

[the
LHoFT]

in association with



the payments association

Payments In Luxembourg: A Glance Into The Future

Fieldwork by:



NOVEMBER 2021

We ran a large (n=1192) survey in Luxembourg to gauge people's preferences and likely future behavior with regard to payments



- Questionnaire designed with input from PA EU
- Fieldwork & independent analysis provided by TNS ILRES
- Interviews conducted online and via phone from Sept. 28 through Oct. 13
- 1029 residents ages 18-65¹, 163 residents over the age of 65

¹ 18-65 sample serves as the basis for all primary analysis, with 65+ sample providing additional insights / context where required

Foreword

It is exciting to see that the public in Luxembourg is interested to see the rapid rise of instant payments as well as getting richer features bundled with their credit cards (insurances, rewards, higher spending limits).

Buy Now Pay Later, although not currently being promoted in the Grand-Duchy, is also generating interest in line with the significant market share it already gained in the rest of Europe.

As an association promoting the availability of new efficient and affordable forms of payments all over the European Union, we encourage all the local players to continuously improve their offer based on the best European practices.

The declared intentions of the public to increase their usage of digital and mobile wallets is another clear evidence that Luxembourg does not want to stay behind the most advanced markets.

THIBAUT DE BARSY

*Vice-Chairman & General Manager
The Payments Association EU A.S.B.L.*



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01

Goals

Gain a **deeper understanding** of customer behavior, preferences and **expected future behavior**

Contextualise survey findings with prior literature, draw actionable conclusions where applicable

Help decisionmakers in both the public and private sector anticipate change and provide adequate products and services





02

Key findings

- Security is by far the most prized attribute of any given payment option, with users placing additional emphasis on protection of personal data
- Respondents are very comfortable using a variety of payments methods & contactless payments have become ubiquitous across demographics
- A “cashless” future has become more palpable to the population, with roughly ½ of respondents indicating they would be comfortable living in a cashless society
- Insurance services, reward schemes and instant payments are likely drivers of future payment behavior.
- Interest in advanced concepts, such as embedded and frictionless payments, is driven by those already comfortable with neobanks, contactless payments and a cashless society





03

The status quo

The vast majority of respondents are multi-banked, with neobanks on the rise



1. USE OF TRADITIONAL BANKS



Nearly half have multiple bank accounts



Almost 1/3 use one or several foreign bank accounts

2. USE OF NEOBANKS



1 out of 10 use a neobank; rising to 2 out of 10 in the capital.



The use of neobanks correlates with higher education and income.

TOP 2 NEOBANKS:

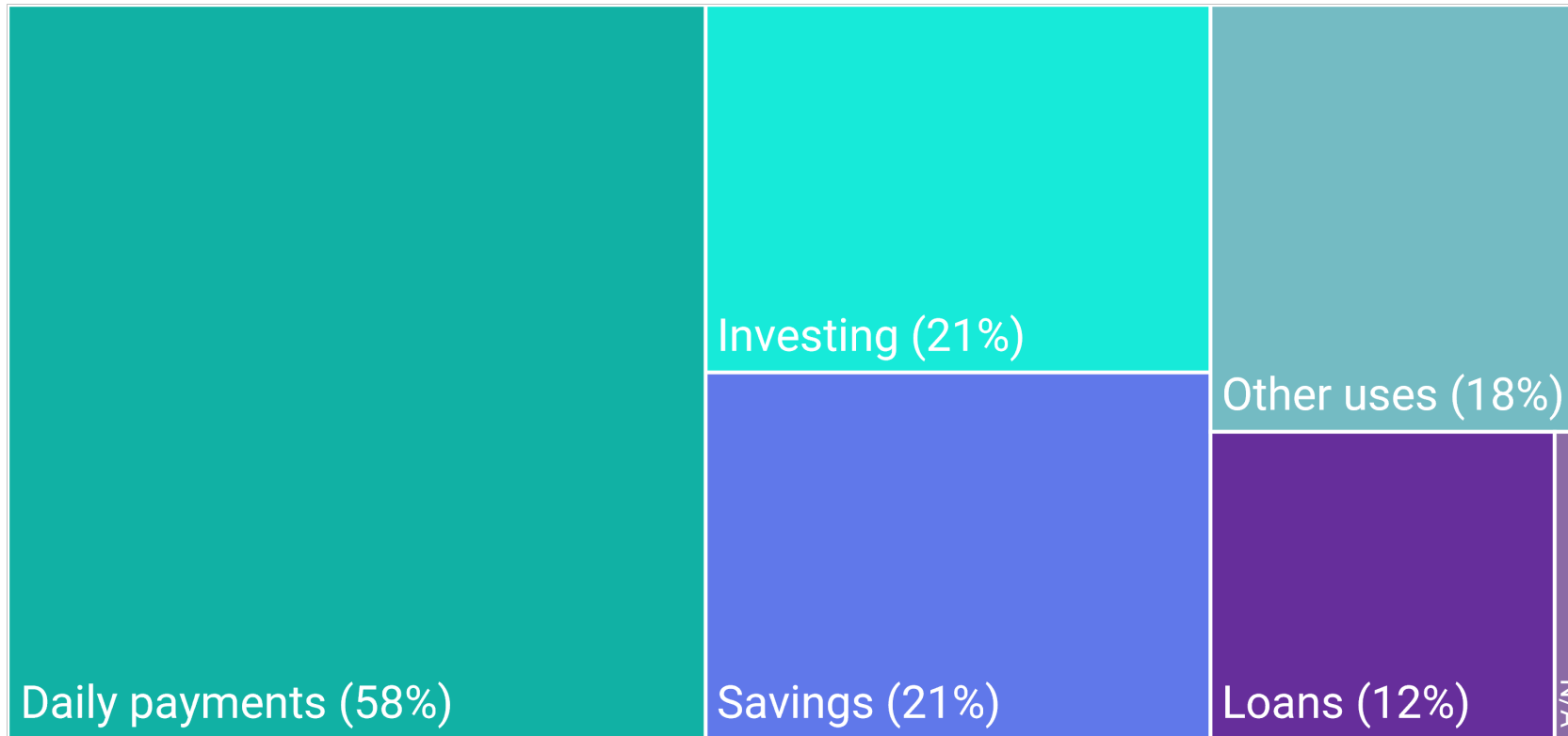
5% of respondents use **Revolut**

4% of respondents use **N26**

Neobank use is heavily tied to daily payments

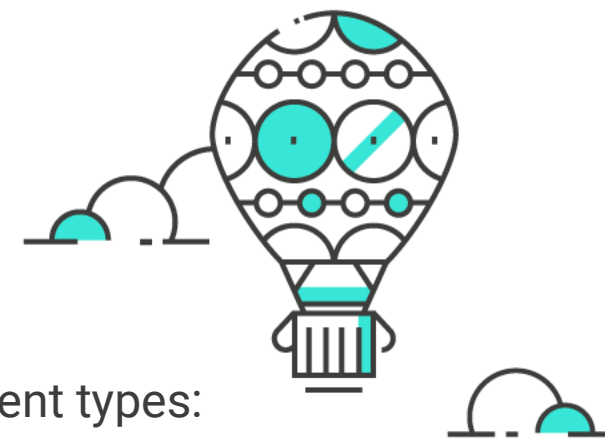


Neobank Use



Respondents emphasize paying while abroad / while traveling under "other uses"

Customers favour traditional Luxembourg banks over foreign banks and neobanks



Usage of Luxembourg, foreign and neobanks for different payment types:

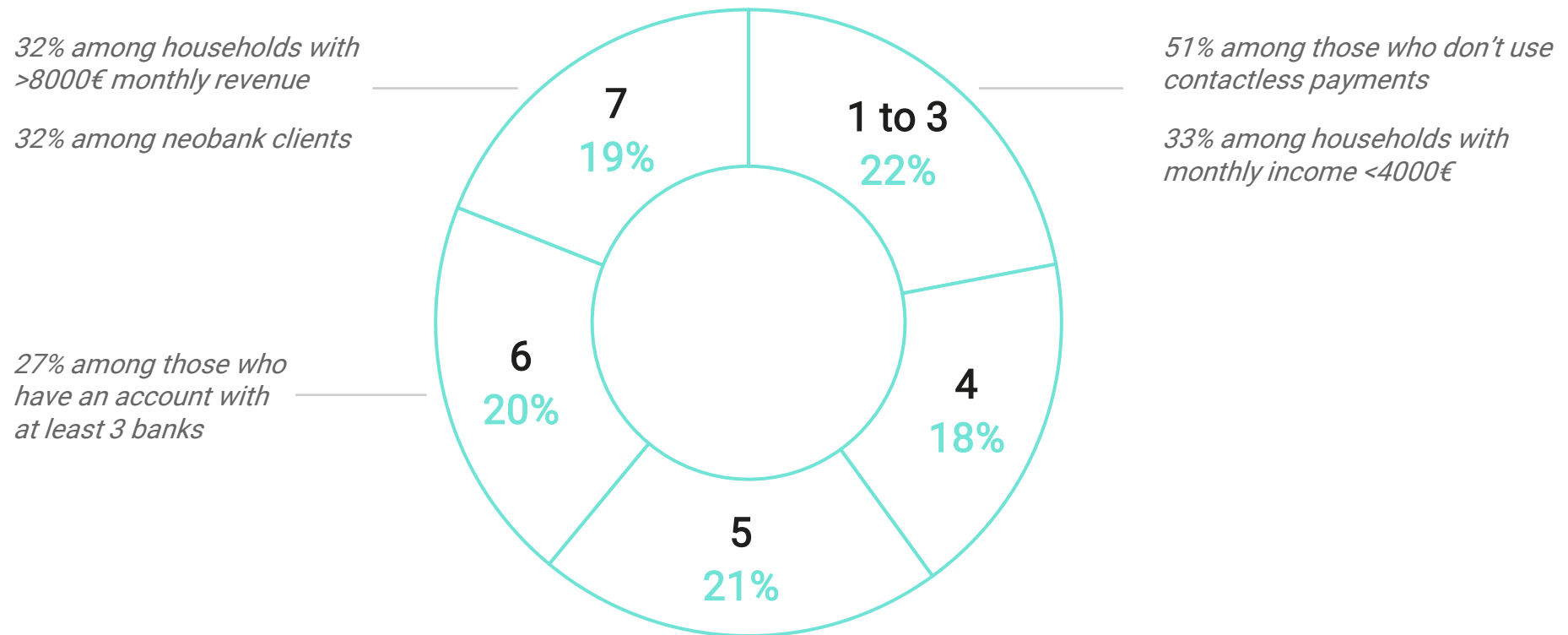
Values in % ¹	Luxembourg traditional bank	Foreign traditional bank	Neobank	No preference
Wire transfers	91	1	4	4
Payments in brick-and-mortar businesses	88	2	4	7
Online payments (via credit card, PayPal, Digicash/Payconiq, Satispay, etc.)	86	2	7	5

¹N.b.: due to rounding errors and statistical methods, total values may not always add up to 100%

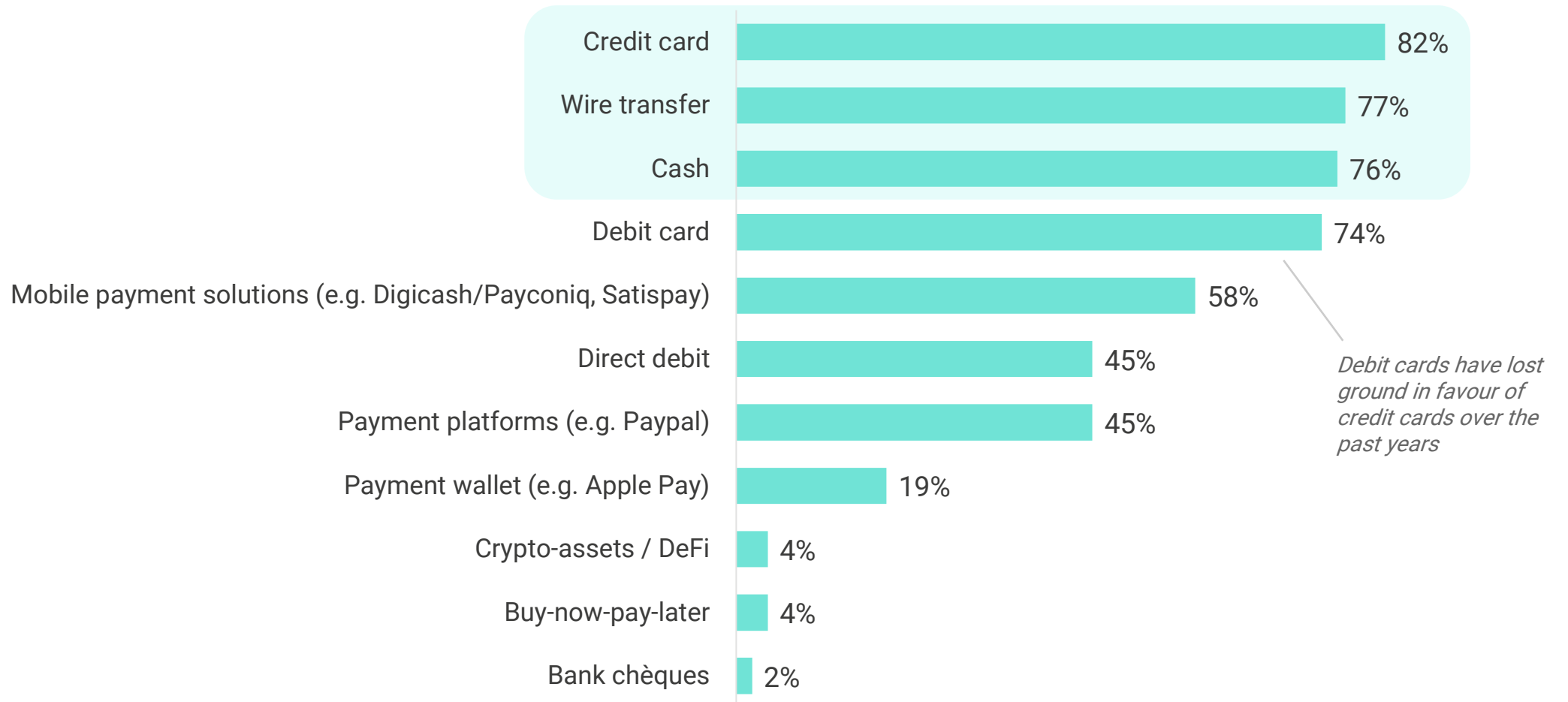
The majority (61%) of respondents use at least 5 different payment methods



Number of payment methods used on a regular basis / % of respondents



Credit cards, wire transfers and cash are the top 3 preferred payment methods

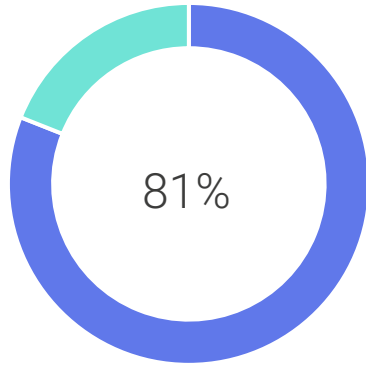


Near-total adoption of contactless payments – across age groups

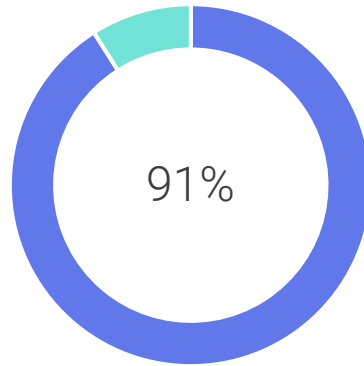


% of contactless feature use among:

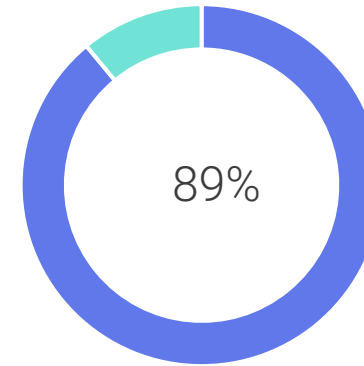
Credit card users



Debit card users



Users of any contactless payment methods (e.g. payment wallets)



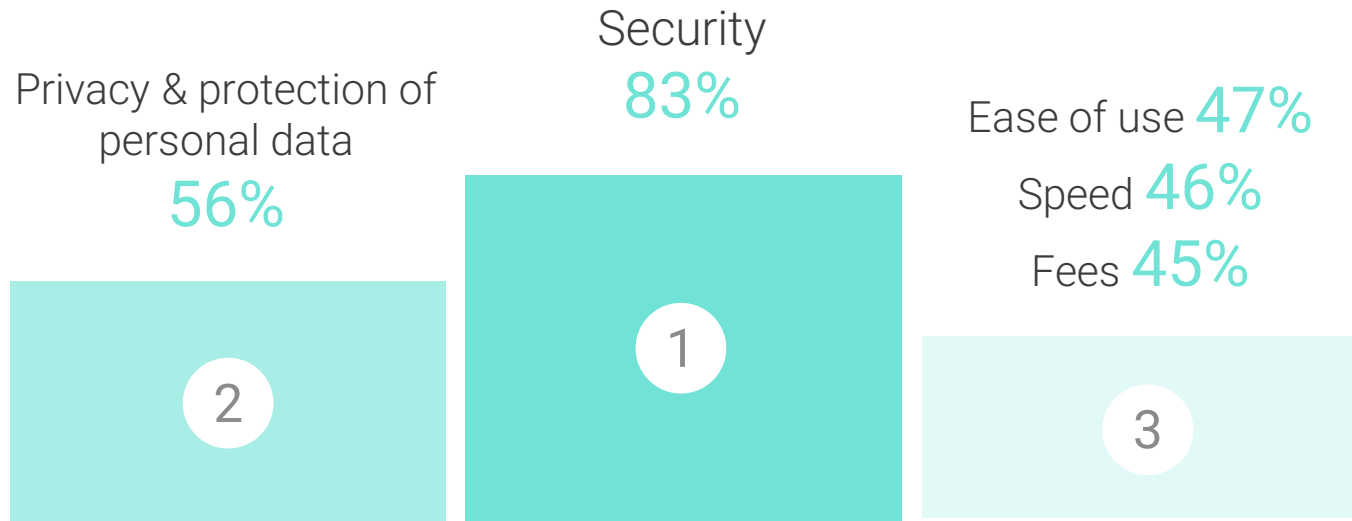
82% in those aged 66+

Security is by far the most sought-after attribute, followed by privacy and protection of personal data



Top 3 desirable attributes in a payments solution:

Top attributes



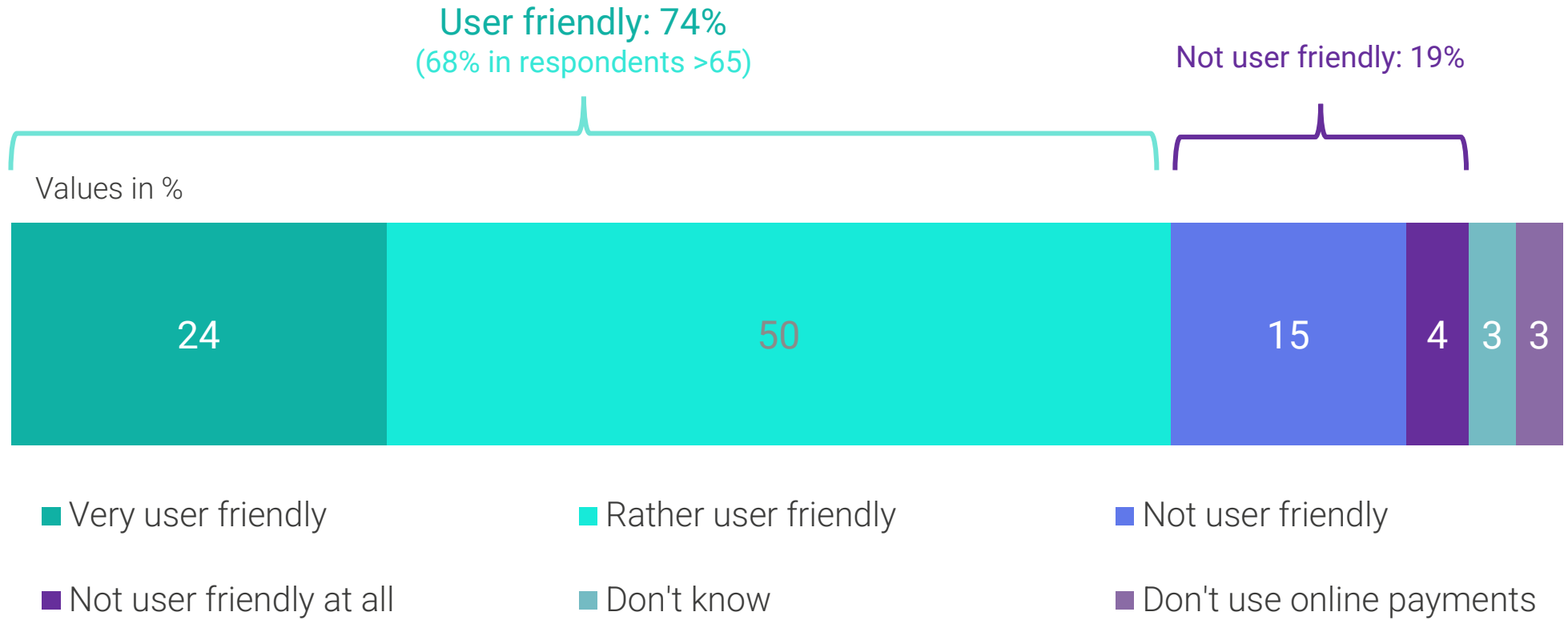
61% of respondents indicate that they are **very satisfied** with currently available payment methods

*Ease of use : 55% among ages 18-34 and 55% among users of mobile payment solutions
Speed : 54% among ages 18-34 and 51% among users of mobile payment solutions
Fees : 60% among those with income >8000€ per month*

Online payment safety mechanisms (SCA) are largely deemed user-friendly



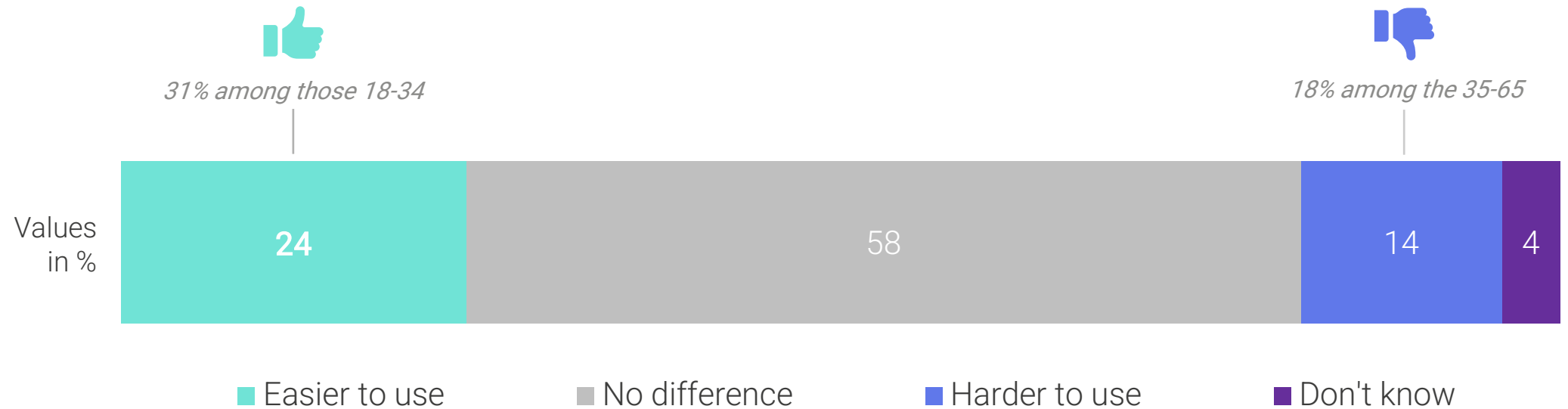
Online payments



Users appear to have largely grown accustomed to online payment safety mechanisms



Over the past 12 months, online payment security mechanisms have become...





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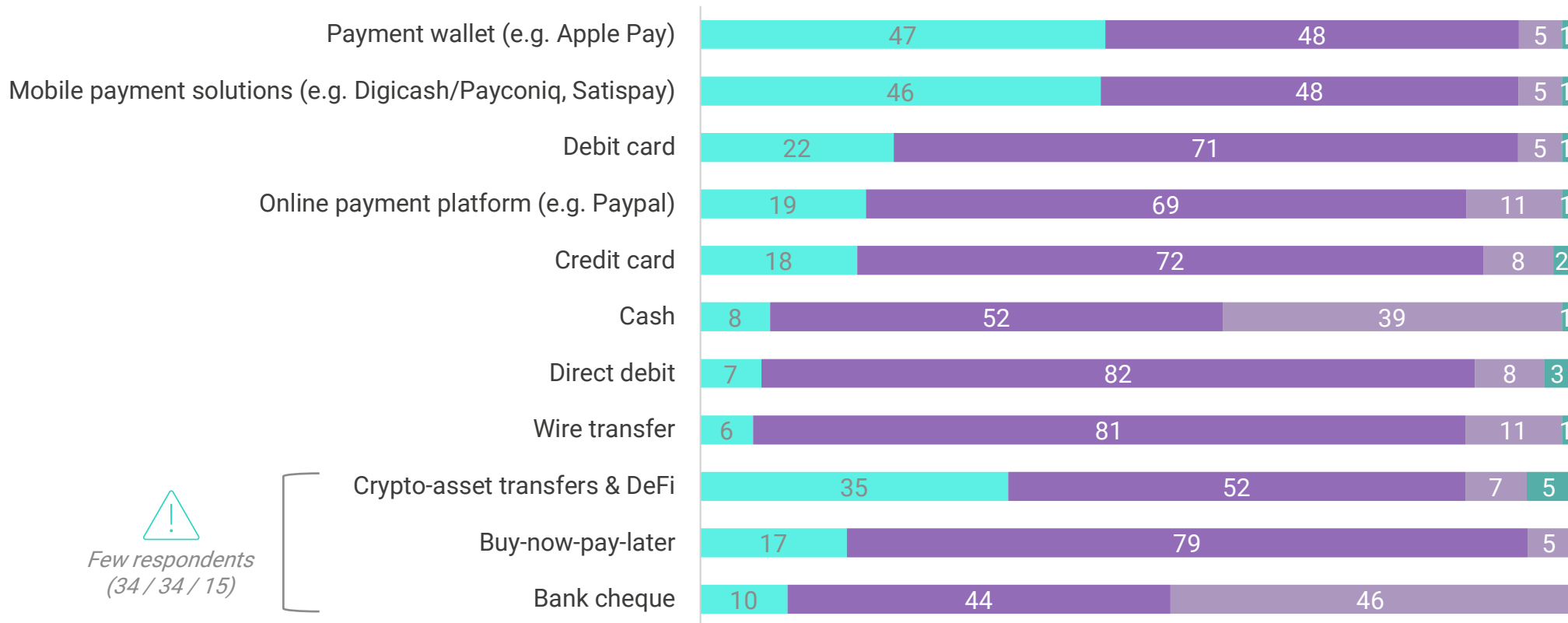
Where things are headed

Expected increase / decrease in using a given payment method, next 12 months



Values in %

■ Increase ■ Remain stable ■ Diminish ■ Don't know




 Few respondents
 (34 / 34 / 15)

Analysis: mobile payment solutions and electronic wallets on the rise, cash losing its lustre



Observations:

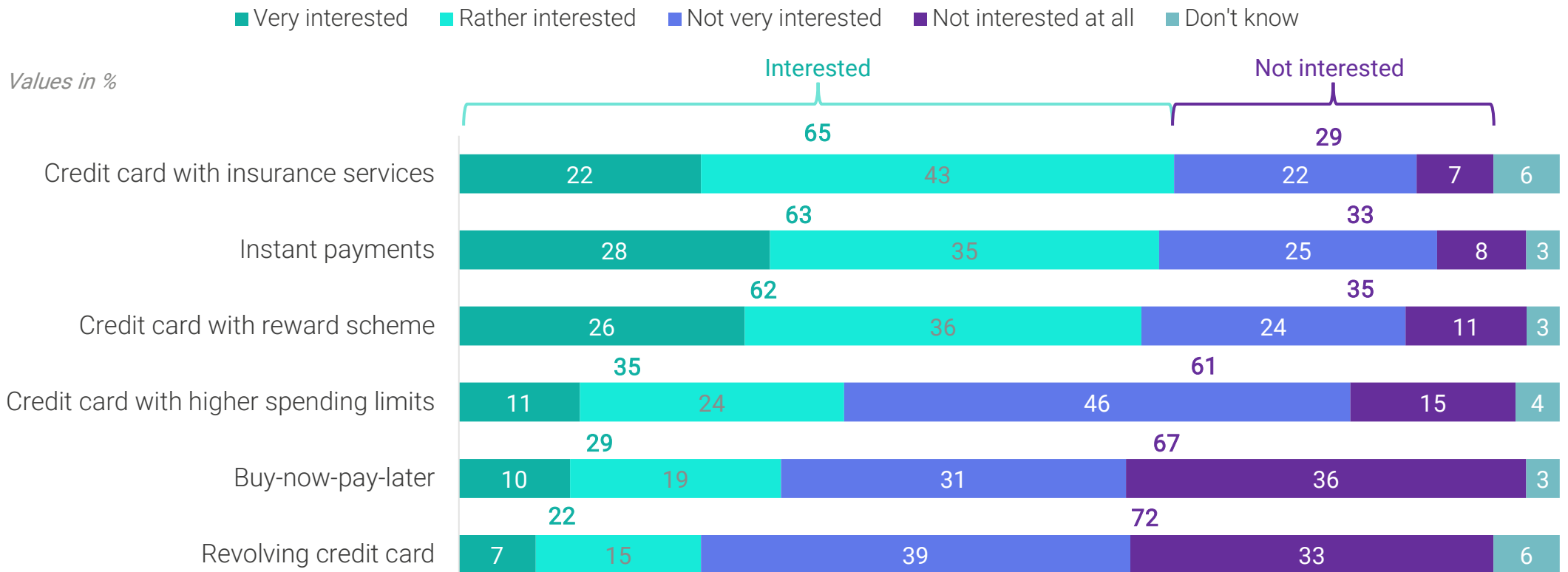
- **Payment wallets** and **mobile payment solutions** are set to continue **gaining market share**
- Out of the major payment methods, **cash is set to lose out** the most
 - For historical context, the share of cash payments in LU diminished from 39% to 30% 2017-2019, whereas e-money transactions have increased 3.5x over the past 7 years
- **Respondents aged 25-34** indicated more than others that they expect to **reduce their use of credit cards and wire transfers**

Instant payments, rewards and insurance services top customer wish list

Interest in additional attributes and features linked to future payment method use



New features



Correlation between demographics and interest in new features



INSTANT PAYMENTS

80% of neobank customers are interested, 75% of those comfortable with a cashless society



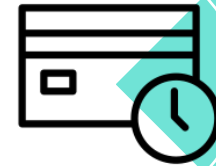
CREDIT CARD WITH HIGHER SPENDING LIMITS

44% of those with monthly income >10k are interested



CREDIT CARD WITH INSURANCE

72% of those 18-34 are interested



BUY-NOW-PAY-LATER

Significant interest in those with income below 4k (46%), lower education (37%) and 18-34 age group (35%)



CREDIT CARD WITH REWARDS

Highest interest in those with higher education (74%), neobank clients (73%) and 18-34 age group (72%)

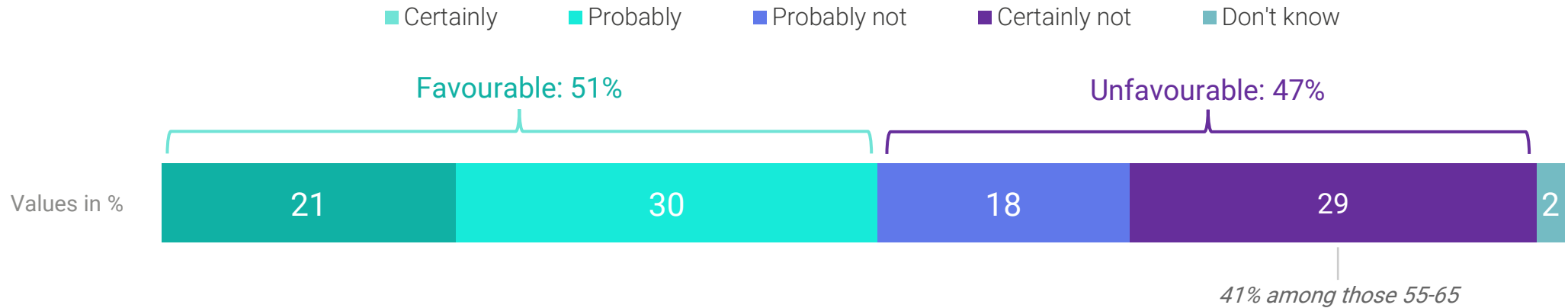


REVOLVING CREDIT

Highest interest in 18-24 age bracket (35%)

Cashless society: shifting attitudes

Can you imagine living in a cashless society?



- Prior surveys have shown **much higher levels of aversion** to the notion of a cashless society; e.g. ING 2017²: only 28% of LU respondents (n=500) said they would like to go cashless, EU Commission 2017³: 95% of EU respondents said they oppose restrictions on cash payments (n=30k)
- In our survey, those with a **Master degree** or equivalent (38%), **neobank clients** (37%), those **aged 25-34** (29%) and residents of the capital (29%) are **most likely** to indicate they are **comfortable** with the notion of living in a cashless society

² ING international survey, Mobile Banking 2017 - Cashless Society

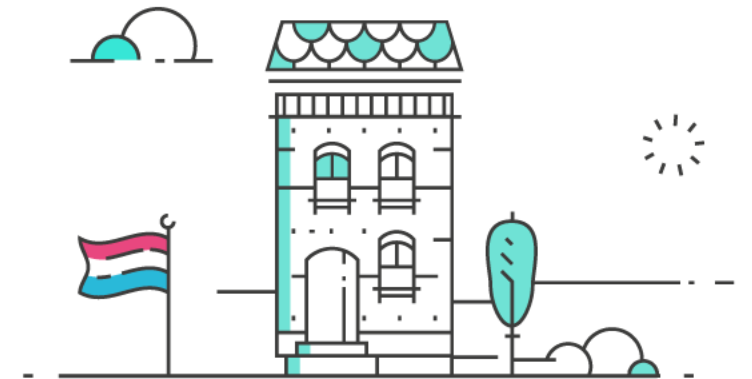
³ European Commission online survey in the context of its study on an initiative to restrict cash payments

Reasons to oppose a cashless society

Analysis of free form responses shows continuity with previous studies

Top 3 notions cited when explaining opposition to a cashless society:

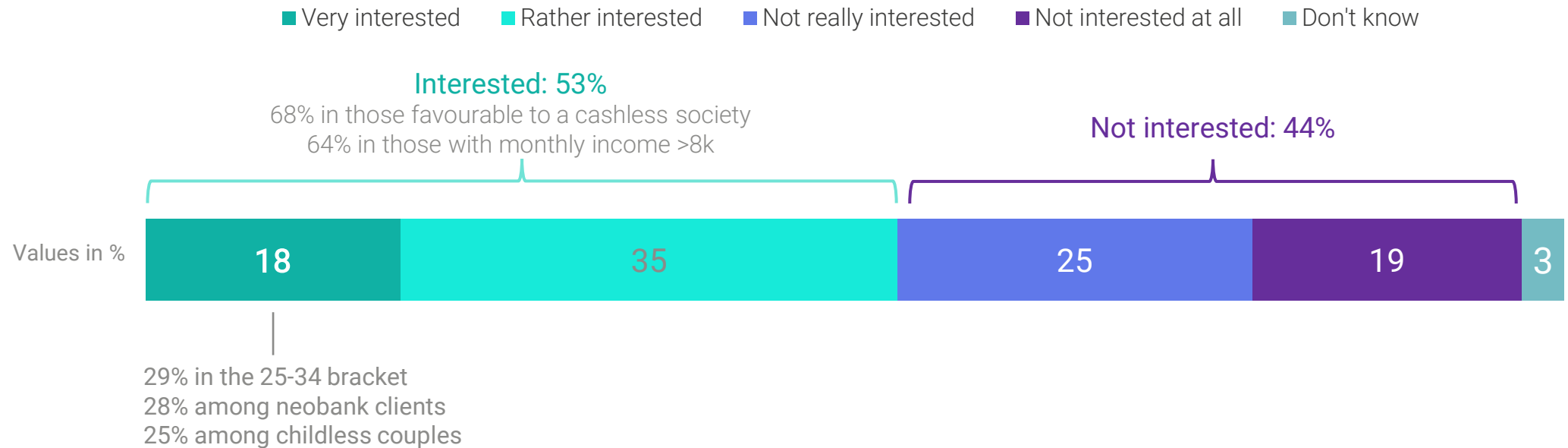
- ❖ A **necessary fallback mechanism for payments**, especially small purchases and cash management for kids (18%)
 - 11% highlight their fear of an inability to pay in the event of a **system failure** with regard to digital payments, or inability to pay abroad
- ❖ **Privacy** and protection of **personal freedoms** (17%)
- ❖ The physical nature of cash allows for a **better overview** of one's spending (15%)



A slight majority of respondents are interested in embedded / frictionless payments



Interest in a frictionless payment experience in the context of brick-and-mortar shopping. Example provided to respondents: you enter a shop, scan a QR code with your phone, fill your basket and exit the shop without passing through a cash register. You are automatically debited the amount corresponding to your purchases.



Concluding Remarks

Payments are the lifeblood of the economy and consumers are today presented with a greatly enhanced array of payment options. How, and why, people choose to use one option over another is of great interest to all stakeholders involved, be it financial sector incumbents, fintech startups & big tech entrants, or policymakers.

The results of this survey highlight that rather than a “winner takes it all” dynamic taking hold, consumers will most likely continue to value flexibility and look for “the right tool for the right job”. While mobile payments are clearly on the rise and there is significant openness towards innovation more broadly, Luxembourg consumers continue to prize security, with Luxembourg retail banks firmly anchored as the central piece of the payments puzzle. By working together, incumbents and innovative startups stand to combine the best of both worlds.

We would like to thank all survey participants for their time and effort, and we commend TNS ILRES for their professionalism and swift execution of this ambitious survey.

JEROME VERONY

*Research and Strategy Manager
The LHoFT Foundation*



Annex

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Respondent characteristics (n=1029)

Sample characteristics

Demographics		
	Gross sample	Adjusted sample
Age		
18-24 years	10%	10%
25-34 years	16%	19%
35-44 years	18%	19%
45-54 years	19%	18%
55-65 years	24%	17%
66 years and above	14%	17%

Other Characteristics		
	Gross sample	Adjusted sample
GENDER		
Male	46%	51%
Female	54%	49%
REGION		
Luxembourg City	15%	21%
Centre ex-capital	17%	16%
South	39%	36%
North	16%	15%
East	14%	12%
NATIONALITY		
Luxembourgish	69%	49%
Portuguese	12%	16%
Other	19%	35%

Respondent characteristics (n=1029)

Sample characteristics

Household composition	
Living with extended family	15%
Single and childless	14%
Single parent living with kids	5%
Single parent living alone	2%
Married / partnered, without kids	17%
Married / partnered living with kids	36%
Married / partnered with children who have moved out	7%
Other	3%
Prefer not to say	1%

Education and income	
HIGHEST DEGREE ACHIEVED	
Primary school or first half of secondary school	21%
Secondary school	33%
University degree "Bac + 2 à 3"	16%
University degree "Bac + 4"	8%
University degree "Bac + 5"	20%
MONTHLY PRE-TAX HOUSEHOLD INCOME	
Less than EUR 4 000	19%
Between EUR 4 001 and 6 000	21%
Between EUR 6 001 and 8 000	15%
Between EUR 8 001 and 10 000	11%
More than EUR 10 000	15%