



Payments
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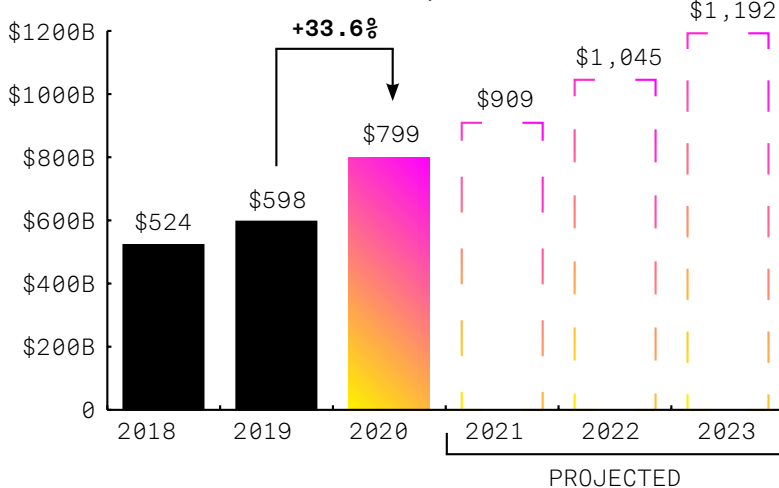
Supporting Main Street Through COVID-19: Payments In The Digital Age

March 2020

2020 was a year unlike any other. The spread of COVID-19 disrupted life across the world, requiring governments, businesses, and communities to make significant changes to protect and support public health and safety. Over a matter of weeks, the world shifted to online platforms, and for many, online school, remote work, and digital social gatherings became the new normal.

This also caused a near-immediate consumer shift to digital commerce. Online access became the new storefront, and small businesses had to adapt to an environment where online sales increased substantially.

U.S. RETAIL E-COMMERCE SALES, 2018-23



SOURCE:

[EMARKETER](#)

[EMARKETER](#)

This transition highlighted the role digital payments infrastructure plays in supporting small businesses, consumers, and the larger economy. This infrastructure — including private-sector innovations in digital payments, processing speeds, and contactless payment over the past decade — provides the connective tissue that helps drive, secure, and enhance economic activity across the U.S. It has been essential in enabling commerce to safely continue throughout the pandemic.

This paper walks through the work of the payments industry over the past year to help U.S. small businesses, underserved communities, and consumers navigate the changes brought on by the pandemic, including:

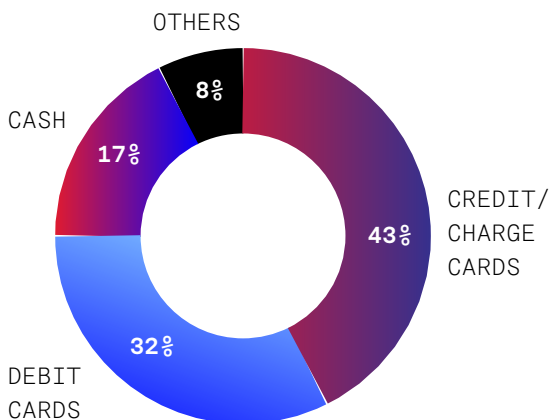
- Expanding digital payments technology and access
- Aiding small businesses through the transition to e-commerce
- Increasing deployment of contactless payments for in-person commerce
- Enhancing fraud detection and prevention
- Supporting governments providing resources for those in need

Helping Consumers And Businesses Transition To A Digital World

While 2020 created a surge in the demand for digital resources, much of the necessary infrastructure and technological innovations needed to enable such a transition were developed and implemented over the past decade. Specifically, consumers and small businesses have been turning to digital payments as their preferred payment method over the past 5 years. This growth helped ease the transition during 2020's rapid shift to e-commerce.

A [study in 2019](#) by Mercator Advisory Group found that when consumers shopped in stores, 75% preferred to use some form of card payment, compared to only 17% who preferred to pay with cash.

U.S. CONSUMER PAYMENT PREFERENCE, 2019



SOURCE:

[MERCATOR
ADVISORY
GROUP](#)

Between [2015-2018](#), card payment grew 8.9% per year in the U.S., creating a value of nearly \$7.08 trillion in 2018 alone. In 2019, debit cards were [used](#) in 77.4 billion transactions in the U.S., the highest level since recording began 15 years ago. The digital transition has happened across age groups: Even 65% of consumers 75 and older [reported](#) using automatic recurring digital payments in 2019, with the number jumping to 79% in 2020 according to polling from Fiserv. And in 2018, for the first time, the number of automated clearing house (ACH) debit transfers (16.6 billion) exceeded the number of check payments (14.5 billion), according to a 2019 Federal Reserve Study.

BETWEEN 2015-2018, CARD PAYMENT GREW 8.9% PER YEAR IN THE U.S., CREATING A VALUE OF NEARLY \$7.08 TRILLION IN 2018 ALONE.

This expansion of digital payments has been made possible by payment infrastructure that continues to become safer, faster, and more sophisticated. Supported by innovations and improved cybersecurity, this infrastructure helps businesses process payments more quickly, move money between thousands of financial institutions and millions of people, and verify every purchase, allowing consumers to check out in record times. This innovation has fueled the expansion of digital/mobile wallets, which [accounted for](#) 22% of in-store spending in 2019, with the [expectation](#) that they will be used in more than half of all e-commerce payments worldwide by 2024.

THE BUSINESS BENEFITS OF DIGITAL PAYMENTS

- FASTER:** Reduces checkout delays, which can cost businesses 5-15% of sales.
- MORE EFFICIENT:** Enables 15% more transactions every hour.
- INCREASED SECURITY:** Decreases fraud, with an 80% reduction in counterfeit fraud experienced by U.S. chip-enabled sellers from 2016-2019.
- QUICKER PAYMENT CYCLE:** Provides merchants faster access to money, with transactions settled in 24-72 hours.
- GUARANTEED PAYMENT:** Ensures businesses are paid for purchases using credit, resulting in \$37 billion in protected sales in 2020.

SOURCE:
[VISA](#)

Expanding Digital Access

The steady adoption of digital payment technologies has an impact on all corners of the U.S., as consumers with access to the expanding payments ecosystem can quickly and safely shop from anywhere at any time. For example, in any given second, a payments company such as [Mastercard](#) may handle nearly 10,000 transactions as consumers purchase goods and services from their homes, in stores, and anywhere in between.

While the adoption of this technology has brought benefits to communities small and large, there is a continued push within the payments industry to

expand digital equity to ensure no consumers are left behind during the digital transformation. Whether through new technologies such as [tap to phone](#), [partnering](#) with companies such as Samsung to enable digital access, or [expanding](#) access to affordable financial products, the industry is continuing to help better serve those who currently lack adequate digital access or services.

Helping Small Businesses Digitize

Just as consumers have transitioned to digital payments thanks to the ease and security of the payments process, so too have many small businesses. A study by Visa [found](#) that businesses that transitioned to using digital payments saw numerous benefits, including reduced expenses and increased consumer spending. Digital payments [allow](#) small businesses to process up to 15% more transactions every hour and reduce delays at checkout that can cost businesses anywhere from 5-15% of potential sales. Recognizing these benefits, 80% of merchants were [working](#) to simplify their online checkout experience to better incorporate eased digital payment options in 2019.

The benefits of meeting consumer demand, taking advantage of extended expansion of e-commerce, and trying to improve the company bottom line were [driving factors](#) for small business adoption of payments innovations prior to 2020. The pandemic has, however, made digital payments a necessity, accelerating adoption of technology and collaboration between payments companies and businesses across the country.

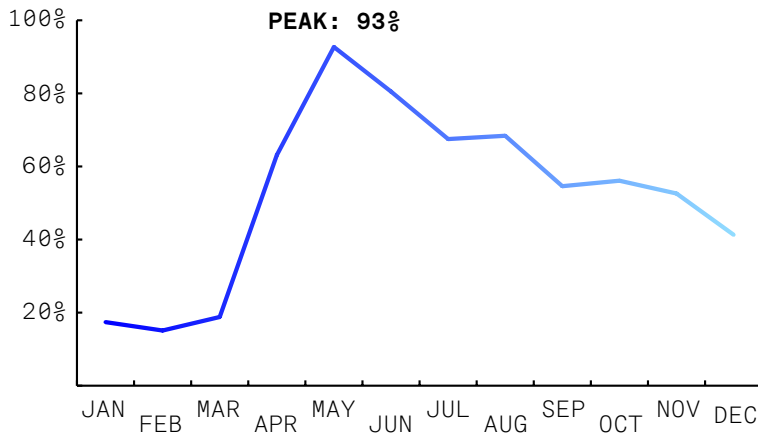
The COVID-19 Induced E-Commerce Transition

The events of 2020 single-handedly changed the course of how companies do business. Nearly overnight, companies had to shift their operations to the web and process all of their sales digitally. It's estimated that e-commerce sales [accounted](#) for approximately 11% of total retail in April and May of 2019. That number ballooned in 2020: e-commerce spending grew 93% year-over-year in May, making up nearly 22% of all retail sales in April and May. This surge in demand [resulted in](#) consumers spending \$347 billion online with U.S. retailers in the first 6 months of 2020, an increase of 30% from the year prior. These shifting shopping practices will result in permanent changes in the commerce landscape.

Businesses adapted quickly to this new environment, building out a more developed online presence and finding creative ways to offer goods and services using digital platforms. In fact, 70% of small merchants reported that they have been prioritizing e-commerce solutions due to the COVID-19 pandemic, with 77% of business owners [planning](#) to continue to prioritize offering online products/services in 2021, according to American Express' [Digital Payments Trendex](#). To meet the growing shift in demand, financial institutions have also accelerated or improved digital payments infrastructure, as 82% of financial institutions [surveyed by Fiserv](#) report having accelerated a digital transformation due to COVID-19.

2020 U.S. E-COMMERCE RETAIL SALES

YEAR OVER YEAR PERCENT CHANGE



SOURCE:

[MASTERCARD](#)
[SPENDINGPULSE](#)

EVEN WITH THE LEVELING OUT OF E-COMMERCE AFTER THE INITIAL COVID-19 PEAK, U.S. E-COMMERCE SALES CLOSED 2020 OVER 40% ABOVE 2019 LEVELS.

This shift to digital commerce has altered businesses' payment needs, as 82% of small business owners in a recent survey [reported](#) having altered how they send and receive payments, with over half transitioning their clients to digital payment methods. This forced transition is [seen](#) as a silver lining of the pandemic by over 67% of small business owners, who claim it has improved customer satisfaction. Moving into 2021 and beyond, three quarters of small business owners view these digital payments as the new normal to meet the demands of the constantly expanding digital environment.

IN FACT, 70% OF SMALL MERCHANTS REPORTED THAT THEY HAVE BEEN PRIORITIZING E-COMMERCE SOLUTIONS DUE TO THE COVID-19 PANDEMIC, WITH 77% OF BUSINESS OWNERS PLANNING TO CONTINUE TO PRIORITIZE OFFERING ONLINE PRODUCTS/SERVICES IN 2021, ACCORDING TO AMERICAN EXPRESS' DIGITAL PAYMENTS TRENDEX.

Helping Remote Households

To ensure the safety and security of families across the country, most everyday activities are now occurring from the home. Parents are caught in a balancing act as they serve as a teacher to their children, provide 24-hour child supervision, and ensure their children are effectively learning, all while managing their traditional work and life responsibilities. To help make life easier and ensure the safety of their families, parents are turning to the reliability of e-commerce and the digital payments ecosystem to help purchase necessary school supplies, order groceries for pickup or delivery, or even order a quick meal for the family at the end of the long day.

Digital payments played a crucial role in facilitating the [estimated](#) record-setting \$33.9 billion in back-to-school spending in 2020. To further aid this difficult remote transition, Global Payments launched the [Back to School Resource Center](#) to provide teachers, parents, and students the digital tools and resources needed to coordinate changes to the learning environment,

pay and collect online meal orders, and establish contactless payment options in cafeterias and on college campuses to help make a safe return to school possible. Digital payment technology will continue to help parents and students cope with the challenging limitations of the pandemic and provide the digital commerce capabilities that will help parents, schools, and businesses adapt to the new realities of remote life.

DIGITAL PAYMENTS PLAYED A CRUCIAL ROLE IN FACILITATING THE PURCHASE OF THE ESTIMATED RECORD-SETTING \$33.9 BILLION IN BACK-TO-SCHOOL SPENDING IN 2020.

Aiding Traditionally Underserved Businesses Through The Transition

In addition to the work the payments industry has already done to expand access, the industry has also heightened efforts over the past year to help traditionally underserved businesses adapt to rapid digital demand. Companies across the payments ecosystem are expanding services and access to minority-owned businesses, microbusinesses, and underserved communities in need of support. From [providing](#) increased digital education and capital access for minority-owned businesses, [expanding](#) financial technology, products, and support for small businesses payments, to [unlocking](#) services and growth for black-owned small businesses, the payments industry is working to enable inclusive digital and economic expansion across Main Street.

For example, Visa is working to [digitally enable](#) 50 million small business owners, and the [Visa Foundation](#) recently announced several new initiatives to provide nearly \$5 million in capital to minority-led SMBs, extending [its commitment](#) of \$200 million to support SMBs, with a focus on women's economic advancement. Mastercard has pledged \$500 million to provide Black-owned businesses and Black people access to affordable financial tools and capital, and American Express committed over \$200 million to [increase spending](#) at small businesses.

By pairing these efforts with new, more affordable and accessible product offerings, the payments industry aims to help communities across the country prepare to tackle the new and unexpected challenges that are likely to arise in the coming years.

Helping Governments Navigate A Rapidly-Evolving Economic Recovery Process

As the economic ramifications of the COVID-19 pandemic were made apparent in early 2020, governments responded by rapidly putting together economic relief measures. But as these initiatives moved from theory into practice, governments around the world faced the reality that

bottlenecks would either slow the pace of financial relief or leave some of the most vulnerable without necessary support. These bottlenecks offered an opportunity for payment networks to step in, using their expertise to aid governments in processing and disbursing financial relief.

Facilitating Government Payments

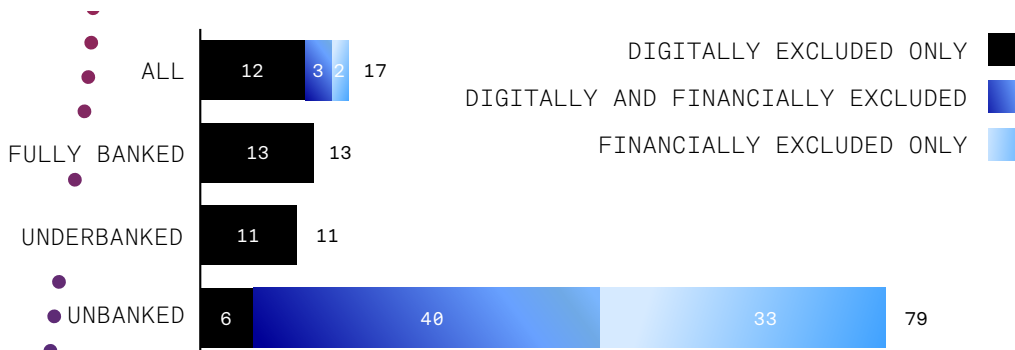
A major issue facing policymakers in the U.S. has been ensuring that stimulus payments are quickly and properly distributed to the populations most in need of them, including unbanked and underbanked populations. This population includes not just those individuals and households that are excluded from banking for financial reasons, but also those Americans excluded from digital banking because of a lack of internet access. A Kansas City Fed [paper](#) estimates that prior to the pandemic, approximately 4 in 10 U.S. households faced barriers or constraints to adopting digital payment methods. Twelve percent of U.S. households pre-pandemic had a bank account or prepaid card but lacked access to the internet at home, leaving them unable to take advantage of the direct stimulus deposits while remaining safely in their home. Given both the potential for delay (up to 20 weeks) and cost (2-3 percent of payment value) of relying solely on paper checks, the lack of an alternative payment method could have resulted in a major policy failure.

To circumvent these issues, the Treasury Department worked with Comerica Bank and [Mastercard](#) to sponsor the Direct Express Debit Mastercard, a prepaid debit program that allows millions of Americans to access their benefit payments regardless of whether or not they have a bank account. Stimulus payments, along with Social Security, Supplemental Security Income (SSI), and veterans' benefits, are electronically transferred to the reloadable card, which can be used in-store and online. [Fiserv and Visa](#), in partnership with MetaBank, have supported Treasury's U.S. Debit Card program, which has seen the issuance of more than 15 million Visa prepaid debit cards over the last year to disburse stimulus payments to federal taxpayers quickly and securely.

PERCENTAGE OF U.S. HOUSEHOLDS FINANCIALLY OR DIGITALLY EXCLUDED FROM DIGITAL PAYMENTS BY BANKING STATUS, 2017

SOURCE:

[FDIC](#)



In addition, Fiserv [worked with](#) the US Department of Agriculture (USDA) to facilitate the acceptance of online Electronic Benefits Transfer (EBT) at grocery stores, via the Supplemental Nutrition Assistance Program (SNAP). This provided a critical means for Americans struggling with food insecurity — and in particular the 37 million Americans who rely on SNAP — to safely order groceries online, while still enabling merchants to authenticate transactions via digital PINpad technology. By the end of 2020, more than 1 million EBT cardholders in the U.S. were purchasing groceries online each month.

In addition to financial assistance to households, payments innovations have improved outcomes for businesses as well. [FIS](#), which facilitated more than \$8 billion in loan applications in the latest round of the Paycheck Protection Program (PPP), added features to streamline the process of applying for funds. By providing a self-serve portal and automatically filling merchant data, FIS has streamlined the application process, helping 225,000 merchants apply for funds.

Beyond innovating to provide better payments infrastructure, payments companies are working with governments and businesses to create data-driven recovery solutions. [Mastercard](#), for example, has launched Recovery Insights, an array of tools based on anonymized and aggregated consumer spending data that gives governments and select businesses free insights into economic health. City, state, and federal governments around the world are improving budget planning and prioritizing investments based on insights from Mastercard tools. Small businesses, meanwhile, are using these tools to better understand consumer behaviors and spending trends.

Innovating To Make Payments Safer

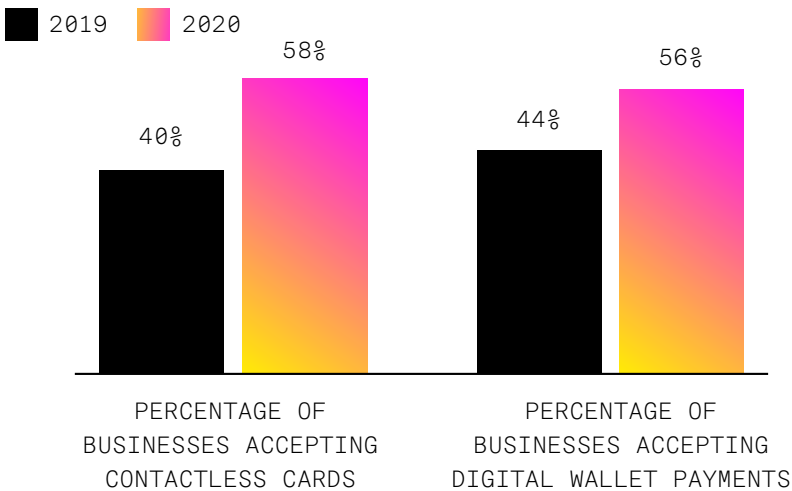
While things are still far from normal, businesses across the country are beginning to safely return to their physical operations, developing COVID-safe shopping protocols that allow people to return to stores. Entering the new normal of in-person experiences, businesses are increasingly turning to new technology and innovative practices to keep their staff and customers safe. One such trend is the incorporation of contactless payments, an innovative payment technology method that uses new technology where the consumer taps the payment card or device near a payment terminal to complete a transaction. This payment technology is [more secure](#) than cash transfers, or even card swiping, and is more convenient. Thanks to these benefits, contactless payments used in everyday segments of the U.S. economy have [grown](#) more than 100% year over year.

In 2019, only 40% of U.S. businesses [offered contactless payment](#) options to their customers, but that number jumped to 58% in 2020.

EXPANSION OF BUSINESSES USING CONTACTLESS PAYMENT TECHNOLOGY

SOURCE:

[VISA](#)



67%
OF RETAILERS NOW ACCEPT SOME FORM OF NO-TOUCH PAYMENT

The [American Express Digital Payment Trendex](#) found that one-third of merchants who did not previously offer contactless payments either adopted or plan to adopt the payment method. With customers increasingly citing long lines as a driver of abandoning purchases, 77% of merchants in a [recent survey](#) said reducing wait times in line was the top in-store payment priority and are looking into ways to enhance the checkout experience. Contactless payments can help alleviate this problem — 86% of merchants that accept contactless payments [said](#) the technology has decreased average transaction times.

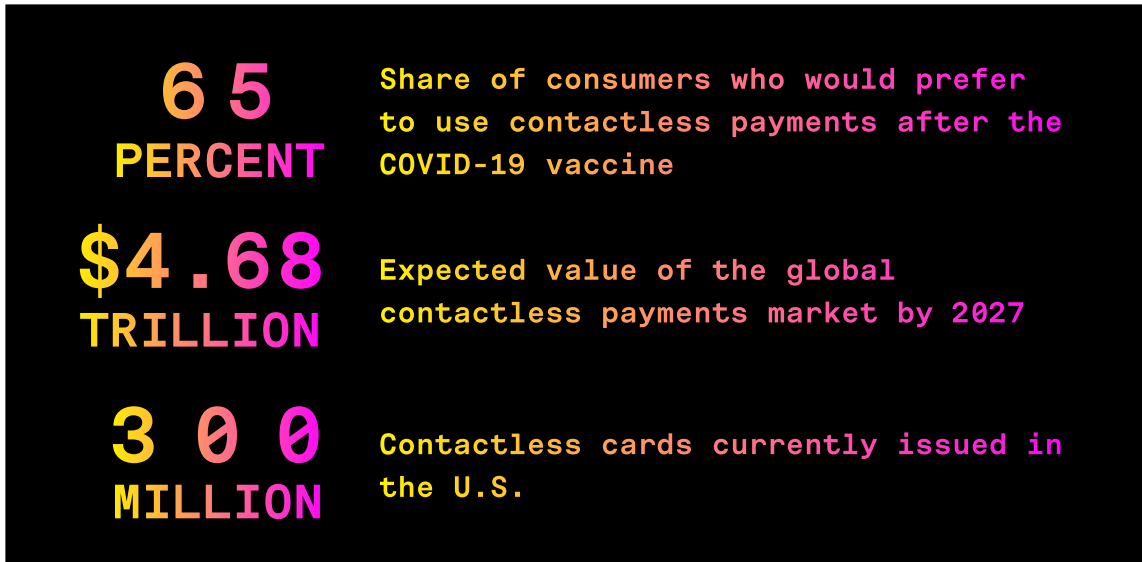
Consumers are supportive of this transition, as 68% of respondents in a recent [Discover survey](#) said they plan to use contactless payments more to avoid touching public surfaces, and 65% of consumers [wish](#) more places accepted contactless payments. There is even stronger adoption amongst Gen X and Millennial consumers. Visa [estimates](#) that 48% of all face-to-face Visa transactions outside the U.S. occur with a tap, and [over](#) 70% of face-to-face payments in Europe are now contactless.

CONSUMERS ARE SUPPORTIVE OF THIS TRANSITION, AS 68% OF RESPONDENTS IN A RECENT DISCOVER SURVEY SAID THEY PLAN TO USE CONTACTLESS PAYMENTS MORE TO AVOID TOUCHING PUBLIC SURFACES, AND 65% OF CONSUMERS WISH MORE PLACES ACCEPTED CONTACTLESS PAYMENTS.

Despite slower U.S. adoption, the consumer trend towards contactless payments is here to stay. It is [estimated](#) that there are 300 million contactless cards currently issued in the U.S. and 65% of consumers [say](#) that post-vaccine, they would prefer to use contactless payments as much as, or even more than, they are currently. In a [survey](#) from Global Payments, 63% of consumers even said if all factors were equal they would switch to a new business with contactless options. Businesses are also committing to this

technology; 81% of merchants who currently offer or [plan to offer](#) contactless payments intend to make it a permanent payment option for their customers.

81% OF MERCHANTS WHO CURRENTLY OFFER OR PLAN TO OFFER CONTACTLESS PAYMENTS INTEND TO MAKE IT A PERMANENT PAYMENT OPTION FOR THEIR CUSTOMERS.



Keeping Payments Networks Secure In An Increasingly Digital Economy

As consumers shifted more of their spending online this past year, concerns have grown about fraud and cybersecurity. A [Discover survey](#) showed that 85% of consumers reported some level of concern about identity theft and fraud in 2020. Gen Z respondents, in particular, were increasingly concerned; 59% of Gen Z reported moderate- to high-concern about the risk of fraud — an increase from 33% in 2019.

Understanding the increasing importance of cybersecurity, payments companies have turned to technology to make payments infrastructure more secure. Nearly 140 billion transactions ran through [Visa's](#) payments network in the company's last fiscal year, but fraud rates were kept to [historic lows](#) thanks to [fraud-prevention technologies](#) that monitor and protect core activities. Discover reported that card not present fraud, when the card is not physically present during the transaction, in 2020 decreased by 11% over 2019 due to its [center of excellence for secure transactions](#). As new payments technologies emerge and bring new fraud concerns, payments companies continue to stay ahead of the curve, innovating to address key concerns including identity verification, data privacy, and transaction monitoring.

One form of security innovation familiar to many cardholders is the chip

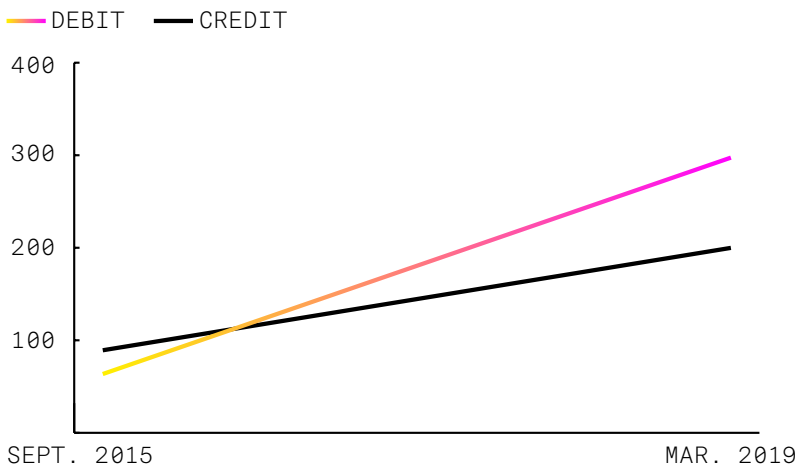
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card, which has emerged as a key weapon against fraud. According to [Visa](#), merchants who accept chip cards saw a 76% drop in card-present counterfeit fraud between September 2015 and December 2018. Three-quarters of U.S. storefronts accepted chip cards by 2019, with 509 million active chip cards in use (a 219% increase from 2015). The same technology enabling chip cards to fight counterfeit fraud is available in contactless payment cards as well, enabling secure transactions during the pandemic. As we continue to transition more operations and activity online, the payment industry will simultaneously improve payment security and reduce opportunities for fraud at any point across the network.

TOTAL VISA CHIP CARDS IN MILLIONS, 2019

SOURCE:

[VISA](#)



Building Back Stronger Than Before

The pandemic has forced both consumers and small businesses to adapt. Recognizing its unique status in the U.S. economy, the payments industry has stepped up to make digital transactions safer, more efficient, and more equitable. While some of these developments have been accelerations of longstanding trends, others came about rapidly, as payments leaders leveraged their expertise to help set up new economic recovery efforts. As the American Rescue Plan continues to be implemented, payments companies stand ready to offer their infrastructure, expertise, and analytical capabilities to help bring about the next phase of economic recovery to all Americans.