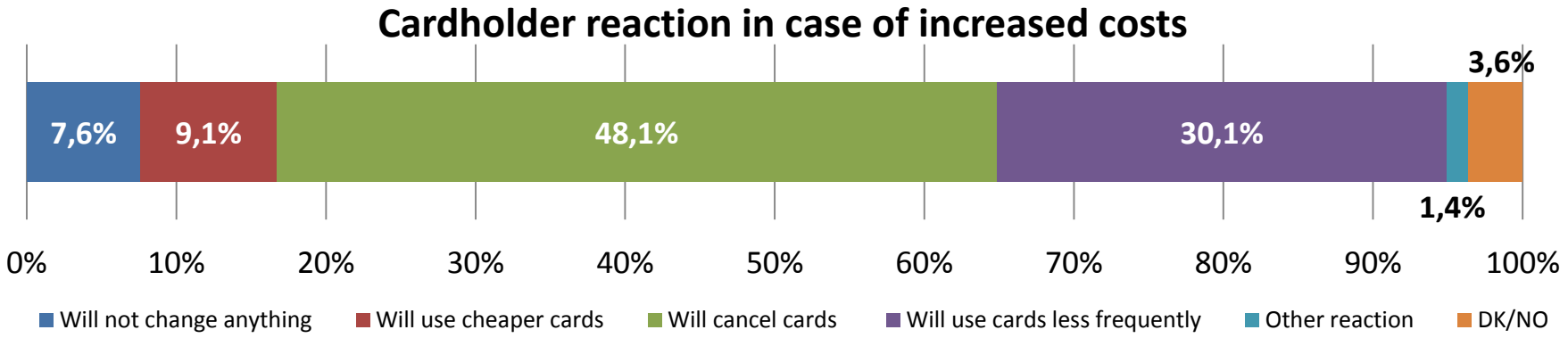


Q. Imposing a cap on IF will probably result in reduced revenues for banks. In this case, do you believe that consumers will be asked to cover these losses? Probably yes, or probably no? (for example, through increased annual subscription costs)

Probably, consumers will cover possible bank losses	
Group	Percentage
Females	80,8%
Age 46-55 yrs.	83,6%
Primary Education	33,3%
Income 0€ / over 50.001€	100% / 82,2%
Rural Areas	81,9%
Public Sector Employees	87,3%
Owners of all 3 card types	80,3%

Probably, consumers will <u>not</u> cover possible bank losses	
Group	Percentage
Males	21,2%
Age 18-25 yrs.	31,3%
PhD level	89,5%
Income < 5.000€	21,9%
Semi –urban Areas	24%
Students	26,7%
Owners of credit/Prepaid cards only	21,2%

Almost half of the respondents say they would cancel their cards if the annual fees were increased, while 1 in 3 says he/she would use his/her cards less frequently



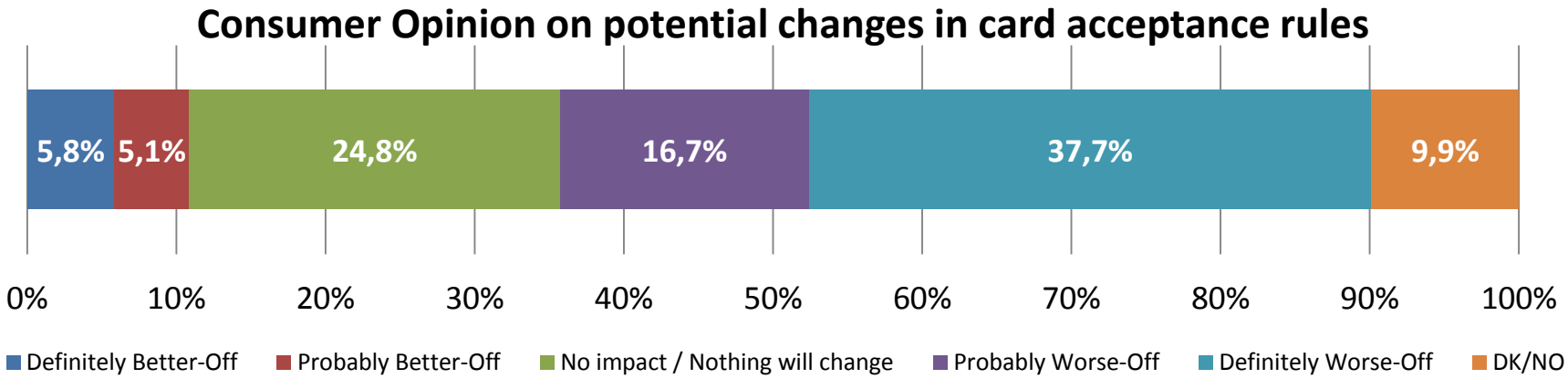
No change	
Group	Percentage
Males	8,4%
Age 18-25 yrs.	12,5%
PhD	16,7%
Income > 50.001€	17,8%
Urban Areas	8,7%
Unemployed	9,2%
Owners of debit/prepaid cards only	11,3%

Keep the cards, change some aspects (cheaper cards, less frequent use)	
Group	Percentage
Males	42,9%
Age 18-25 yrs.	75%
Postgraduate degrees	53,3%
Income between 25.001-50.000€	44,5%
Urban Areas	42,2%
Students	80%
Owners of debit/prepaid cards only	48,5%

Cancel cards	
Group	Percentage
Females	53,3%
Age > 66 yrs.	58,2%
Primary School	75%
Income 0€ / less than 5.000€	100% /67,7%
Semi urban Areas	58,6%
Housewives	62%
Owners of credit cards only	58,8%

Q. How would you react if the cost of your card/cards were increased?

More than 50% of cardholders believe that the consumer will be worse-off if the HACR status is changed

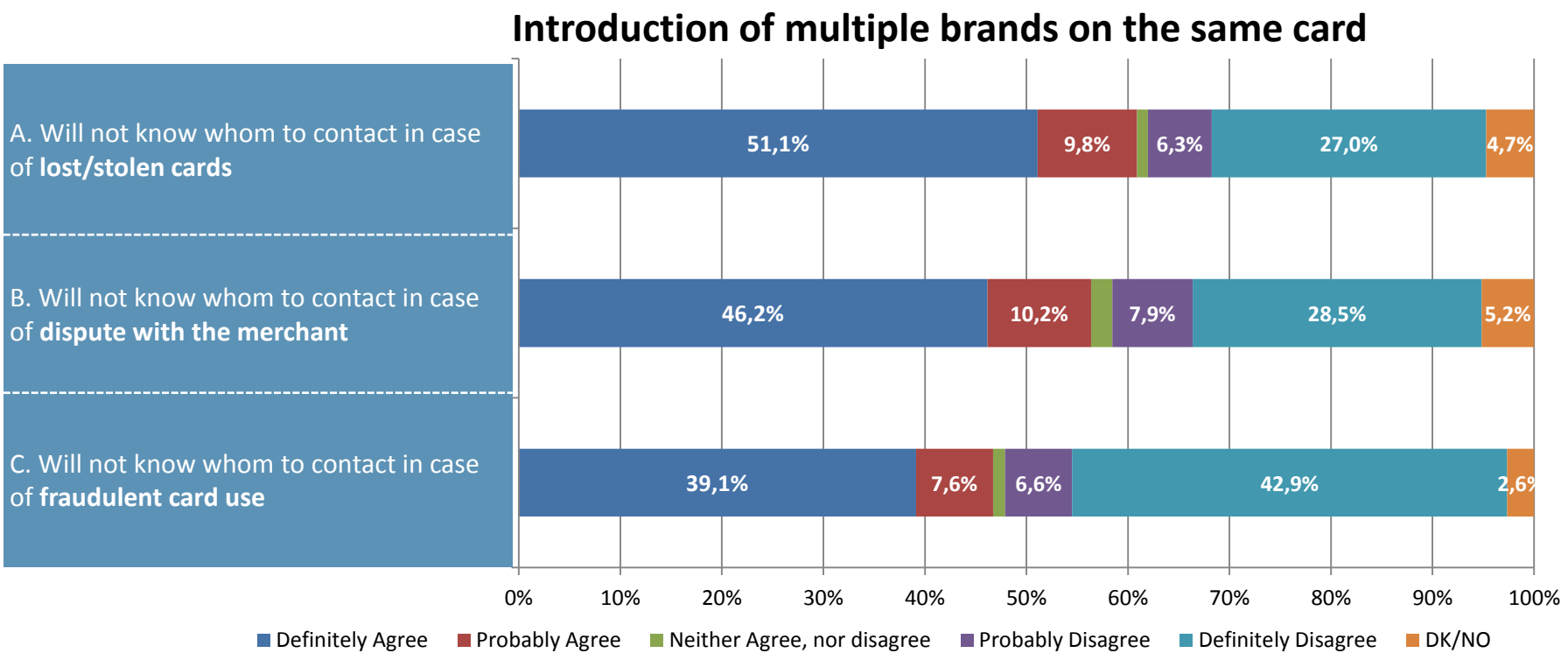


Consumers **Better-Off**	
Group	Percentage
Males	18,5%
Age 36-45 yrs.	24,1%
Secondary Education	29,4%
Income 0€ / less than 5.000€	25% /19%
Semi-urban Areas	26,4%
Private Sector Employees	18,9%
Owners of Credit cards only	18,9%

Consumers Worse-Off	
Group	Percentage
Females	85,6%
Age 26-35 yrs.	92,1%
Postgraduate degree	94,6%
Income > 50.001€	89,7%
Rural Areas	89,4%
Housewives	90,6%
Owners of all 3 card types	85,9%

Q. Today, if a merchant accepts one Visa card, he is obliged to accept all types of cards bearing the same brand logo. The proposed regulation gives merchants the right to select which cards they accept and which they don't , even if the cards bear the same logo (Visa or MasterCard). In your opinion, this proposed changes in the usage of debit/credit cards will make things better or worse for the consumers, or they will have no impact at all ?

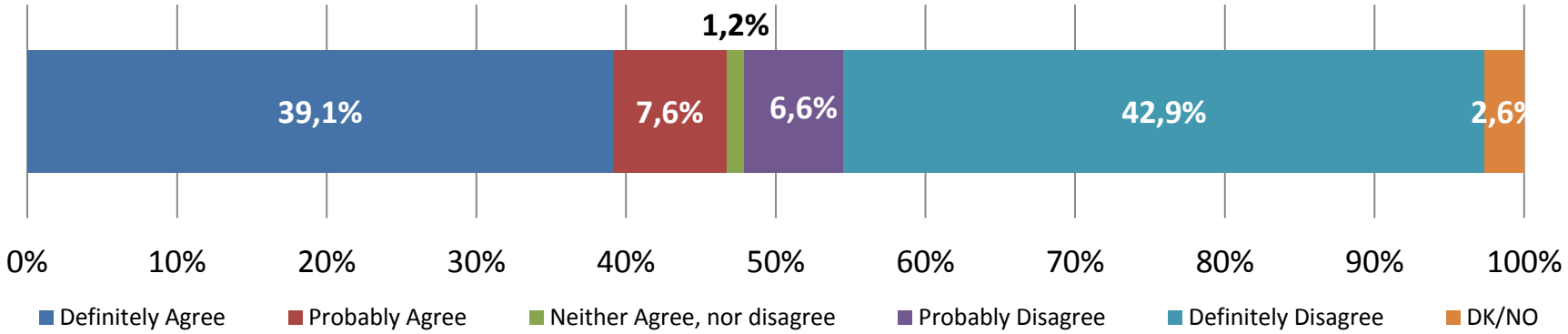
A very high percentage of cardholders believes that the addition of multiple brands on the same card will create uncertainty



Q. According to another EC proposal multiple logos (Visa, MasterCard) could be printed on the same card. Imagine that your card bears not only the logo of the brand you have a subscription with, but also logos of other networks. If this is the case, to what extent do you agree with the following :

With multiple logos: 45% is concerned about which organization to contact in case of lost/stolen cards

A. Will not know whom to contact in case of lost/stolen cards



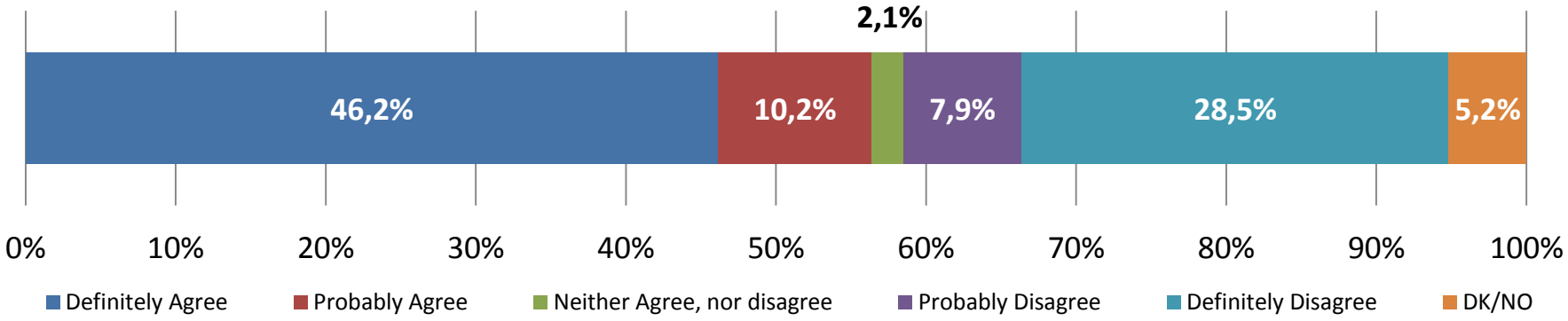
Agree	
Group	Percentage
Females	52,0%
Age 46-55 yrs.	51,1%
Secondary Education	60,0%
Income 0€ / less than 5.000€	75% / 66,7%
Semi-urban Areas	59,6%
Unemployed	62,0%
Owners of credit cards only	49,6%

Disagree	
Group	Percentage
Males	54,1%
Age 18-25 yrs.	59,4%
PhD	78,9%
Income between 25.001-50.000€	55,4%
Rural Areas	54,0%
Students	80%
Owners of debit/prepaid cards only	52,9%

Q. Will not know whom to contact in case of lost/stolen cards

With multiple logos: More than half of the respondents are concerned about point of contact in case of dispute with the merchant

B. Will not know whom to contact in case of dispute with the merchant



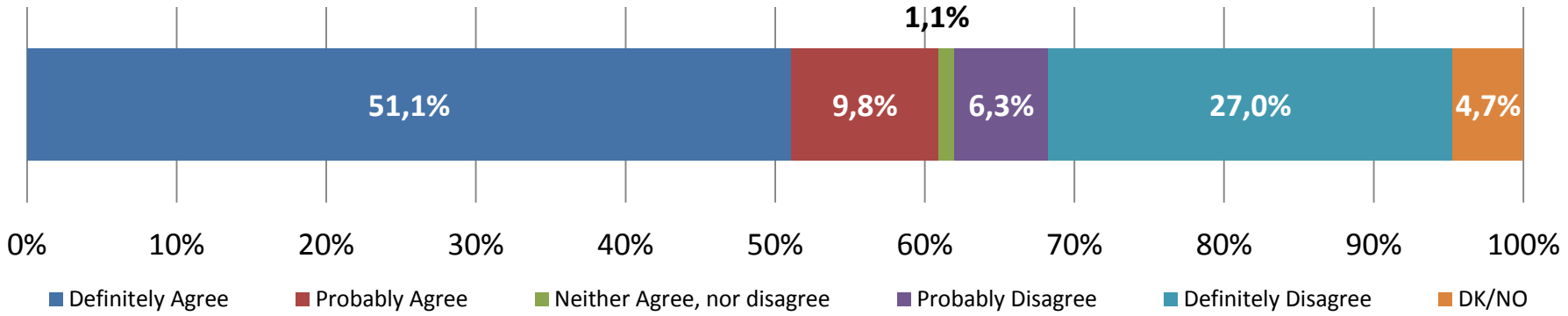
Agree	
Group	Percentage
Females	69,0%
Age26-35 yrs.	72,6%
Secondary Education	66,7%
Income < 5.000€	75,0%
Semi-urban Areas	73,4%
Housewives	72,7%
Owners of debit/prepaid cards only	64,5%

Disagree	
Group	Percentage
Males	45,7%
Age 36-45 yrs.	43,4%
Postgraduate degree	54,7%
Income between 25.001-50.000€	40,2%
Urban Areas	41,4%
Students	50,0%
Owners of all 3 types of cards	43,2%

Q. Will not know whom to contact in case of dispute with the merchant

With multiple logos: 6 out of 10 respondents are concerned about point of contact in case of fraudulent use and money-return procedure

C. Will not know whom to contact in case of fraudulent use/money return



Agree	
Group	Percentage
Females	69,7%
Age26-35 yrs.	69,4%
Secondary Education	75,9%
Income <5.000€	83,3%
Semi-urban Areas	76,2%
Housewives	81,4%
Owners of debit/prepaid cards only	69,2%

Disagree	
Group	Percentage
Males	39,4%
Age > 66 yrs.	40,6%
PhD	63,2%
Income > 50.001€	42,9%
Urban Areas	37,2%
Students	53,3%
Owners of all 3 types of cards	39,6%

Q. Will not know where they should be compensated from, in case of fraudulent use

4. Summary

Ownership and usage of payment cards

- Owners of credit cards only: 42% of the sample
  - Owners of both debit and credit cards: 34%
  - Owners of debit/prepaid card only: 25%
- 6 out of 10 respondents are aware of the total cost of their cards
- 2/3 reckon security and convenience as the most important characteristics of card payments
- Only 9% of respondents has had issues with payment cards (1/3 referred to non-acceptance of certain brands)
  - Primarily in café/bar/restaurants and Auto repair shops
- Only 12% of respondents use their cards on a daily or weekly basis

Perception on proposed regulation changes

- 75% of cardholders believe that the proposed changes will NOT result in lower prices at the point of sale (i.e. that the merchants will not provide any reductions on the prices of goods and services).
- A similar percentage believes that any potential loss on bank revenues will be transferred to cardholders
  - This is also the conclusion of several consumer associations during the relevant public debate, held by the European Commission
- In case the card cost increases, half of the cardholders say that they will prefer to cancel their cards
  - Approximately 1/3 says they will use their cards less frequently
- A change in the existing HACR status will be perceived negatively by the cardholders, according to 55% of the respondents
- The addition of multiple brands (logos) on the same card will create uncertainty in cases of:
  - Lost/stolen cards, according to 45%
  - Dispute with the merchant, according to 55%
  - Fraudulent use and money return, according to 60%

Conclusion

- Not very frequent use of payment cards
- The proposed changes will not lower prices at the point of sales, according to most cardholders
- Consumers feel that they will pay more for their cards
- The changes «scare people off» and might lead to cancellation and/or less frequent use of payment cards
- Banks, merchants and every other stakeholder should be prepared about potential changes in consumer behavior

Project Team

- **IOBE Research team:**
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  - Svetoslav Danchev, Head of Microeconomic Policy and Analysis
  - Evangelia Valavanioti, Research Associate
  - Grigoris Pavlou, Research Associate
  - Constantinos Peppas, Research Associate

5. Appendix

More likely the ownership of both credit & debit cards in higher incomes

Both Debit/PrePaid and Credit	
Groups	Percentage
Males	35,7%
46-55 yrs.	38,3%
Post-Graduate degree	50,0%
Income > 50.001€	46,0%
Urban Area	34,4%
Public Sector Employees	42,1%

Only credit	
Groups	Percentage
Females	43,6%
Age > 66 yrs.	61,1%
Primary Education	71,4%
Income 0€ / 0-5.000€	66,7% /45,7%
Semi Urban Area	44,2%
Housewives	52,8%

Only Debit or PrePaid	
Groups	Percentage
Females	25,5%
18-25 yrs.	73,5%
University degree	25,8%
Income 5.001-10.000€	43,7%
Semi Urban areas	28,3%
Students	68,8%

Q. Are you personally, the owner of a debit or credit card?

One credit card and no debit/prepaid the most common case (28,1%)

		Credit Cards				
		0 cards	1 card	2 cards	3 cards	>4 cards
Debit	0 cards	NA	28,1%	8,8%	3,0%	1,7%
	1 card	16,3%	13,7%	3,5%	0,8%	1,3%
	2 cards	6,2%	3,6%	3,9%	0,8%	1,2%
	3 cards	1,7%	1,1%	0,7%	0,8%	0,4%
	>4 cards	0,4%	0,4%	0,5%	0,2%	0,5%

- To be followed by those owning 1 debit and no credit cards (16,3%)

Q. In total, how many credit, debit, or prepaid cards do you own?