Post-COVID-19: Will payment habits change?

There is already anecdotal evidence that the self-distancing imposed by COVID-19 is changing people's payment habits – and the Chief Officer for Banking Operations at the Central Bank of Malta, Jesmond Gatt, believes that the changes may well be irreversible.

"It is too soon to be able to present data on the methods that people are using to pay, but we are already receiving reports from stakeholders that the use of cash has declined – with more use of electronic means of payment and a sharp uptake of the use of direct debits and credits," he said.

The change in people's payment habits has been affected by a number of factors, starting with the closure of most retail outlets, bars and restaurants meaning there were far fewer opportunities to spend money.

The Payment Habits Survey 2018 (PHS) carried out by the Bank indicated that 86.7% of households used cash to pay for groceries, with the median value of cheque, debit card and credit card payments for grocery purchases in the range of €40 to €50 per transaction, while that of cash was only €10, suggesting that cash tended to be used for smaller transactions.

Even though supermarkets and grocers have stayed open, self-isolation as recommended by the health authorities has had an impact, with people going shopping far less frequently and buying larger amounts, and also moving towards online shopping, which meant more electronic payments.

One of the measures introduced by card schemes was aimed at making the use of contactless cards safer for both the customer and the retail staff. The limit for use of the cards without authentication (such as putting in a PIN) was raised to €50 from €25, meaning that for the average shopping transaction the contact between the client and the retailer could be reduced to a quick swipe of a card.

“Contactless card technology has been around for ten years but it was really only introduced to Malta two years ago. Nevertheless, vendors and clients are now relying on it more,” he said, pointing out that there are only 16,000 electronic points of sale, even though there are more than 80,000 companies registered for VAT, a sure sign that more need to be rolled out.

Given the restrictions affecting both their clients and their staff, a number of entities have also relaxed their procedures for setting up direct debits. The PHS had found that, at the time, 59.3% of households paid utility bills in cash and it will be interesting to see how this figure changes, he pondered.

“Many people felt no need to move to other payment methods until now but COVID-19 meant that they now had no choice, since they could no longer go to wait at counters to pay in person. But now that they have made the move to direct debit, it is unlikely that they will go back to the way things were,” Mr Gatt said.

It is not only payments that are being affected, but also receipts. The Central Bank issues around 750,000 government social security-related cheques a year, such as for pensions and benefits. These were issued as ‘payee only’ until COVID-19 meant that many of the recipients were encouraged not to leave their homes. The Central Bank reacted by issuing a derogation which allowed trusted third parties to deposit the cheques on behalf of the beneficiaries – but it also ran a media campaign encouraging the beneficiaries to sign up for direct credit to receive the money in their bank account, with a very positive response.

The situation in Malta certainly had advantages over other member states: for example, banks were able – without much inconvenience – to shift more transactions to the ATM network, since there are almost 400 machines on the island: an ATM for every 0.80 square kilometre or, approximately, a machine for approximately every 1,000 individuals aged 16 and over. This is the highest penetration rate in Europe, and the fact that they are open 24 hours also meant they did not generate as many queues as traditional branches, which concentrated people into their opening hours.

The ubiquity of ATMs has meant that they were already a part of our lives: the PHS found that over 70% of households use an ATM at least once a month to withdraw cash, with 8.5% of households making withdrawals more than twice a week.

These are just some of the payment measures introduced by the Central Bank that the public is aware of. However, there is much which has been going on behind the scene. As soon as the scale of the pandemic became clear, the Central Bank ensured that there were sufficient cash supplies – just as well, since the international printers that print banknotes were hit both by national lockdowns and quarantine rules, as well as by transport limitations.

The Central Bank also teamed up with other banks to request comprehensive lab tests on both coins and notes to assess whether they carried a risk of contamination. Even though these and other tests have shown that the risk is not greater than for any other product, the Bank nevertheless felt it was important for public confidence to take as many precautions as possible, and cash is being kept out of circulation a number of days once it is deposited at a bank.

"COVID-19 has pushed many of us to try new technologies, most of which are far more efficient, far safer and far more cost-effective. There is no payment method which is completely free – not even cash or cheques – as they all incur costs for administration, processing and logistics. It will indeed be very interesting to see what the next survey finds," he said.

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