

## ERPB RESPONSE TO THE CURRENT COVID-19 PANDEMIC

### 1. Background

The first ERPB meeting of 2020 takes place a few months after the outbreak of COVID-19 and while Europe is yet to transition out of the pandemic. This note describes the effects of the COVID-19 pandemic on retail payments in Europe – both electronic payment means and cash – and identifies a possible role for the ERPB in the coming months.

### 2. Effects of COVID-19 pandemic on retail payments – a European perspective

#### 2.1 *Electronic payment means*<sup>1</sup>

Since the outbreak of the COVID-19 pandemic, electronic payments in general and specifically contactless payment methods at the point of sale have surged in popularity. Broadly speaking, national central banks (NCBs) cite ad-hoc demand side surveys to evidence a significant shift in payment behaviour from cash to cashless payments (e.g., 43% of German consumers reported a change in their payment habits in shops<sup>2</sup>).

Nearly all NCBs report that limits for contactless and “PIN-less” card payments have been raised up to €50 per transaction during the pandemic, thus contributing to a generally remarkable increase in contactless transactions. NCBs’ feedback on these measures is mixed, ranging from the need to strike a balance between facilitating contactless payments and ensuring security, to a neutral stance and a propensity to further promote contactless payments building on the push given by the limit increase.

Online and mobile payments generally increased during the crisis to various degrees, with most NCBs observing double-digit growth rates in terms of volume of payments. These figures should be interpreted with caution due to physical shop closures amidst lockdown measures and consumers resorting to e-commerce more frequently. NCBs generally welcome an increase in online and mobile payments but are mindful of a potentially negative impact on the use of cash and the need to focus on security to ensure

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<sup>1</sup> The following paragraphs were drafted based on a survey of national central banks conducted in May 2020 by the Payments Policy Working Group (PWG), a substructure of the ESCB Market Infrastructure and Payments Committee (MIPC). Figures quoted should be seen as preliminary until more granular data is received from the market.

<sup>2</sup> [“Das Geld wird nicht knapp”](#), Interview of Burkhard Balz, Member of the Board of the Deutsche Bundesbank, with RND Redaktionsnetzwerk Deutschland, 04 May 2020.

broad uptake and acceptance. That said it appears that the pandemic has not acted as a game changer in this respect, i.e. the increase observed in online and mobile payments confirms previous trends/expectations or an assessment is still ongoing. Some NCBs (e.g. SE, NL, PL) report or expect an increased uptake of instant payment solutions resulting from the pandemic.

Besides the above-mentioned solutions, there is limited (anecdotal) evidence of the pandemic encouraging other innovative payment solutions in some Member States, such as payment solutions embedded in consumer platforms and mobile network operators' digital wallets. Any conclusions would seem premature at this stage.

Notwithstanding the current uncertainties, there is a generalised expectation that the trends observed will result in a structural rather than temporary increase in cashless payments, particularly induced by commercial promotions and the positive experiences of first-time users. However, the degree of this increase is hard to predict at this stage. If temporary measures are revoked and the limits for contactless payments reduced after the end of the pandemic, this effect might lose strength. On the other hand, online payments may return to pre-pandemic levels. User preferences (e.g. cash) prior to the pandemic may be restored once all limitations are lifted.

As long as customers (continue to) have an array of options for making and receiving payments (see also section 2.2), the effects of the COVID-19 pandemic would not be reflected in a decrease in the accessibility of basic payment services. Furthermore, existing regulation provides a framework to ensure access to basic payment services. On the other hand, certain groups of payment users (such as the elderly and those with disabilities) who lack digital skills and access to technology may be at risk of decreased access. A few NCBs believe that the digital divide may be further widened by the effects of COVID-19.

Finally, although COVID-19 related trends in electronic payments do not seem to justify concerns with regard to retail payments integration, the closure of country borders and the suspension of travel may have an impact on cross-border payments. Similarly, financial strain on PSPs and the current focus on crisis management may affect long-term projects/investments. At the same time, current developments stress the urgency to implement the Eurosystem's retail payments strategy to increase EU's independence and resilience also in crisis situations.

## **2.2 Cash**

In mid-March 2020, following the announcement of the World Health Organisation that the spread of the COVID-19 disease had been classified as a pandemic, the Eurosystem observed a very strong increase in the demand for cash. At that time the weekly increase in the value of banknotes in circulation almost reached the historical peak of €19 billion in October 2008. This partly reflected higher spending in supermarkets and shops, but also people's impulse to hoard cash in a crisis. By end-March the demand

had returned to normal levels, and shortly afterwards there was in many countries a strong decline in cash withdrawals. In many countries, ATM cash withdrawals were almost 50% lower in the period after Easter, suggesting a lower use of cash for transaction purposes. However, as the deposits of cash by banks declined even more strongly, the Eurosystem still registered a growth in the banknote circulation. By end-May (latest observation), following the loosening of lockdown measures in many countries, cash withdrawals picked up again, although they remained at a lower level than in the same period in previous years.

The lockdown measures also impacted the Eurosystem's banknote logistics and certain internal cash operations, as the NCBs had to respond to the respective risk mitigation measures imposed by national Governments. Due to the decentralised banknote production at several sites and the common management of NCBs' banknote stocks, the Eurosystem has proven to be very resilient towards the temporarily increased demand for banknotes, even though both the printing and NCBs' banknote processing capacity had to be reduced in line with precautionary COVID-19 measures. Demand spikes were met by a contingency banknote stock specifically designed for counteracting supply/demand shocks. During the time of the crisis this continuous supply of banknotes by the NCBs was the basis for ensuring the provision of banknotes to the public – mainly via ATMs filled by Cash-in-Transit companies.

Due to fears that cash in circulation could help spread viruses and the perception that electronic payments would be a safer means to pay, cash payments have been discouraged, or even completely rejected by some retailers and other businesses. However, not all citizens have access to electronic payment instruments or they rely on cash to control spending. The ECB and Eurosystem NCBs closely analyse these developments in connection with ongoing workstreams regarding access to cash and legal tender status of euro banknotes and coins.

To ensure that handling cash remains as safe as possible, the ECB is working closely with European laboratories to assess the behaviour of coronaviruses on different surfaces. The results indicate that coronaviruses can survive much more easily on hard surfaces like a stainless steel surface (e.g. door handles) than on cotton banknotes, with survival rates approximately 10 to 100 times higher in the first few hours after contamination. Overall, banknotes do not represent a particularly significant risk of infection compared with other surfaces that people come into contact with in daily life. ECB cooperation with scientific laboratories will continue in the coming weeks to preserve public trust in the safety of banknotes.

### **3. Potential impact of COVID-19 on the work of the ERPB**

The ERPB is not the first line of response in the mitigation of the effects of COVID-19 on payments. Nonetheless the ERPB is both impacted by COVID-19 insofar as its resources may be reprioritised, and can play a role in the post-pandemic environment, should the need arise to take action. At this stage

though, and until more complete data and information on the effects of COVID-19 on the European payments landscape can be obtained, continuity of ERPB work streams and working groups should take precedence.

So far, current ERPB activities have not suffered major delays or gaps can be breached in the next few months. Overall, barring new developments, work due for delivery in November 2020 appears to be largely on track. The start of new work however – while stakeholders' resources are still limited – would need to be carefully evaluated.

It is suggested that the ERPB should continue monitoring the effects of COVID-19 with a focus on its ongoing and planned work as well as outstanding recommendations. As further information on the effects of COVID-19 on retail payments becomes available, the ERPB could analyse whether the new conditions warrant taking new targeted actions or reprioritising its activities.