A First Data White Paper

Payment Methods: What International Consumers Want, Need and Expect

By First Data and Market Strategies International

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Introduction

There was a time when making a purchase meant paying by cash. Those days are long gone. While cash is still king in some parts of the world, today’s consumers have a multitude of payment options. These include established methods like credit and debit cards, and emerging technologies such as contactless and mobile phone-based payments.

Financial institutions are increasingly in competition with technology companies and other organizations to be the preferred providers of consumer payment services. But, it can be challenging to understand which payment methods are preferred today and which will most likely be adopted in the future. Since the interests, attitudes and behaviors of consumers around the world vary greatly, these companies must understand regional differences to be successful.

On behalf of First Data, Market Strategies International recently conducted the “Multi-Country Consumer Payment Study” to provide financial institutions with important insights into consumers’ perceptions, wants, needs and concerns related to available and emerging payment methods. Specifically, this study explores:

- Current and expected future preferences for traditional and emerging payment methods
- The link between smartphone adoption and usage of mobile payment services
- Perceived benefits and concerns with emerging payment methods
- Consumer attitudes about payment types in five key regions: Australia, Germany, Poland, U.K./Ireland and the Middle East

About the Study

The “Multi-Country Consumer Payment Study” was conducted by Market Strategies International, a market research consultancy, on behalf of First Data. The study was conducted during April-June 2011, among 1,000 consumers online in Australia, Germany, Poland, U.K./Ireland and the Middle East, with three-quarters of Middle Eastern consumers located in Saudi Arabia, the UAE and Egypt. All consumers in the study were recruited from an online panel and have at least one banking account and own a mobile phone. The study focused on consumer attitudes and opinions regarding current and expected usage of various payment methods.

For purposes of analysis, the data were weighted by age in each country to adjust for the greater number of younger respondents. To compare with other countries that have a high rate of technology adoption, this white paper also contains findings from previous research conducted in the U.S. A full description of the research methodology is included on page 10.
Most Consumers Still Prefer Traditional Payment Methods

Even as new payment options emerge, consumers still prefer to pay with credit cards, debit cards and cash. Within the past six months, 53 percent of international consumers have used a credit or debit card more than any other payment method, and 47 percent have paid most frequently with cash. Many consumers consider cards to be indispensable, with 40 percent of international consumers agreeing they’d be “lost without my debit or credit card.”

While traditional payment methods are widely used worldwide, there are some differences by region. As shown in the table below, consumers in the Middle East and Germany prefer cash, while cards are more popular in the U.K./Ireland (debit cards) and Australia (credit cards).

**PAYMENT PREFERENCES BY REGION**

<table>
<thead>
<tr>
<th>Payment Preferences</th>
<th>All Consumers Interviewed</th>
<th>Australia</th>
<th>Germany</th>
<th>Middle East</th>
<th>Poland</th>
<th>U.K./Ireland</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Preference</td>
<td>Cash</td>
<td>CC</td>
<td>Cash</td>
<td>Cash</td>
<td>Cash/DC</td>
<td>DC</td>
</tr>
<tr>
<td>2nd Preference</td>
<td>DC</td>
<td>DC</td>
<td>DC</td>
<td>CC</td>
<td>Cash</td>
<td></td>
</tr>
<tr>
<td>3rd Preference</td>
<td>CC</td>
<td>Cash</td>
<td>CC</td>
<td>DC</td>
<td>CC</td>
<td>CC</td>
</tr>
</tbody>
</table>

Consumers included in the countries surveyed prefer to use cash for less expensive purchases, like those made at convenience stores and coffee shops, and to use debit cards for larger purchases, like dining out and gasoline. These findings mirror the payment habits in the U.S., where cash is preferred for purchases under $20 and debit cards are preferred for purchases between $20 and $100.

According to the study, retailers can persuade consumers to choose a specific payment method by helping them save money – especially by offering a discount on a current or future purchase.

Despite the popularity of cash and cards, many consumers indicate they might be ready to move beyond traditional ways of paying for goods and services. Forty-five percent of international consumers say they’d like the convenience of being able to pay for goods without the hassle of carrying cash, debit cards and credit cards. Consumers in the Middle East are the most willing to adopt newer payment methods: more than three-fifths like the idea of paying without using cash or cards.
Emerging Payment Options Defined

To begin, it’s important to define the emerging payment options referenced throughout this white paper. They are as follows:

- **Contactless Payment Card**: A consumer waves or taps a credit or debit card containing a chip at a contactless reader at checkout; a beep typically indicates the payment was accepted.
- **Mobile App**: A mobile payment app allows consumers to pay for a purchase at a single merchant (such as Starbucks) using an application on their mobile phone that is usually tied to a prepaid account.
- **Mobile Wallet**: Mobile phone containing a contactless chip as well as applications that enable the consumer to use the mobile phone at checkout, for mass transit, at vending machines and for digital purchases (e.g., music), as well as for non-payment activities such as storing loyalty cards and coupons.

Contactless Cards Face Obstacles to Greater Adoption

Contactless cards use RFID (radio frequency) or NFC (near field communication) technology to enable consumers to quickly make a purchase by tapping or waving their card at checkout. While contactless cards have been available for several years in the countries analyzed, less than 12 percent of consumers surveyed have a contactless card. Almost 15 percent of Australians, 14 percent of Polish consumers and 12 percent of Germans have a contactless card. Contactless card ownership is less than 10 percent in the Middle East and lowest in the U.K./Ireland, where just 7 percent of consumers own one. Of consumers who have a contactless card, three-fifths have used it, with the primary reasons for doing so being for faster checkout and for the novelty of trying something new. Consumers who have used a contactless card usually like it, with 85 percent saying it’s now their preferred method of payment.

With this highly stated preference among users, why aren’t contactless cards more widely used around the globe? Lack of clear understanding about their benefits is a key issue: more than 1 in 5 consumers don’t see any benefits from using contactless cards. Additionally, contactless card issuers must overcome some challenges. More than half of consumers have security concerns related to use of the card: half are afraid they could be lost or stolen and 41 percent are worried about being charged more than once. Financial institutions that want to provide contactless cards will need to strengthen their promotion of the benefits while addressing security and other concerns.

Equally limiting is the lack of merchant acceptance of contactless payments. Seventy percent of consumers would consider contactless once it’s accepted by at least 4 in 10 merchants.

Poland Is “Hot Market” for Contactless Cards

Compared to about one-quarter of consumers worldwide, 43 percent of Polish consumers would start using contactless cards right away if they could.
Mobile Phones Make Payments Convenient

Consumers worldwide have eagerly adopted mobile phones, so it’s not surprising that a number of mobile phone-based payments have emerged. Mobile phones, especially smartphones, (e.g., Apple iPhone, BlackBerry, Android), serve today’s consumers as sophisticated communication devices, sources of entertainment, navigational tools and payment methods rolled into one convenient device that’s always at hand.

Today, about half of international consumers surveyed use a smartphone. And, 4 in 10 currently using a more basic phone intend to upgrade to a smartphone within a year. This means that a large and increasing number of consumers have the necessary technology to use their mobile phones to pay bills, conduct mobile banking and make purchases.

Use of smartphones varies throughout the world. The Middle East leads smartphone adoption, with two-thirds of consumers in this region already using these high-tech phones (note: research conducted with online consumers). And, 90 percent of consumers in the Middle East who are using more basic models plan to upgrade to a smartphone in the next year. At the other end of the spectrum, less than one-third of consumers in Poland have a smartphone, although two-thirds of Polish consumers currently using a more basic model plan to upgrade to one within 12 months. In the U.S., by comparison, slightly less than one-half of consumers currently have a Smartphone.2

Of course, just having a smartphone doesn’t mean that a consumer will use it as a payment device. Attitudes about mobile phone payments also come into play. Globally, 41 percent of consumers think using a mobile phone to pay for something is “cool” and 38 percent feel it’s easier than paying by credit or debit card. Interestingly, as shown in the chart below, consumers in the Middle East (the region with the highest smartphone adoption) and Poland (the region with the lowest smartphone adoption) have the most positive attitudes about using smartphones for purchases.
Despite positive attitudes about making purchases with their mobile phones, consumer usage remains low: approximately three-quarters of consumers have never used their mobile phone to buy anything. Even in the Middle East, where smartphone usage is strong, almost 70 percent of consumers in our sample have yet to make a purchase with their mobile phone. However, among consumers who have adopted this method of payment, those in the Middle East use their mobile phones to pay for goods and services more frequently than consumers in other parts of the world.

Resistance to using mobile phones for purchases may be due to concerns over security. More than half of consumers fear that paying via a phone is less secure than using a credit or debit card. Therefore, the challenge for financial institutions that want to compete in the mobile payment business is to convince consumers that this method of payment is as secure as debit and credit cards.

Countries Using Smartphones More Receptive to Mobile Apps

A mobile payment app enables consumers to use their mobile phone to pay at a specific retailer using an application tied to a prepaid account. Similar to a “closed loop” prepaid card, the mobile payment app provides consumers an alternative payment option for a single retailer, such as Starbucks.

In addition to providing a faster way to pay, the mobile app can also double as a loyalty card, providing additional benefits to the consumer beyond those associated with the contactless payment card previously mentioned.

While 28 percent of international consumers surveyed would use a retailer-specific mobile app, the attraction is much higher in the Middle East, at 61 percent.
Mobile Wallets Support Customization of Consumers’ Needs

The mobile wallet offers the convenience of not only paying with a mobile phone at a variety of merchants, but also enables consumers to use their phones to conduct a variety of other activities such as:

- Paying for mass transit
- Tracking payments
- Organizing coupons
- Gaining entrance to gyms, museums, etc. by using it as a membership card

Despite the convenience and multiple uses of the mobile wallet, just 1 in 5 consumers would use this technology right away if it was widely accepted and supported by their mobile phone. The largest group of consumers, nearly 3 in 5, will eventually adopt this technology, but need to feel more comfortable with it first, pointing to the need for more education. Polish consumers are the most eager to use the mobile wallet, with 64 percent saying they would use this technology immediately if they could.

When asked how they’d use a mobile wallet, almost one-third of consumers worldwide liked the idea of using their phone as a train or airplane ticket. But, as shown in the chart below, there isn’t one “killer app” for the mobile phone; consumers like the convenience of using their phone for a variety of purposes and being able to customize their mobile wallet to meet their lifestyle needs.
Consistent with other findings in this study, consumers in Poland and the Middle East had an above-average interest in using a mobile wallet for every type of activity or purchase. At the other end of the spectrum, Australians and consumers in the U.K. and Ireland, whose attitudes about mobile phone payments aren’t as positive, have below-average interest in using a mobile wallet.

When asked what they like about the mobile wallet, consumers cite “fast checkout” as the main benefit. Consumers also like having instant access to all of their payment information (rather than having to dig through their wallet to find the correct credit card). Thirdly, consumers see the benefit of being able to disable their mobile wallet by calling one number or pressing a single button, which is far more convenient than the process consumers must go through to cancel all of their credit/debit cards, if necessary. It would be advantageous for mobile wallet providers to promote this benefit, especially in light of consumer security concerns with the mobile wallet (discussed below).

Banks are Trusted and Preferred Mobile Wallet Provider

Fortunately for financial institutions, banks are, by far, the most trusted provider of mobile wallet services. More than half of all international consumers would choose their bank as their mobile wallet provider, followed by PayPal, which was chosen by just 12 percent of consumers. This finding matches consumer sentiment in the U.S., where nearly 60 percent of consumers name their financial institution as the most trusted mobile wallet provider.³

Security concerns appear to be the biggest obstacle to adoption of the mobile wallet. Nearly three-quarters of consumers fear that their payment information (which is stored on their phone) would be compromised or that they’d lose their phone (and all of their payment information). The situation is similar in the U.S., where nearly two-thirds of consumers have security fears.⁴

The good news for financial institutions around the world is that consumers feel that banks provide the most secure mobile wallet technology. Consumers in the Middle East and Poland, two groups that are more likely than others to adopt the mobile wallet, feel even more strongly that banks offer the highest level of security.
Mobile Marketing a Key Benefit

Many mobile handsets contain GPS technology that allows applications to know where a consumer is located. This functionality provides merchants with the ability to communicate with their customers in real time. Twenty-eight percent of consumers surveyed indicated a strong interest in participating in mobile marketing offers. Consumers in the Middle East and Poland expressed the highest interest in the capabilities, at 44 percent and 36 percent respectively. The main benefit identified by consumers is the ability to act on an offer immediately while in the store. Consistent with other results from the study, consumers express concern about sharing personal information that could be hacked.

Mobile Payment Methods Expected to Win Out

While traditional payments may remain the preferred payment choice in the near term, mobile payments are expected to prevail over contactless payment cards in most of the countries surveyed.

Contactless cards, which have been in place for some time, are not likely to penetrate much further. They do not provide enough consumer or merchant benefits to make widespread adoption worthwhile. Because consumers have not yet widely accepted contactless cards, they might never do so, especially as greater adoption of smartphones eventually leads to a surge in the popularity of mobile payments.

Mobile payments not only offer consumers the benefit of faster and easier checkout, but they also provide a way for consumers to manage their loyalty programs, coupons, etc.—whether for a single merchant through a mobile app or multiple merchants via the mobile wallet. In addition, mobile payments represent a potentially valuable marketing and loyalty tool for merchants.

Assuming the following payment choices are available to you and are widely accepted by retailers/stores where you shop, which method would you most prefer?

<table>
<thead>
<tr>
<th>Country</th>
<th>Mobile (all)</th>
<th>Contactless Card</th>
<th>Debit/Credit Card</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>24%</td>
<td>15%</td>
<td>63%</td>
</tr>
<tr>
<td>Australia</td>
<td>24%</td>
<td>10%</td>
<td>74%</td>
</tr>
<tr>
<td>Germany</td>
<td>24%</td>
<td>10%</td>
<td>66%</td>
</tr>
<tr>
<td>Middle East</td>
<td>30%</td>
<td>13%</td>
<td>57%</td>
</tr>
<tr>
<td>Poland</td>
<td>38%</td>
<td>16%</td>
<td>46%</td>
</tr>
<tr>
<td>UK/Ireland</td>
<td>13%</td>
<td>12%</td>
<td>75%</td>
</tr>
</tbody>
</table>
Implications for Financial Institutions and Merchants

The findings of the “Multi-Country Consumer Payment Study” point to several key implications for financial institutions and merchants:

• **Financial institutions need to move to get their card into the mobile wallet:** While traditional payment methods remain most popular and likely will be widely used for quite some time, banks need to begin making investments to offer mobile and contactless payment methods to their customers. Younger, tech savvy consumers have strong positive attitudes about the “coolness” and convenience of mobile payments and will expect their financial institutions to offer this new payment option.

• **Financial institutions and merchants need to become contactless enabled:** It is evident that the value proposition for mobile payments and the mobile wallet are significantly stronger compared to contactless cards—however, financial institutions and merchants need to become contactless enabled in order to eventually provide the mobile payment option to their customers. While the mobile payments and mobile wallet technologies are not yet available in most parts of the world, financial institutions and merchants may be left in the dust if they don’t plan ahead. High levels of smartphone adoption in certain countries or regions indicate that consumers there already have the necessary technology to make mobile payments a reality.

• **Security concerns must be addressed:** By far, the biggest challenge for providers of mobile and contactless payment methods is convincing consumers that their transactions and financial data are secure. Banks and other financial institutions can take advantage of their experience in communicating the security of online banking and bill payment to convince consumers that they are safe using mobile and contactless payment types.

• **Financial institutions can build on trust earned through mobile banking to become trusted providers of newer payment types:** Because of the trust they’ve earned as providers of mobile banking services, financial institutions are in a good position to become the mobile wallet provider of choice for consumers worldwide. Banks and other financial institutions should capitalize on the goodwill they’ve earned – and their experience in mitigating security concerns and other risks – to increase market share.

Study Methodology

Market Strategies International interviewed a multi-country sample of 1,000 consumers age 18 and older from April 29 to June 7, 2011. Respondents were recruited from an opt-in online panel and were interviewed online. The data were weighted by age in each country to adjust for the greater number of younger respondents. Due to its opt-in nature, this online panel (like most others) does not yield a random probability sample of the target population. As such, it is not possible to compute a margin of error or to statistically quantify the accuracy of projections.

2 Ibid
3 Ibid
4 Ibid
The Global Leader in Electronic Commerce

Around the world every day, First Data makes payment transactions secure, fast and easy for merchants, financial institutions and their customers. We leverage our unparalleled product portfolio and expertise to deliver processing solutions that drive customer revenue and profitability. Whether the payment is by debit or credit, gift card, check or mobile phone, online or at the point of sale, First Data helps you maximize value for your business.

About Market Strategies International

Market Strategies International is a market research consultancy with deep expertise in the communications, energy, financial services, healthcare and technology industries. We design and implement the most intelligent research and deliver meaningful results that help companies make business decisions with complete and total confidence. Market Strategies was founded in 1989 and consistently ranks as one of the 25 largest global market research firms, according to an annual report published in Marketing News.

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