World payments report 2008

Non-cash payments are growing fast

Retail non-cash payments are growing fast globally, and should continue to do so, even in markets where non-cash means of payment are already quite popular, according to recent data gathered for the new upcoming World Payments Report 2008 from Capgemini, Royal Bank of Scotland (RBS) and Efma.

The global non-cash payments market comprised 233 billion transactions in 2006, after market volume grew by a steady 9% each year between 2001 and 2006 – far outpacing the 2% growth in world GDP during that period (see Figure). Mature economies accounted for 83% of the world total of non-cash payments in 2006, but developing and emerging countries have experienced double-digit growth. China , which has seen significant growth rate increases in such payments, already accounts for 7% of global non-cash payment volumes. Notably, cards are the main driver of global non-cash payment volumes overall – with the number of transactions conducted via cards growing a sustained 16% per year between 2001 and 2006.

The global use of cheques is shrinking, though cheques are still used widely in some major economies, including the US, Canada, France, the UK and Australia. Cheques are typically being replaced by cards for consumer payments or by credit transfers/direct debits for businesses. While the trend away from cash is continuing, it certainly remains an issue that traditional non-cash alternatives still cannot match the functionality and convenience of cash, especially for person-to-person payments.

In Europe, the single euro payments area (Sepa) started to become a reality this year with the launch of Sepa credit transfers (SCT). Sepa direct debits (SDD) will follow at the end of 2009, and work is also under way on the standardisation required to fully realise the goals of the Sepa Cards Framework. The use of non-cash payment instruments is already growing across the board in Europe (though at different rates in different countries), and the converging influence of Sepa should help to increase those volumes, especially in countries where non-cash instruments are not favoured at present.

Cards are the principal means of making non-cash payments in Europe, as evidenced by the double-digit annual growth in usage per inhabitant between 2001 and 2006, but the use of cards is likely to continue rising dramatically, as the network of merchants accepting cards expands and the range of products grows.

Stakeholder interests are aligned behind developing non-cash payments. *"There is still huge potential, even for mature markets, to continue expanding non-cash payment volumes, especially since a variety of key stakeholders in many markets (including banks, country authorities, and corporations) are now keen to push towards more widely accessible, seamless, and secure means of effecting non-cash payments"*, says Bertrand Lavayssière, managing director, Capgemini Global Financial Services.

"For most banks, retail payments still offer significant growth opportunities and despite the current market volatility, payments also offer a source of stable revenue", Bertrand Lavayssière adds. Specifically, payments offer recurring revenue, with limited capital consumption, so they offer high and relatively stable returns on equity. Moreover, since payments are vital for both consumer and corporate customers, the associated products and services can help banks to capture customers and drive loyalty if handled effectively.

Regulatory authorities are also keen to see investments in the efficiency and security of payments systems. Not only do seamless payments systems facilitate world trade and consumer spending, the concomitant reduction in cash-in-circulation helps to address three key issues, reducing fraud and systemic risk and increasing competition. With less cash in circulation, for instance, there is less potential for currency

counterfeiting and money-laundering, and more potential for managing systemic risk (e.g., as fund flows become more regular and transparent). Moreover, the wider use of non-cash instruments creates a more competitive payments landscape – a top-line goal for most financial services authorities.
For businesses, an efficient and effective system facilitates their moves toward end-to-end straight-through processing (STP) for payments and collections, helping to reduce payment/collection cycles, optimise working-capital management, and reduce counter-party risk.

Conclusion. The interests of corporations, financial institutions and governments are all aligning behind the continuing drive to make global payments more seamless and efficient. *"Banks are committed to investments in further improving the efficiency and effectiveness of payment systems and thereby enhancing existing services to the benefit of clients – whether consumers, businesses, or other financial institutions"*, says Andy Wright, head of financial institutions, global transaction services, Royal Bank of Scotland.

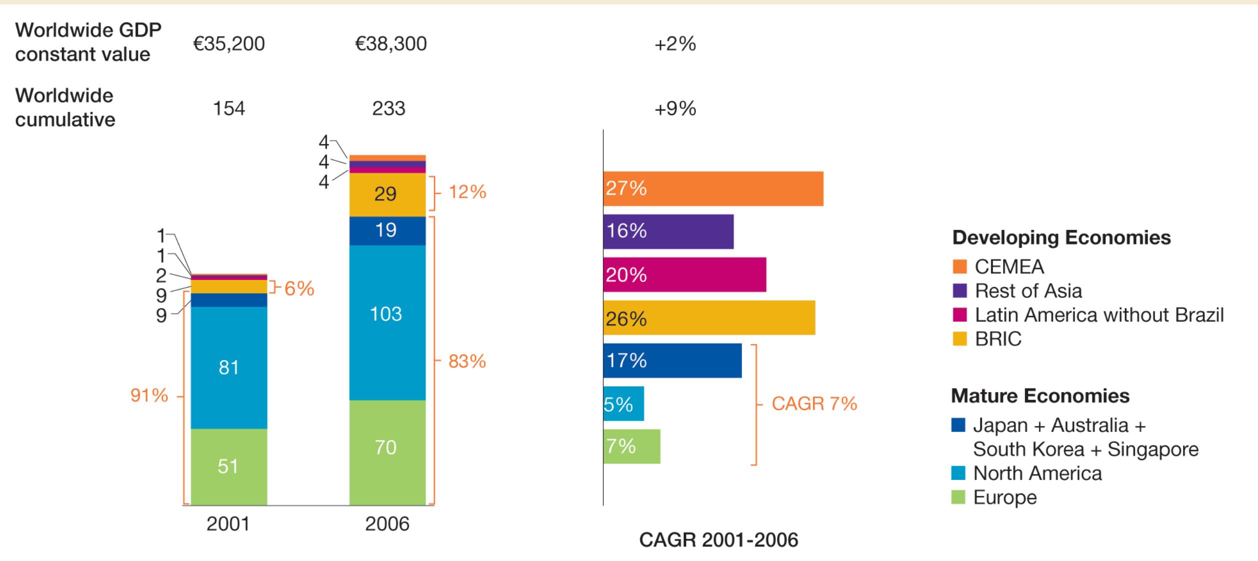
The fourth edition of this annual report will include a study of both the global and European payments markets; it also includes insights into the cards payment market, and provides a progress report on the status of the Single Euro Payments Area (Sepa) and the Payment Services Directive (PSD); and offers insights into the cash management benefits that Sepa could bring to businesses.

The World Payments Report 2008 is now available to download on www.wpr08.com

Roadshows

This survey will be present in: Utrecht, Wednesday 24 September; Stockholm, Tuesday 30 September; London, Tuesday 14 October; Warsaw, Tuesday 14 October; Frankfurt, Wednesday 12 November.

Number of worldwide non-cash transactions by regions (billions), 2001-2006



Source: ECB Blue Book - 2006 figures, released Nov. 2007, Bank for international settlements - Red Book - 2006 figures, released March 2008, IMF database, Capgemini analysis, 2008.