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AN ANALYSIS OF MALTESE PAYMENT HABITS

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Introduction

Technological and security enhancements play a vital role in facilitating how everyday payments are made. In fact, modern payment channels are continuously being developed, introducing more efficient and convenient methods of payment.¹ However, this may not be fully reflected in everyday payments in Malta as paper-based instruments are still heavily relied on. This conclusion has been confirmed by statistics collated from a survey on local payment habits carried out in the last quarter of 2013 and the first quarter of 2014. The survey results will be an important input in the formulation of a national strategy on the use of various payment instruments.

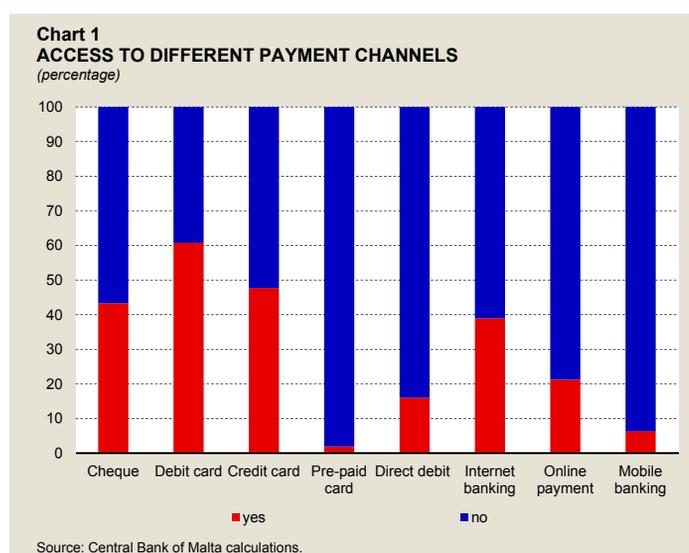
The survey was carried out on the basis of a systematic sample. A total of 1,111 respondents from 502 households contributed towards the compilation of the data, which were grossed up in order to infer estimates for the population.² This study was spearheaded by the Regulation and Oversight Office within the Payments and Banking Department of the Central Bank of Malta. The Statistics Department of the Bank led the fieldwork, which was carried out on the basis of interviews, and inferred the estimates for the population. The habits of the population were also gauged through a one-week payment diary, which supplemented the survey. In their diaries, respondents were asked to provide information about their daily purchases and payment instruments used.

Although paper-based payment products are free for the general user, they are inefficient in terms of return on costs for suppliers of the payment media, even though the provision of free cheque facilities can be part of a profitable marketing package on the part of banks. Still, the results of the survey confirm that the Maltese tend to rely on cash as their preferred payment instrument. Additionally, cheques are also actively used by the Maltese.

The survey results are not directly comparable with information about other countries. Nevertheless, data from other sources within the banking system show that Malta ranked the highest in terms of cheque usage when compared with other EU countries in 2013. Moreover, Malta still lags behind in the use of electronic payment instruments.³

Payment instrument access and utilisation

Access to payment instruments is necessary for the utilisation of particular instruments. Accessibility is defined by a person's owning a particular instrument or having direct access to it, as well as having knowledge about its usage. Chart 1 shows the access to different payment instruments in Malta, with data collected reflecting high access to debit and credit cards, cheques and internet banking.



¹ Payment channels, payment modes, payment instruments, payment products and payment mediums are used interchangeably in this article.

² The sampling method implies that population results entail a margin of error of $\pm 4.4\%$ with a 95% confidence interval.

³ Data used for international comparisons can be accessed through the following link: <http://www.ecb.europa.eu/press/pdf/pis/pis2013.pdf?06ec75f7173136eb1186fc5c1e3b2d89>

Turning now to the actual use of various methods of payment, the payment diaries provided information about the quantity of transactions carried out using each instrument. As portrayed in Chart 2, cash was the most popular payment channel, accounting for approximately 88% of all transactions. Credit cards followed, with a much lower share than cash, making up approximately 4% of the total volume of transactions. The same was true for debit cards. Transactions using cheques registered a slightly lower volume, close to 2%. Alternative payment instruments, such as internet banking and direct debits, registered relatively minimal use, hence confirming the local dependence on traditional payment channels.

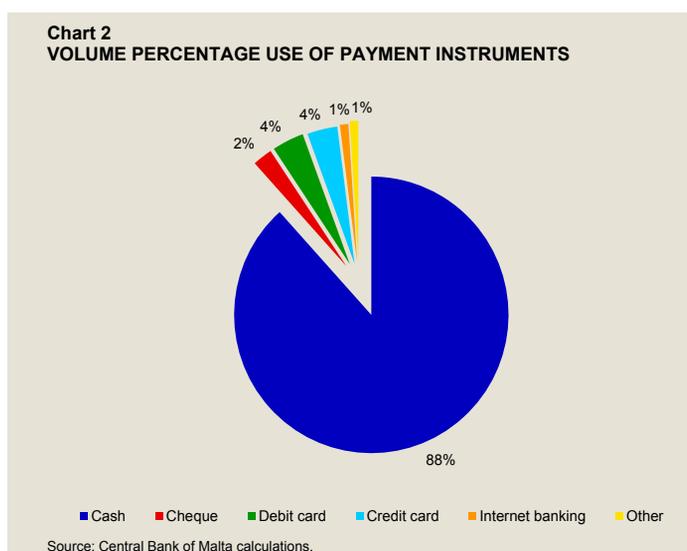
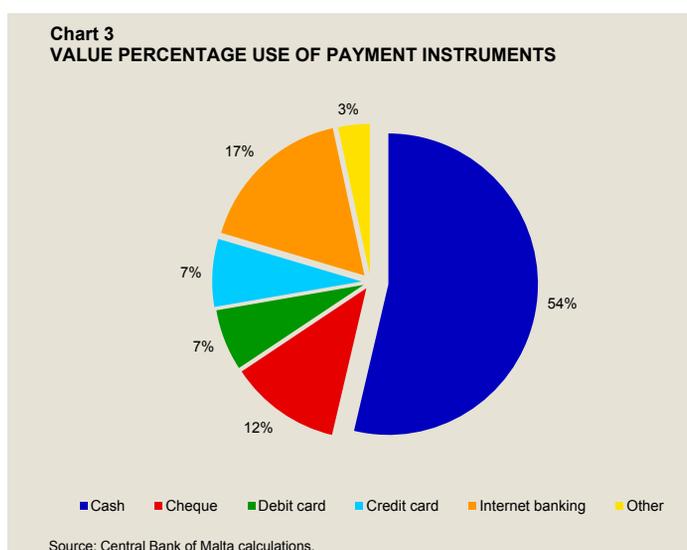


Chart 3 shows the distribution of transactions by value. Although, as shown in Chart 2, cash, at approximately 88%, was the most popular medium by volume, only around 54% of the total value of transactions was made in cash. These results indicate that cash was mainly used for low value payments.



Internet banking, at approximately 17%, ranked second as a percentage of total transactions in terms of value. However, it registered only 1.3% of the total volume of transactions, hence implying that internet payments were preferred for high value transactions.

Approximately 12% of the total value of payments was made by cheque. This was followed by credit and debit cards, with approximately 7% take-up in terms of value per payment instrument.

Usage of payment instruments by category of respondent

The following sections shall now analyse the usage of each payment instrument according to the type of respondent. The survey design allowed for analysis in terms of gender, age, type of employment, educational level and incomes of the individual respondents. The results are depicted in Charts 4, 5, 6, 7 and 8.

Chart 4 portrays payment instrument utilisation by gender. Data show that around 94% of respondents used cash for their purchases, with similar rates for both men and women. Debit and credit cards followed, with similar usage rates for males and females. Cheque usage was higher among males than females at 22.8% and 13.5%, respectively. In general, modern payment channels, such as internet banking, online payments, direct debit and pre-paid cards recorded very low usage. Men have a small edge over women in terms of the proportion using these innovative payment instruments.

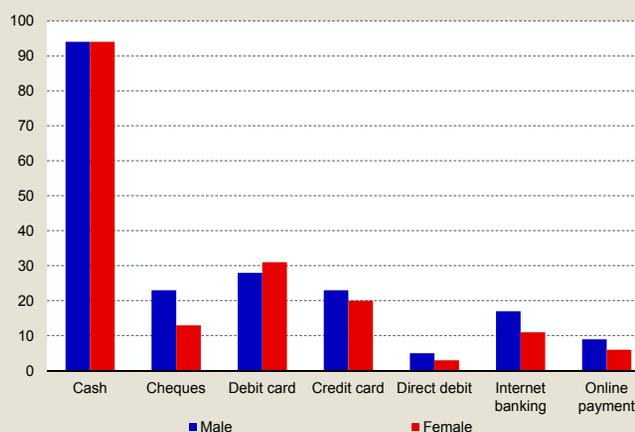
As shown in Chart 5, different age groups have different preferences for payment instruments, possibly because access and degrees of adaptability to financial innovation may vary across age groups. As already observed in Chart 4, Chart 5 shows cash as the main instrument used by all age groups, with use ranging between 89% and 99%. The 25–34 age group registered the lowest cash usage (88.8%), while the 35–44 year age group were the highest cash users (98.9%), followed by those above 55 years (97.1%). The 25–34 age group registered the highest take-up of alternatives to cash but the elderly were the lowest users of modern payment instruments.

An analysis by employment status shows that the self-employed were the lowest users of cash (see Chart 6).⁴ In fact, only 85.0% of the self-employed declared that they make use of cash. However, the same category ranked top, at 46.7%, in the usage of cheques. Employed individuals registered the highest card usage, while the unemployed made the least use of financially innovative products, with online payments, direct debits and pre-paid cards being the least favoured channels.

Chart 7, denoting usage by educational level, shows that people with at most a secondary standard of education have a higher tendency to opt for cash as a means of payment, while the post-tertiary category registered a relatively low cash usage (71.9%). Data also show that people with tertiary and post-tertiary levels of education were the highest users of payment instruments other than cash.

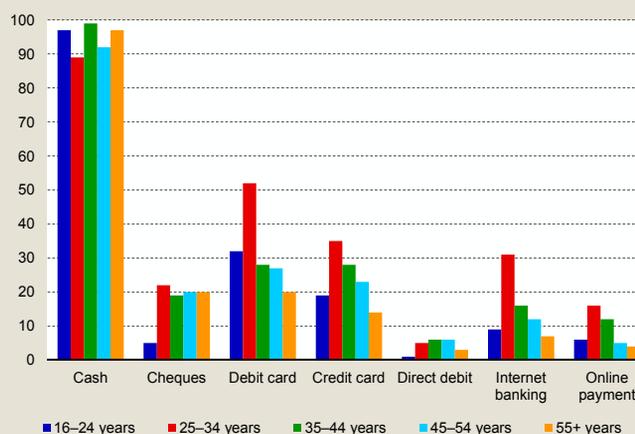
Differences in income also seem to imply a variation in instrument usage. Once again, as shown in

Chart 4
USAGE OF PAYMENT INSTRUMENTS BY GENDER
(percentage)



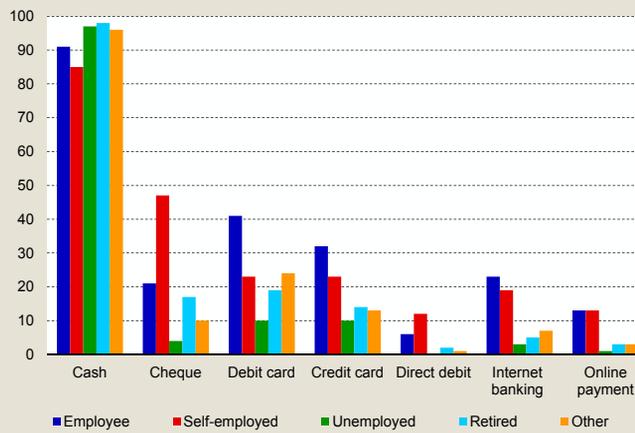
Source: Central Bank of Malta calculations.

Chart 5
USAGE OF PAYMENT INSTRUMENTS BY AGE GROUP
(percentage)



Source: Central Bank of Malta calculations.

Chart 6
USAGE OF PAYMENT INSTRUMENTS BY EMPLOYMENT STATUS
(percentage)



Source: Central Bank of Malta calculations.

⁴ The “other” category includes housewives, single parents and people who qualify for social welfare benefits. However, the “unemployed” category may also include people who receive social welfare benefits, such as unemployment benefits.

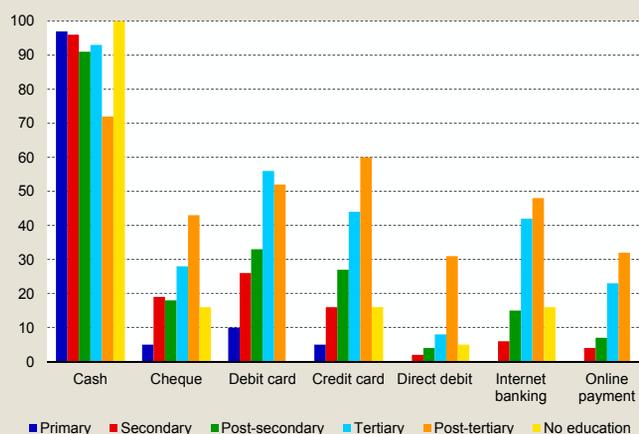
Chart 8, cash was the payment channel mostly used across all income brackets.⁵ The €16,501–€21,000 income bracket registered the lowest usage while the €10,001–€12,000 income bracket proved to be the highest at 98.9%. Although cash is used by all income brackets, the results still indicate that low-income earners are more inclined to use cash than high-income earners. Debit and credit cards, and cheques followed as the closest alternatives to cash for all income brackets. However, as depicted in Chart 8, high-income earners are clearly more inclined to use alternative payment instruments. Hence, a positive correlation is evident between income levels and the use of more innovative alternatives to cash.

Cash held for daily purchases

Respondents were asked to report on the amount of cash they normally kept for daily purposes. Data analysis shows that the Maltese favour holding around €20 or €50 for daily use.⁶ A total of 11.3% tend to keep €10 while another 11.3% tend to keep €100. Only 1.8% of the population reported not retaining cash for daily use. This cluster of the population ranges between 0% and 3% across all age groups. Chart 9 also indicates that the younger generation tends to keep smaller amounts of cash than older generations.

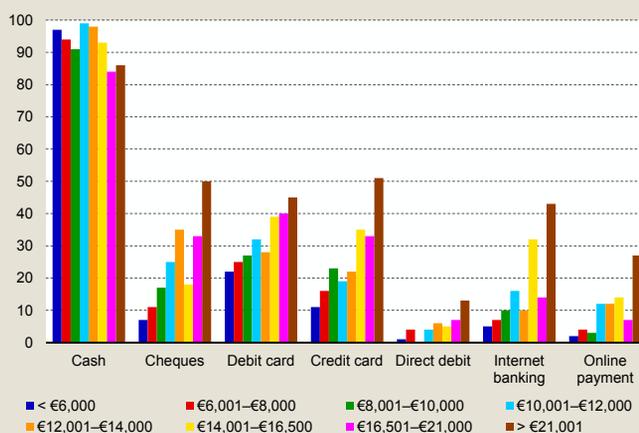
The mean value of cash held by the Maltese was €43 while the median was €50. Based on these results, and taking into account that the number of individuals aged 16 and over in Malta is around 350,000, the total value of cash held for transaction purposes on a particular day in Malta is approximately €15 million. This level of daily cash holdings is not out of line with information

Chart 7
USAGE OF PAYMENT INSTRUMENTS BY LEVEL OF EDUCATION
(percentage)



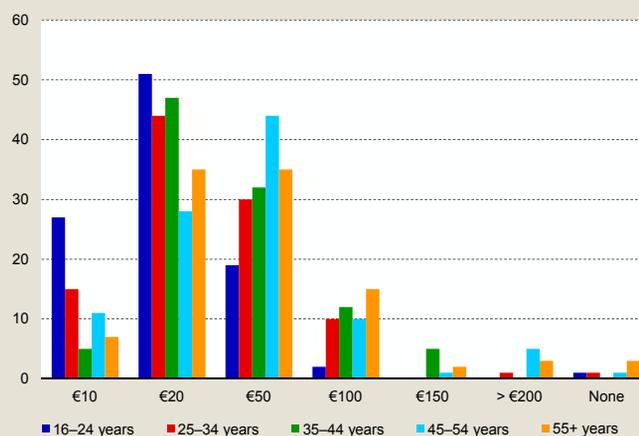
Source: Central Bank of Malta calculations.

Chart 8
USAGE OF PAYMENT INSTRUMENTS BY INCOME BRACKET
(percentage)



Source: Central Bank of Malta calculations.

Chart 9
CASH FOR DAILY USE ACCORDING TO AGE
(percentage)



Source: Central Bank of Malta calculations.

⁵ Income earners of less than €6,000 and between €6,000 and €8,000 annually are considered low-income earners. These brackets may include people who receive unemployment and social welfare benefits, as well as pensioners.

⁶ Responses that fell between the options available were allocated to the closest amount.

about annual private consumption in Malta or the average wage received by employees. With this amount being kept for transaction purposes, then it follows that a large proportion of currency in issue in Malta is used as a store of value.

Reasons behind payment instrument choice

Generally, people choose a specific payment instrument based on the benefits that such a channel provides. These may include convenience, reliance and accessibility. According to the survey results, the majority of cash users opt for cash mainly because they consider it easy to use and relatively fast. Cheque users opt for them as they find them easy to use.

In the case of debit and credit cards, respondents attributed their preference to the ease of use, as well as protection against counterfeits. Other considerations, especially for credit cards, were reward schemes and the benefit of delaying effective payment. On the other hand, internet banking payments were favoured by users due to their fast execution and the avoidance of fraud, counterfeits and theft.

Another instrument that is yet to gain momentum in Malta is direct debits. Users claimed that it is fast and easy to use as it does not primarily require any further processing from the users' side following the initial mandate. Similar benefits to consumers were also highlighted in the use of online payments.

Alternative payment channels in the next five years

Respondents were also asked to give an indication of their potential use of payment instruments in the forthcoming five years. Internet banking ranked as the channel that has the prospect of the highest increase in usage. Around a quarter of respondents indicated that they would increase their use of internet banking over the forthcoming five years. A slightly smaller proportion of respondents envisaged increasing their use of debit and credit cards over the same period. In contrast, prospective use of direct debits attracted relatively minimal interest when compared with other payment methods. Additionally, although pre-paid cards have been on the market for some time, they do not seem to be very popular. In fact, the anticipated increase in their usage for the forthcoming five years is the lowest compared with all the other instruments.

Payment habits by type of purchase

In compiling payment diaries, respondents were asked to keep a record of their daily purchases of goods and services for a week. Respondents were requested to list the type of payment medium used to buy different types of products or services, to gauge the popularity of the particular payment instrument. Different products and services were split in categories.

Grocery payments

When considering payment for grocery products, cash was the most widely used medium. In fact, nine out of ten transactions carried out within this category were made in cash. Debit and credit cards followed, each accounting for approximately 3% of transactions. Cash was also the preferred instrument for relatively small payments, while cheques, debit and credit cards were the methods preferred for larger grocery payments.

Consumable purchase payments

In evaluating data for payments relating to consumable goods, such as clothing, footwear, stationery and books, cash was once again found to be the most widely used instrument, especially for small value purchases. Approximately 80% of total transactions were cash-based. However, cheques registered the highest mean value of all transactions at €81. Credit and debit cards were more widely used for this category when compared with those used for grocery payments. In fact, debit and credit cards accounted for 8.8% and 7.5% of total purchases of consumables, respectively.

Durable consumer goods purchases

Durable consumer goods include white goods, cars, electronics and furniture. For this particular category, the number of cash transactions was lower when compared with other categories (approximately 62% of

transactions). Other channels ranked by popularity were debit cards (13.6%), credit cards (9.7%), cheques (5.3%) and internet banking (4.5%).

Purchases of durable consumer goods that were settled by cheque had an average value of €737, indicating that cheques were the preferred payment instrument when considering large value transactions. The cash payment average value stood at around €63, while for both debit and credit cards the average value amounted to €206 and €154, respectively.

Payment of utility bills

Payment for utility bills in Malta was mainly carried out in cash. In fact, the survey shows that more than eight out of ten transactions were in cash. Internet banking and cheques followed cash in terms of popularity at around 6% and 5%, respectively. With a mean value per transaction of €124, internet banking appeared to rank highest in this respect. The highest usage of direct debits was recorded in this category.

Payment for wellness services

Payments involving wellness services, which include services related to personal care, were mostly made in cash, cheques or cards. Results show that 90.3% of transactions were carried out in cash, 4.3% in cheques and approximately 2% in both debit and credit cards.

Payment for other services

This category incorporates payment for other services, such as health, education, transport services, financial services, insurance and hotels. Here, cash still appeared to be the dominant payment channel in terms of volume (87.4%), followed by cheques (4.4%) and credit cards (3.1%). Debit cards and online payments registered the highest average value per transaction at €251 and €240, respectively.

General findings

In conclusion, the Maltese seem to opt for various payment instruments, depending on the nature of the purchase. The results of the Bank's Payment Habits Study show that people are more inclined to use cash as their primary payment channel for everyday essentials, such as groceries. However, changes were recorded in preferences when purchase amounts were appreciably high, with cheques being one of the top channels when paying for relatively high-value items or one-off purchases.

This survey is a first step towards gaining an understanding of the payment habits of the Maltese. As also mentioned in the Budget Speech for 2015, the Central Bank of Malta, together with other stakeholders shall embark on a National Payments' Strategy to encourage people to shift from traditional payment instruments towards more innovative instruments that are cheaper to provide and more efficient to operate. The findings of this survey may thus be of value in the design of policies drawn up to promote the use of innovative instruments.