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CBM Working Papers, No. WP/01/2020

Provided in Cooperation with:
Central Bank of Malta, Valletta

Suggested Citation: Saliba, Charles; Muscat, Mary Ann (2020) : Analysis of the payment habits in Malta, CBM Working Papers, No. WP/01/2020, Central Bank of Malta, Valletta

This Version is available at:
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Analysis of the Payment Habits in Malta

Charles Saliba and Mary Ann Muscat[1]

WP/01/2020

[1] Charles Saliba and Mary Ann Muscat are Manager and Senior Officer respectively at Regulation and Oversight Office, of the Central Bank of Malta. The authors would like to acknowledge the assistance provided by Ms Rita Schembri who heads the Economic Analysis Department and Ms Sandra Zerafa, Co-ordinator within the same Department for their assistance in drawing up this report. The authors would also like to acknowledge the assistance provided by various officials at the National Statistics Office who were responsible for carrying out this survey, notably Mr Eusebio Bezzina. Finally the authors would also like to show their appreciation to Mr Alexander Demarco, Deputy Governor and Mr Jesmond Gatt, Chief Officer Banking Operations for their comments and suggestions. The views expressed in this report are those of the authors and do not necessarily reflect the views of the Central Bank of Malta. Any remaining errors are the sole responsibility of the authors.

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Abstract

This paper presents an extensive analysis on the means of payment that consumers in Malta use to purchase different goods and services. The aim of this study is to shed light on consumers' payment behaviour and in particular to improve the understanding of the considerations that shape consumers' payment choices, based on a survey of 500 households in Malta. Thus, it delivers essential information that should help the Central Bank of Malta and relevant payment systems stakeholders enhance their policies and strategic decisions with a view to improve the efficiency of the cash cycle and the payment systems more generally.

Where possible, data are compared with the results of a 2013s survey on the same subject and also with statistics on the use of cash by households in the euro area.

Keywords: payment habits, cash, consumer choice

JEL codes: E41, E58

Executive Summary

Payment channels are always evolving as a result of technological advances and security enhancements that seek to render payments safer, more efficient and convenient. Such enhancements may incentivise individuals to use new payment instruments rather than traditional ones. Nonetheless, data on consumer behaviour collected through the latest Payment Habits Survey, conducted during 2018, show that Maltese society still relies heavily on the use of cash.

Based on the results of this Survey, this report aims to shed light on the current payment habits of the population of Malta and to identify the main factors that are discouraging the use of alternative instruments to cash.

The data collected show that even though the usage of non-cash instruments has increased, cash is still the preferred payment channel used by households in Malta for most products and services consumed.

This observation is based on a one week payment diary whereby respondents recorded their purchases and payment instrument used for making different kinds of purchases, ranging from groceries, to utility bills and wellness services. The Survey also reveals that cheques are still being used regularly for non-consumables (mainly composed of durable goods), mostly for higher value payments.

This study also compares the results obtained from this Survey with the results of a similar survey conducted in Malta in 2013. Results are also compared with findings from a study on cash usage in other euro area countries carried out by the European Central Bank (ECB).

Although modern payment instruments are highly efficient and convenient, nonetheless, households in Malta still prefer the traditional paper-based payment instruments. This may be due to a variety of reasons, including reluctance to change their habits, lack of knowledge with regards to modern payment instruments, and also suppliers of goods and services not providing payment instrument channels other than cash or cheques. This report will provide the foundation for a well-developed National Payment Strategy aiming to stimulate the use of financially advanced products.

The Payment Habits Survey was organised by Regulation and Oversight Office within the Payments and Banking Department of the Central Bank of Malta, while the National Statistics Office (NSO) conducted the fieldwork of the survey.

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1. Introduction

Financial innovation brings with it efficiency, convenience, lower costs and enhanced security. Notwithstanding these benefits, take-up of innovative payment instruments also depends on their accessibility and customers' understanding of their functionality, risks and benefits. Prior experience with using new payment instruments/channels and guidance are also essential for users to build trust in new instruments and to feel comfortable using them.

Data extracted from an ECB study on cash usage shows that euro area countries, including Malta, are moving towards modern payment instruments, though Maltese households still rely heavily on paper-based instruments such as cash and/or cheques relative to other euro area Member States.[2] This suggests that until recently Maltese society was still incurring high payment processing costs as it is not gaining the benefits of modern payment instruments.

To assess whether this is still the case, in 2017 the Central Bank of Malta commissioned the National Statistics Office (NSO) to carry out a Payment Habits Survey amongst a systematic sample of 500 households covering 1,118 respondents. Responses were then grossed up to the whole local population. The interviews took place in the first quarter of 2018. Similar to a similar survey carried out in 2013, the latest Survey was spearheaded by the Regulation and Oversight office within the Bank's Payments and Banking Department. The fieldwork and the grossing up of statistics were carried out by the NSO.

The Survey[3] was divided into five sections and included a payments diary. The first part related to the respondents' financial responsibility in their household as well as other information relating to the respondents' payments' habits, and their preferred payment instruments. It also assessed respondents' perceptions regarding the availability and accessibility of alternative payment instruments. The survey also collected information which related to the assessment of characteristics of each payment instrument, households'

[2] https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op201.en.pdf (Occasional Paper Series: The use of cash by households in the euro area, 2017)
[3] Is found in Annex 1.

readiness to adopt new technology and their attitudes towards cashless systems, including contactless payments and mobile payments. The survey also included a payments' diary in which respondents recorded purchases over a week and the payment method/s used for each period.

Chapter 2 of this document describes the methodology and data used in the Survey. Chapter 3 presents statistical analysis of the current land space as regards payment accessibility and usage, while Chapter 4 looks at the amount of cash households prefer to carry. Chapter 5 delves into households' attitudes towards the use of ATMs as well as cash withdrawal behaviour. Chapter 6 assesses how well informed households are about cashless systems. Chapter 7 compares selected characteristics for Malta with those for other euro area countries and highlights where Malta stands in relation to such issues. Chapter 8 reports the results of the payments diary. Rather than focussing on households, this part of the Report reports feedback from each individual in the household. Chapter 9 concludes.

2. Methodology and data

This chapter explains the purpose of this study and describes the targeted population. Moreover, it describes the characteristics and design of the sample and the method used to gather the data.

Research scope and population

The main aim of this study is to examine the number and value of payments made in Malta using different payment instruments. For the purpose of this study, this was achieved through analysing the extent of use of cash, cards and other payment instruments such as cheques, direct debits, credit transfers and mobile payments. This enables a comparison of the role played by cash with that of other payment instruments. The targeted population in this survey included private households which have at least one individual aged 16 years or more.

Table 1: Distribution of households by district

District	Households	
	No.	**(%)**
Gozo and Comino	12,979	7.0
Northern	31,232	16.8
Northern Harbour	60,726	32.8
South Eastern	26,869	14.5
Southern Harbour	31,607	17.1
Western	21,950	11.8
Total	**185,363**	**100**

Sample characteristics and research method

The number of eligible households selected to participate in this survey was 859. These were identified through the use of a systematic sampling method that took into account household

size, type and locality, of which there were 500 households who accepted. This resulted in a net effective response rate of 58.2 per cent.

Responses were collected through face-to-face Computer Assisted Personal Interviewing (CAPI) during the first quarter of 2018. All household members were also requested to keep a payments diary for a week, in which they recorded all payment transactions made during this period as well as the instrument used for each transaction (see Table 1).

Table 1
TRANSACTION CATEGORIES INCLUDED IN THE PAYMENT DIARY

CATEGORY	Including
Grocery	Payments at grocers, supermarkets, butcher, fish-monger, bakeries and confectioneries
Consumables	Payments at clothes shops, shoe shops, stationeries and book shops
Non-consumables	Payments for white goods, furniture, gold, cars, electronics and computers
Utility bills	Payments for water and electricity, internet, telephony, mobile phone, gas, petrol and diesel
Wellness services	Payments to hairdressers, beauticians and gyms
Other services	Transport services, payments for insurance, financial services, hotels and travel agencies
Other expenses	All other payments which are not included in the above categories

Source: NSO

Data collection

Data collected comprised the demographic characteristics of respondents, including gender, age and region of residence, along with information on education level, occupation, household size, frequency of internet use and household net income. Questions were also included on the current and expected future use of alternative payment instruments the factors that encourage or discourage the use of specific instruments, cash withdrawal and carrying habits as well as attitudes towards cashless systems.

A distinction was made among different categories of household expenditure as defined below:

Weighting of results

The survey data was weighted to correct for any biases present in the final sample of participating units arising from different response rates observed in different categories using post-stratification method. This served to align and gross-up sample estimates with the benchmark distribution of households in terms of district of residence and distribution of individuals in terms of age and gender.

Table 2 shows the actual and sample distribution of households across regions. The highest number of responses was recorded from the Northern Harbour area (28.2% of all participating households), while the lowest was recorded from Gozo and Comino (7.4%).

Table 2
DISTRIBUTION OF HOUSEHOLDS BY DISTRICT

	Actual		Sample	
	No.	%	No.	%
Gozo and Comino	12,979	7.0	37	7.4
Northern	31,232	16.8	69	13.8
Northern Harbour	60,726	32.8	141	28.2
South Eastern	26,869	14.5	80	16.0
Southern Harbour	31,607	17.1	106	21.2
Western	21,950	11.8	67	13.4
Total	**185,363**	**100.0**	**500**	**100.0**

Source: NSO.

Given that the sample of eligible households that accepted to participate in the survey was not perfectly aligned with the target population (see Table 2), each household response was weighted according to its weight in the population to correct for the sample bias.

Quality control

A number of quality checks and in-built validation rules in the data entry program were incorporated to limit the occurrence of non-sampling errors. More specifically, the data-entry program had a number of in-built validations so that skip patterns are executed exactly as intended and responses are within a specific range.

The dataset was further subject to a series of other checks during the data-editing stage in order to identify any remaining incorrect or logically misleading data.

3. Current landscape

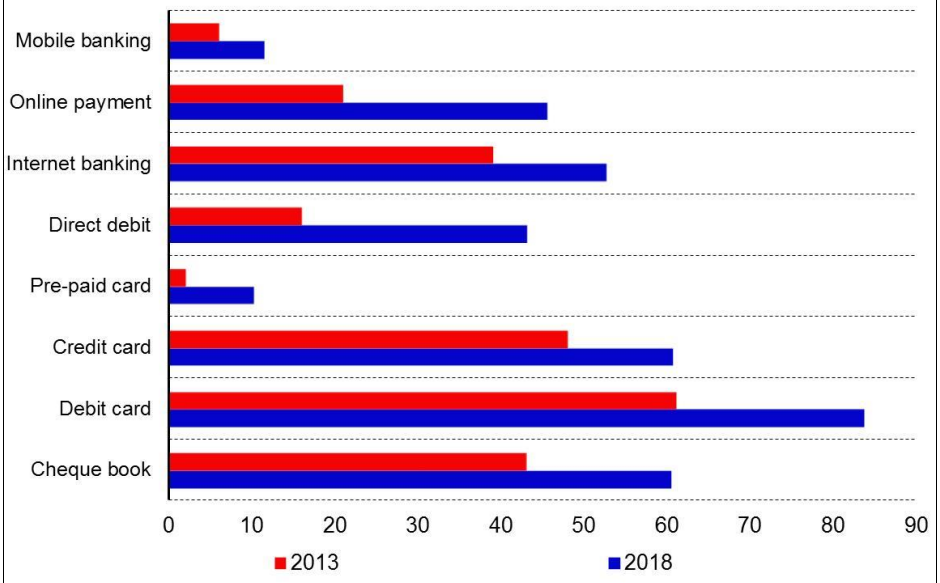
This chapter gives an insight of Malta's current payment habits based on responses to the questionnaire. It compares the results with a previous survey carried out in 2013, and also reports information on the expected usage of payment instruments for the coming years.

Accessibility and preference to use of the different payment instruments and channels

The study looks into the accessibility that respondents have to particular payment instruments. Accessibility is normally defined as the person's ability to have direct access and knowledge on the usage of a payment instrument. Although the usage of a payment instrument might be highly correlated with its availability to the general public, having access to a particular instrument does not necessarily mean that it is widely utilised by the consumer.

In general, accessibility to the different payment instruments/channels increased across all instruments between 2013 and 2018 (see Chart 1).

Chart 1
COMPARISON OF THE ACCESSIBILITY TO DIFFERENT PAYMENT INSTRUMENTS/CHANNELS: 2013 and 2018[(1)]
(percentage of households)



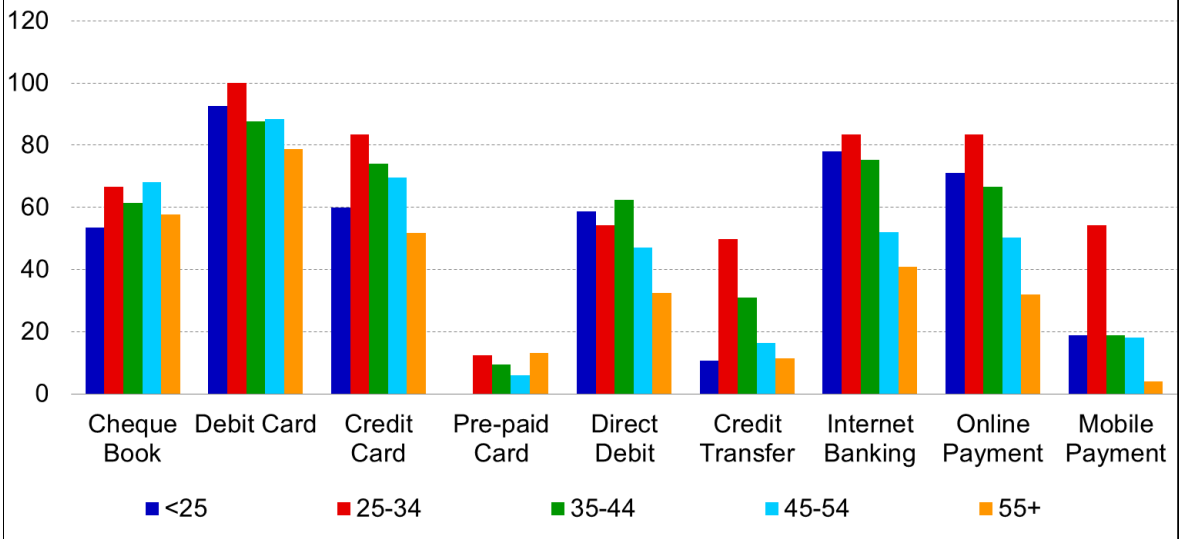
Source: Central Bank of Malta calculations.
(1) Respondents were asked to state if they had personal access to the payment instruments/channels.

The most significant increases were observed for online payments, direct debits and prepaid cards. However, these instruments were still perceived to be less accessible than debit cards, credit cards and cheques.

When it comes to actual use, 56.0% of households reported making the same use of payment instruments other than cash and cheques as they did 5 years ago, while 41.2% of households indicated that they made greater use of such instruments. When asked about what makes them use a particular instrument alternative to cash or cheques, the majority of respondents (60.2%) replied that they would consider convenience first, followed by efficiency (36.7%) and safety and security (30.7%). Other reasons included payment history (15.5%) and availability of electronic point of sales (EPOS) (10.6%).

Chart 2 shows the accessibility to different payment channels other than cash, for different age groups. It can easily be noted that accessibility to certain instruments decreases progressively with age. This is the case for most instruments except cheque books, where accessibility of older respondents is at par with that of other age groups, and prepaid cards, where accessibility is considered low for all age groups.

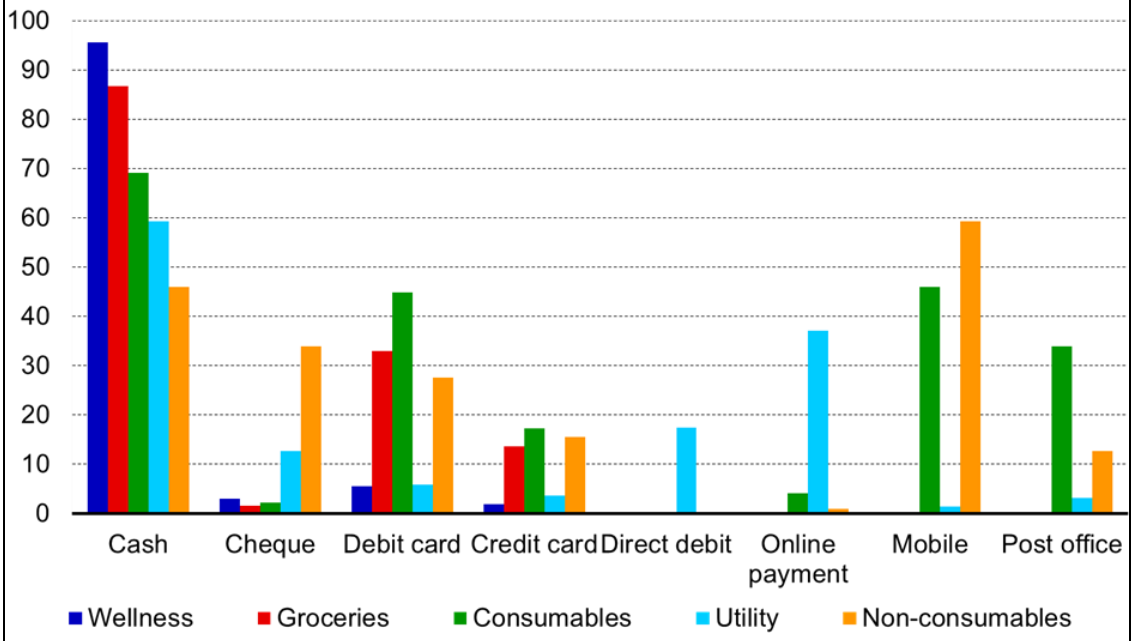
Chart 2
ACCESSIBILITY TO DIFFERENT PAYMENT INSTRUMENTS/CHANNELS BY AGE GROUP(1)
(percentage of households in respective age group)



Source: Central Bank of Malta calculations.
(1) Respondents were asked to state if they had personal access to the payment

Chart 3 presents information on the payment instrument/channel that household prefer to use when acquiring different goods and/or services.

Chart 3
PURCHASE OF GOODS AND SERVICES BY PAYMENT INSTRUMENTS/ CHANNELS CATEGORY(1)
(percentage of households)



Source: Central Bank of Malta calculations.

(1) Respondents were asked to state which payment instruments/channels they preferred to use when buying groceries, consumables and non-consumables as well as when paying utlility bills and wellness services.

Though there has been progress in the payments landscape, cash is still the preferred payment instrument amongst households in Malta. The study shows that 86.7%, 69.1% and 46.0% of households used cash to pay for groceries, consumables and non-consumables, respectively. Furthermore, 59.3% of households paid utility bills in cash and 95.6% paid for wellness services using this instrument. It is also interesting to note that cards were the next important instrument used by households for groceries, while mobile payments were the second most frequently mentioned instrument for consumables and the preferred choice for non-consumables. However, only a small percentage of households said that they prefer to use cards and mobile instruments to pay for utilities and wellness services. This low usage may indicate a lack of point of sale devices (POS) in outlets offering wellness services.

Furthermore a significant share of utility bills is settled by means of online payments, with 37.1% of households use them as a means to settle utility bills.

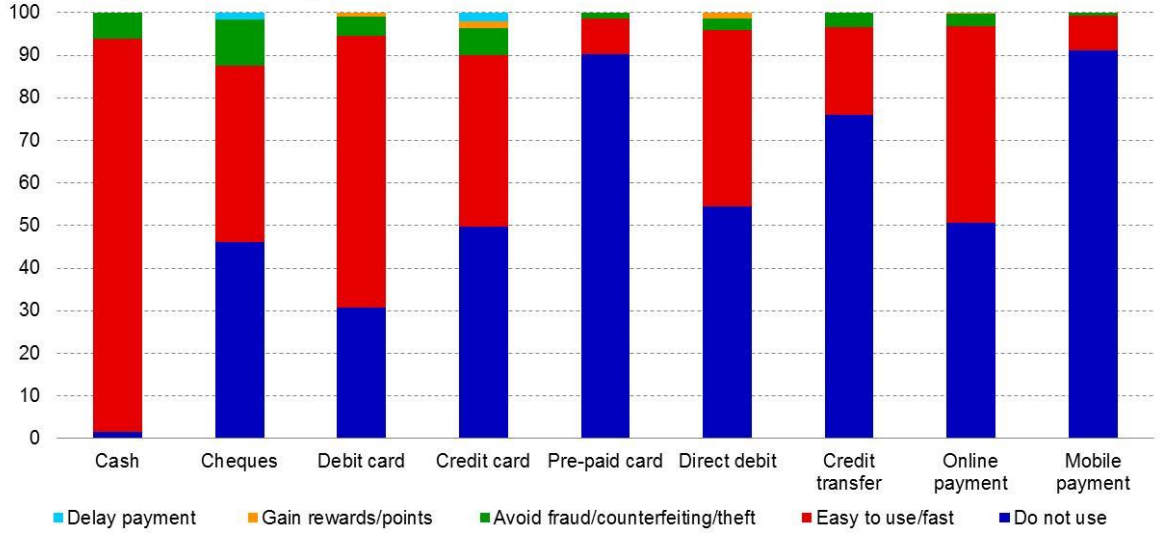
The questionnaire also reveals that cheques were mostly used to pay for non-consumables and, to a lesser extent, for utilities. However, only a small percentage of households reported using this instrument to pay for groceries, consumables and wellness services.

On balance this part of the survey indicates that although consumers have been presented with a number of new and enhanced payment instruments that are efficient and secure, and although there is some shift towards less traditional instruments, households in Malta still use to a large extend paper-based products. This may reflect consumer preferences but may also be due to lack of provision of alternative means of payment by suppliers or service providers.[4]

Reasons for use of payment instruments/channel

The Survey also requested households to disclose the factors that would lead them to use each payment instrument. The responses to this question are summarised in Chart 4.

Chart 4
THE FIRST MAIN REASON FOR USING THE FOLLOWING INSTRUMENTS/ CHANNELS(1)
(percentage of households)



Source: CBM calculations.
(1) Respondents were asked the first main reason they use these payment instruments/channels for.

[4] These patterns hold for both males and females.

Cash

Most households indicated that they are comfortable using cash mainly because this is a medium that is easy to use. In fact 92.4% of households claimed ease of use as the main reason for using cash, while 6.0% claimed that they used cash to avoid fraud/counterfeit/theft. It is thus not surprising that with such a high percentage of households who use cash, only 1.5% indicated that they do not use cash for any of their payments.

This seems counter to experience, as it is a known fact that cash is a payment instrument that carries substantial risks as it can easily be stolen. Furthermore statistics issued by the Central Bank of Malta show that in the first half of 2019, 844 counterfeit banknotes were withdrawn from circulation. This figure was higher than the aggregate in the previous six months and also higher than that reported in the same period of 2018. Same statistics indicate that in Malta the majority of counterfeits were the €20 and €50 bills which accounted for 89% of all counterfeits during the first half of 2019. During this period, the share of the €10 denomination counterfeit experienced a slight decrease.

This data indicates that counterfeit bills are normally used for low purchases which are carried out on a more frequent basis.

Cheques

The survey shows that the use of cheques for some types of purchases is also very high. When asked to give reasons for using cheques, 41.5% of households stated that they use cheques because they are an easy and fast way to carry out payments. A further 10.8% of households answered that using cheques is a way to avoid fraud and 6% use cheques to delay payments, while 46% of households indicated that they do not use cheques.

Debit cards

A significant share of households appear to be comfortable using debit cards. The Survey shows that 63.8% of households find debit cards easy to use, 4.7% use them to avoid fraud and 0.8% to gain points/rewards. However, a still significant 30.7% of households do not use debit cards.

Credit cards

The use of credit cards seems to follow broadly similar traits as debit cards with 40.3% of households finding them easy to use, whereas 6.1% see them as a means to avoid fraud/counterfeiting/theft. A further 2.1% use credit cards to delay payments and 1.7% to gain rewards on purchases made. The Survey suggests that 49.8% of households do not use this payment instrument.

Prepaid cards

The Survey also reveals that prepaid cards are an instrument which is hardly used. In fact, the percentage of households who answered that they do not use prepaid cards was of 90.1%. Only 8.4% of households consider that prepaid cards are easy to use, while 1.5% answered that using prepaid cards helps them to avoid fraud.

Direct debits

A significant share of households (41.3%) noted that direct debits are an efficient way to effect payments and easy to use, 2.9% would use them to avoid fraud and 1.3% mentioned the potential to gain rewards. More than half of households (54.5%) said that they do not use direct debits.

The reluctance to use direct debits may reflect the perception that through a direct debit mandate your account is debited, the funds are transferred to the service provider and the payer has no right to claim the money back if something goes wrong with the payment or the service being provided. It is clear that there is lack of knowledge and awareness of the benefits of the instrument among the public which may explain the lack of take up of this payment facility. For example, households might not be aware of the right of recourse, and the possibility that payers get a refund from their bank for an unauthorised SEPA payment for up to 13 months. These make direct debits one of the safest and most reassuring methods of paying bills, besides having the benefit of spreading the costs. They are also very easy to set up, and a very efficient means of payment. Additionally, direct debits give consumers peace

of mind as they eliminate the risk of late payments for recurring bills and allow the consumers to track the exact amount they are paying each month.

Online payments

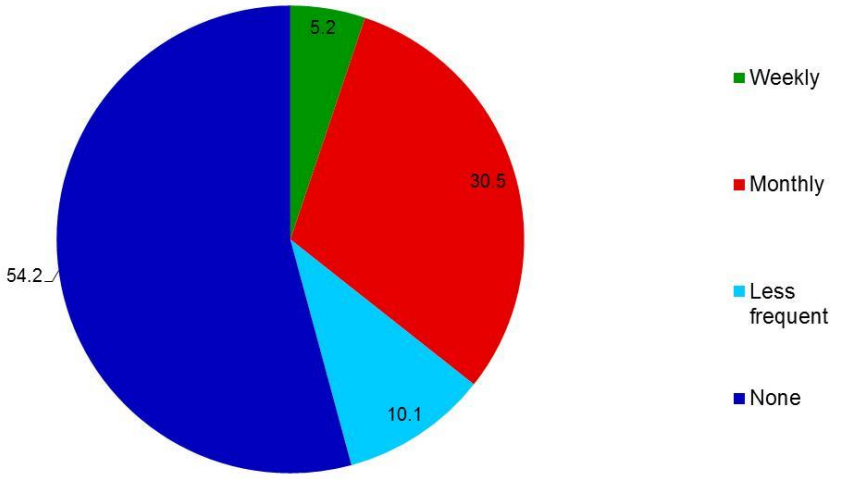
As regards online payments, it seems that a significant part of households (46.1%) is confident and finds it easy to make online payments. A few (3.1% of households) also highlighted that online payments can be a means of avoiding fraud, while a very small share of households (0.2%) mentioned the possibility to gain rewards. However, more than half (50.6%) are still reluctant to make online payments.

E-payments

Asked about how often e-payments are effected by respondents, a significant percentage (54.2%) answered that they make no e-payments, 30.5% replied that they make such payments monthly, 5.2% reported a weekly frequency and 10.1% said they use e-payments less often (see Chart 5). Anecdotal information shows that monthly e-payments facilities are normally used to effect payments for internet, phone bills and utility bills.

This study thus shows that e-payments are also not very popular with the Maltese society as they are not used on a regular basis. This may be due to the fact that certain payment gateways charge service fees. Another possibility is that the public is unaware of the benefits of e-payments in terms of convenience for online sales, efficiency and low risk of fraud and theft.

Chart 5
FREQUENCY OF MAKING E-PAYMENTS(1)
(percentage of households)



Source: CBM calculations.

(1) Respondents were asked the frequency of making e-payments.

Mobile payments

Survey participants were also asked about mobile payments. The vast majority (representing 91.1% of households) answered that they do not use such payments. Only 8.2% answered that this was an easy way to effect payments and an even smaller share of households (0.8%) mentioned the possibility to avoid fraud.

The above replies clearly show that the general public is reluctant to use new or alternative payment instruments to cash. The reasons may be various however it appears that there is a lack of awareness about the various instruments and their benefits, thus people do not see the need to change their payment habits.

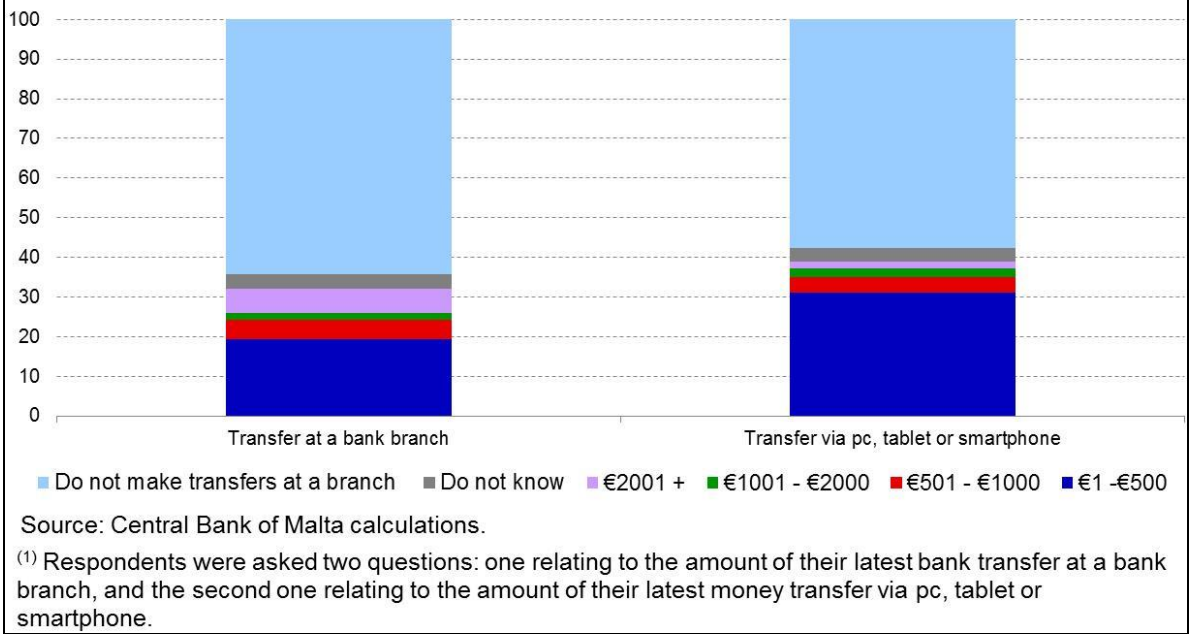
Credit transfers

Respondents were also asked to report the amount of their latest transfer at a bank branch and via personal computer, tablet or smartphone.

When commenting on the amount of transfers at a bank branch, 64.2% of households answered that they did not make any transfers, 19.3% said that they made transfers for a value between €1 and €500, 5.1% said that they made transfers at a bank branch valued

between €501 and €1,000 (see Chart 6). A further 7.8% made transfers exceeding these amounts.

Chart 6
AMOUNT OF LATEST BANK TRANSFER(1)
(percentage of households)



Source: Central Bank of Malta calculations.

(1) Respondents were asked two questions: one relating to the amount of their latest bank transfer at a bank branch, and the second one relating to the amount of their latest money transfer via pc, tablet or smartphone.

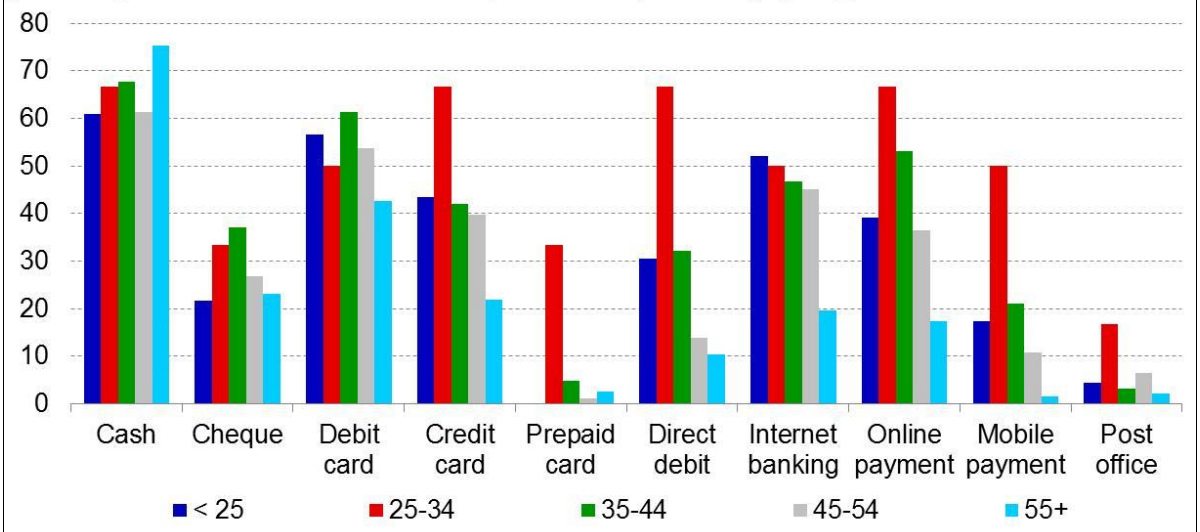
Households were also asked about the latest transfer carried out via a personal computer, tablet or smartphone. Most respondents (57.8%) confirmed that they do not use a computer, tablet or smartphone to transfer money. However, 31.0% replied that they make transfers valued between €1 and €500.

Although most households do not use bank transfers, when they do so, they tend to rely on PCs, smartphones or tablets.

Expected use for alternative payment channels in the next five years

Respondents were asked to give an indication of payment instruments they expected to use in the forthcoming years. Responses are shown in Chart 7.

Chart 7
USAGE OF PAYMENT INSTRUMENTS/CHANNELS BY AGE GROUP IN THE NEXT FIVE YEARS[1]
(percentage of households with reference person in respective age group)



Source: Central Bank of Malta calculations.
[1] Respondents were asked to state if they intended to use these alternative forms of payment instruments/ channels more in the next five years.

A significant share of reference person across all age groups indicated that they still intend to use cash over the next five years, with this share ranging from 61.3% for those in the 45-54 age bracket, to 75.3% for those aged 55 and over. The survey also shows that a significant percentage of households intend to make greater use of debit and credit cards in future. This is most evident among households with a reference person in the lower age brackets. These respondents appear to have a higher predisposition than other respondents to increase the use of all non-paper based instruments. For example, two-thirds of the reference persons who are in the 25-34 year bracket indicated that they intend to increase the use of online payments. This share falls to 17.4% among households with a reference person aged 55 and over. Similarly, while over sixty per cent of households with a reference person in the 25-34 age group intend to increase their use of direct debits, this percentage drops markedly in households with an older reference person. This pattern is visible across several other payment instruments.

Chart 7 also indicates that cheques are less likely to record higher usage over the next five years, compared to debit cards and credit cards.

The Chart lends further support to the view that cash usage is the most popular payment instrument among all age groups. However, among the lowest age brackets, there are relatively smaller differences in usage across the various payment instruments assessed. Amongst the other three age brackets which follow, that is those aged 35-44, 45-54 and 55-64, usage of cash is more predominant relative to other instruments, most notably direct debits, credit cards, mobile and online payments. As use of the internet has increased, so too has customer preference to use internet banking and online payments.

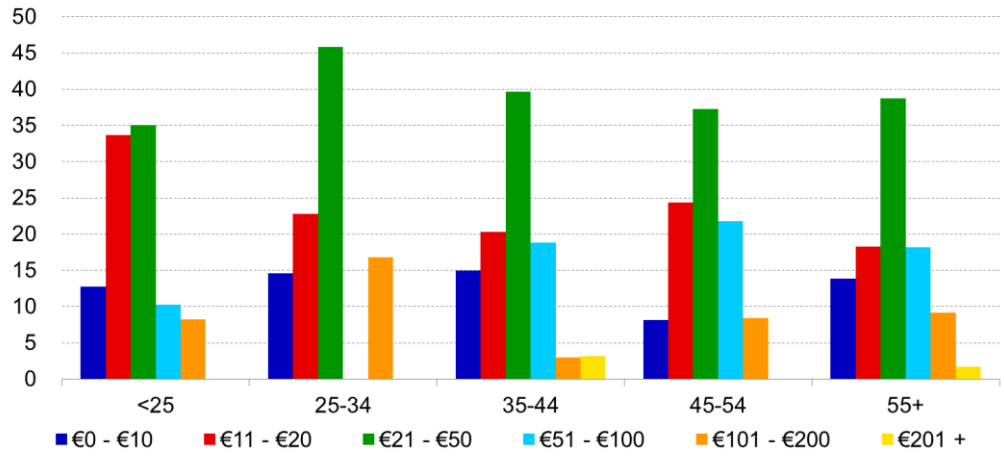
4. Amount of Cash People Carry

The Survey also included questions related to cash usage.

Minimum amount of Cash

One question related to the minimum amount of cash that individuals normally carry with them. The majority of respondents (38.5%) answered that normally they carry between €21 and €50, while (20.9%) of households carry between €11 and €20 and (18.3%) carry between €51 and €100 (see Chart 8). A further (9.5%) of households carry more than €100. Chart 8 below indicates that most individuals in all age groups still tend to hold an amount of cash not exceeding €50. Furthermore it can also be noted that in some age brackets a small proportion of households prefer to hold amounts which exceed €200.

Chart 8
MINIMUM AMOUNT OF CASH RESPONDENTS PREFER TO CARRY, BY AGE GROUP(1)
(percentage of households in the respective age group)



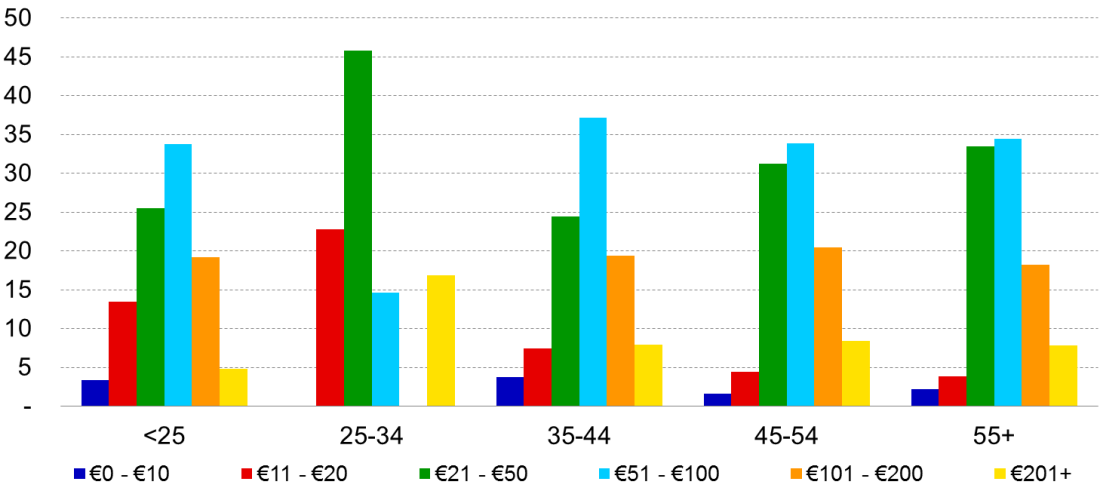
Source: Central Bank of Malta calculations.
(1) Respondents were asked the minimum amount of cash that they prefer to carry with them.

Maximum amount of Cash

When asked to disclose the maximum amount of cash that they are comfortable carrying the majority of households (29.9%) answered that they carry with them between €21 and €50 while 34.1% carry between €51 and €100 and 19.7% carry between €101 and €200 (see Chart 9). The share of households holding up to €20 or exceeding €200 is around 8.0% in each case.

The majority of each category of respondents, excepting those aged 25-34, feel more comfortable with carrying a maximum amount of cash ranging between €51 - €100. Chart 9 suggests that younger persons are inclined to carry a smaller amount of cash.

Chart 9
MAXIMUM AMOUNT OF CASH RESPONDENTS ARE COMFORTABLE CARRYING, BY AGE GROUP(1)
(percentage of households in the respective age group)



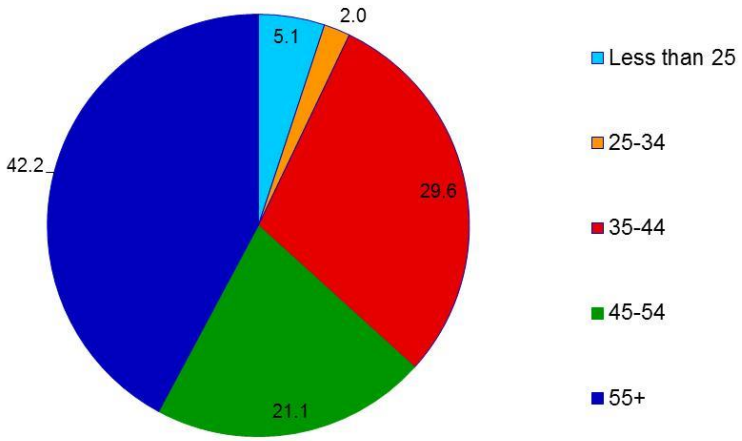
Source: Central Bank of Malta calculations.
(1) Respondents were asked the maximum amount of cash that they feel comfortable carrying on a daily basis.

Comparisons show that there is no difference in the maximum and minimum amounts of cash that people normally carry with them. It can be therefore concluded that people feel most comfortable having in their wallets an amount of between €21 and €50.

High denomination bank notes

Respondents were also asked to state whether they were in possession of €200 and €500 notes in the past twelve months. Only 15.5% of households held €200 and €500 banknotes (see Chart 10). Among those that held such notes, only 5.1% had a reference person who was less than 25 years, 2% were between 25 and 34 years old and 29.6% were between 35 and 44 years old while another 21.1% were between 45 and 54 years old. The biggest percentage (42.2%) constituted households with a reference person older than 55 years.

Chart 10
POSSESSION OF HIGH DENOMINATION BANK NOTES IN THE LAST TWELVE MONTHS[1]
(percentage of households)



Source: Central Bank of Malta calculations.

[1] Respondents were asked if they had high denomination bank notes, like €200 or €500 in the last twelve months.

5. ATMs

This survey also collected information on consumers' knowledge and use of ATMs. The number of ATMs on the island at the time of the survey was of 396 machines, meaning that there was an ATM for every 0.80 sq km or, approximately, a machine for approximately every 1000 individuals aged 16 and over.[5]

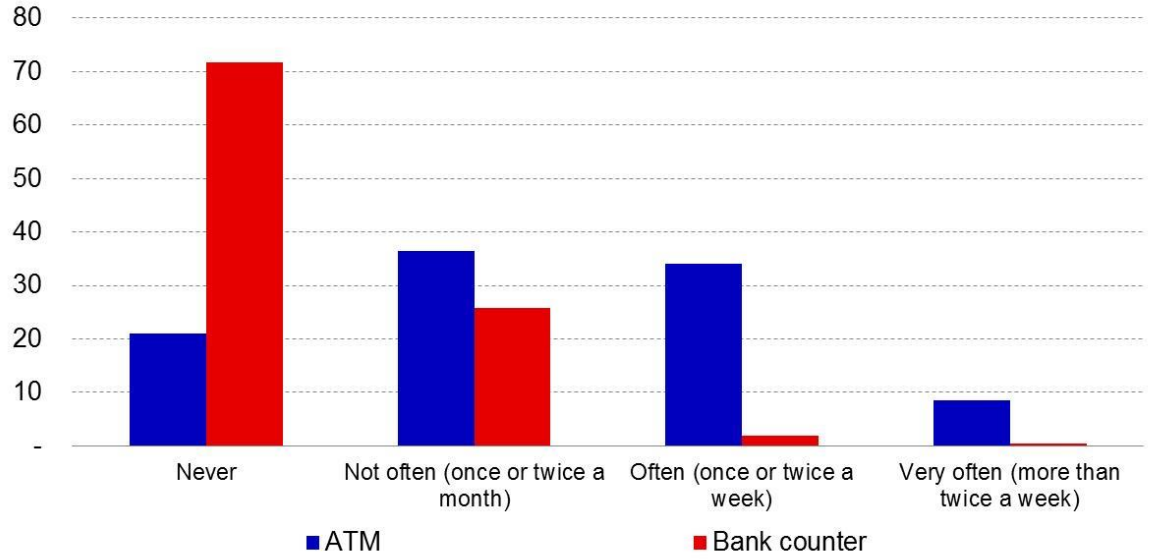
In the questionnaire, respondents were asked how frequently they withdraw cash from an ATM or from a bank counter. Moreover, respondents were asked on how easy it is for them to get to an ATM or bank when they need to withdraw cash and whether or not they have to pay a charge when effecting cash withdrawals.

Cash withdrawal habits by source

Results from the questionnaire show that ATMs are an important source of cash withdrawals (see Chart 11). As a matter of fact, 8.5% of households made cash withdrawals from an ATM more than twice a week, 34.1% reported that they withdraw cash once or twice a week and another 36.4% noted that they make cash withdrawals once or twice a month. The remaining, 21.0% answered that they never use ATMs to withdraw cash.

[5]The latter ratio is based on the population of the Maltese islands as at 1 January 2018 as reported by Eurostat..

Chart 11
CASH WITHDRAWAL HABITS[1]
(percentage of households)



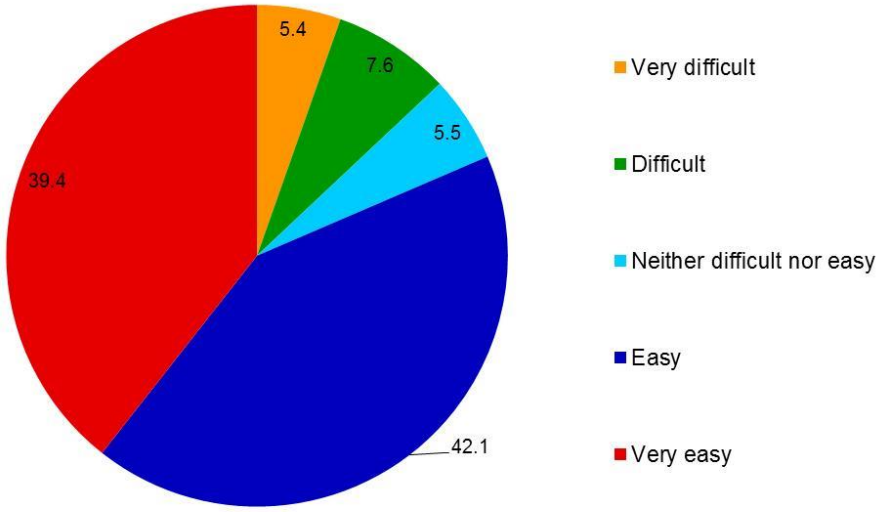
Source: Central Bank of Malta calculations.
[1] Respondents were asked the frequency of cash withdrawal from an ATM or a bank counter.

As regards cash withdrawals from a bank counter, it can be noted that 71.7% of the respondents replied that they never go to a bank counter to withdraw cash. Nonetheless, 25.9% said that they withdraw cash from bank counters at least once or twice a month. Very few respondents indicated that they use bank counters to withdraw cash at least once a week. Overall the information presented in (Chart 11) suggests that the public relies to a greater extent on ATM withdrawals than on cash withdrawals from bank counters.

Ease of access

When asked on the ease of access to an ATM or bank for withdrawing cash, respondents seemed to be quite satisfied with the availability of ATMs. As depicted in (Chart 12)**,** 39.4% of households said that it is very easy to access ATMs and another 42.1% replied that it is easy for them to get to an ATM. Only 13.0% noted that it is difficult or very difficult to access ATMs or banks for cash withdrawals, while 5.5% of respondents said that it was neither difficult nor easy.

Chart 12
EASE OF ACCESS TO AN ATM OR BANK TO WITHDRAW CASH[1]
(percentage of households)



Source: Central Bank of Malta calculations.

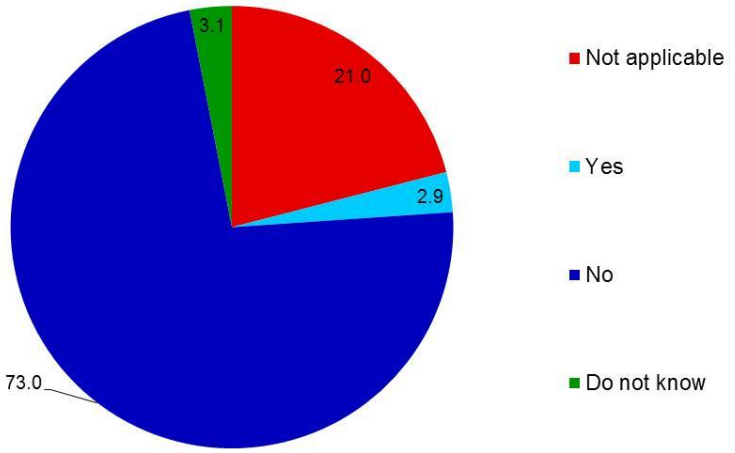
[1] Respondents were asked how easy it is to get to an ATM or bank when they need to withdraw cash.

Charges on ATM withdrawals

When asked about charges on ATM withdrawals, 73.0% replied that they do not have to pay a charge, and only 2.9% said that they pay a charge to withdraw cash from an ATM (see Chart 13). It was interesting to note that 3.1% of respondents said that they do not know whether they incur a charge and 21.0% replied that this question does not apply to them.

This result may reflect the fact that credit institutions in Malta provide cash withdrawals free of charge when such withdrawals are made through the ATM network of the bank which issues the debit card. Cash withdrawal fees only apply for cash withdrawals from an ATM network which is not owned by the issuer of their card.

Chart 13
ATM CHARGES UPON CASH WITHDRAWAL(1)
(percentage of households)



Source: Central Bank of Malta calculations.
(1) Respondents were asked if they need to pay a charge when withdrawing cash from an ATM.

Qualitative Survey on the efficiency of cash supply chain

Results from a separate - survey which was conducted by the Central Bank of Malta on behalf of the ECB in March 2017 among six commercial banks on the efficiency of cash supply chain shows that cash deposits at commercial banks are mostly received through cashiers, while withdrawals are more likely to be dispensed via cash dispensers.

Banks also consider that their smaller customers had no difficulties in withdrawing banknotes and coins, however the same cannot be said for bank corporate clients who complained that they were finding it difficult to withdraw large quantities of high-denomination banknotes, which need to be pre-ordered.

Similarly, while most banks expressed the view that their customers are satisfied with the cash deposit facilities they offer on their ATM network. It was however noted that corporate customers are finding it difficult when it comes to depositing at ATMs as the deposit bin does not cater to meet bulk deposits.

Relation of ATM to the high usage of cash

The accessibility of ATMs may both increase and decrease the demand for cash. However, there are other factors which may influence cash demand, such as charges.

As ATMs are widely distributed across Malta, this makes them very accessible and convenient source of cash for the general public. With an increasing number of ATMs, both volumes and values of ATM cash withdrawals are increasing year-on-year.

Furthermore, the placement of ATMs just outside supermarkets and petrol stations does not help to induce the public to use less cash, though this likely reflects the fact that in this way retailers would be saving on charges for card payments. This practice should be discouraged.

Thus, it may be concluded that data gathered from the questionnaire corroborates other information on the use of ATMs.

6. New technology

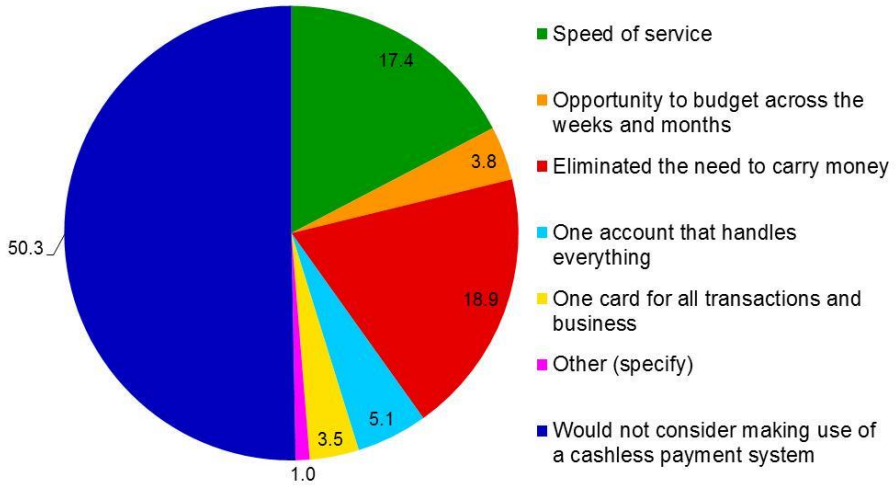
Technology plays an important part in today's world and has an important role in the introduction of new cashless systems which tend to be technology driven. A section in the survey covered cashless systems, with the aim of gauging households' awareness of the benefits of such systems and the challenges they anticipate in migrating to them.

Cashless system

Respondents were asked to signal how they would expect a cashless system to help them. In reply, 50.3% said that they would not make use of a cashless payment system (see Chart 14). However, 18.9% highlighted the fact that they might eliminate the need to carry money, while 17.4% would use the system for speed of service. Other respondents (5.1%) indicated that they would like to have one account through which they would handle everything and 3.8% see a cashless system as an opportunity to budget across the weeks and months.

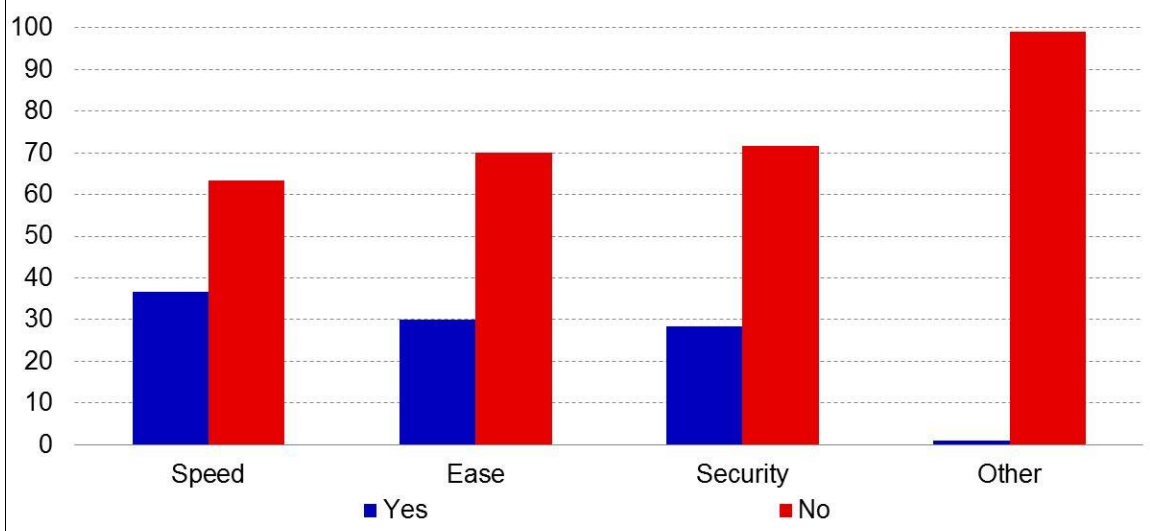
The Survey also reveals that speed of service seems to be a more important consideration than ease of use and security, when opting to use cashless systems (see Chart 15).

Chart 14
REASONS FOR ADOPTING A CASHLESS SYSTEM(1)
(percentage of households)



Source: Central Bank of Malta calculations.
(1) Respondents were asked about the benefits associated with a cashless system.

Chart 15
FACTORS ENCOURAGING USE OF NON-PAPER BASED INSTRUMENTS[1]
(percentage of households)

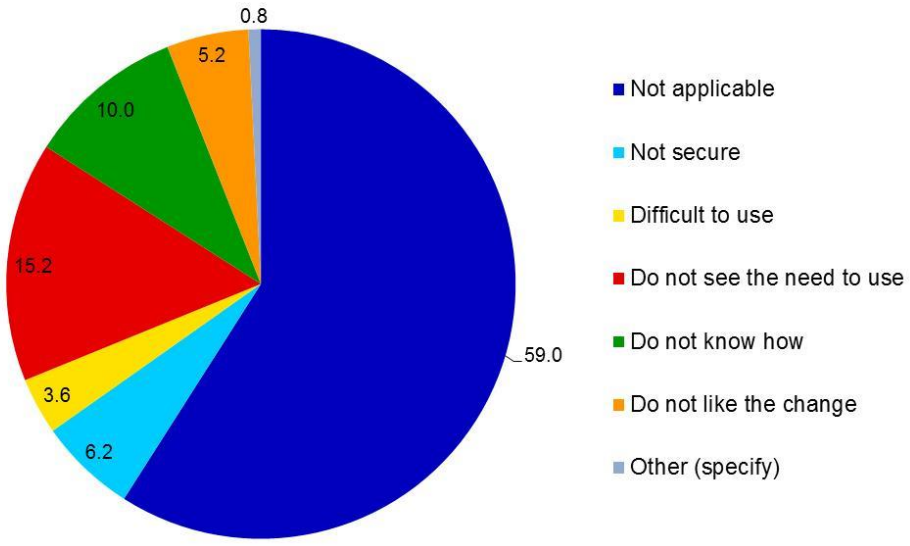


Source: Central Bank of Malta calculations.
[1] Respondents were asked for reasons why they would adopt a cashless system.

The Survey also sought to gauge households' satisfaction with the information available on cashless systems. The results reveal that almost 70% of households feel that they do not have sufficient information to make an informed decision on whether to go for a cashless system. Lack of information may thus explain why a significant share of households would not consider adopting a cashless system.

Chart 16 focuses on what hinders the use of mobile payments.

Chart 16
REASONS FOR NOT USING MOBILE PAYMENTS TO MAKE PAYMENTS(1)
(percentage of households)

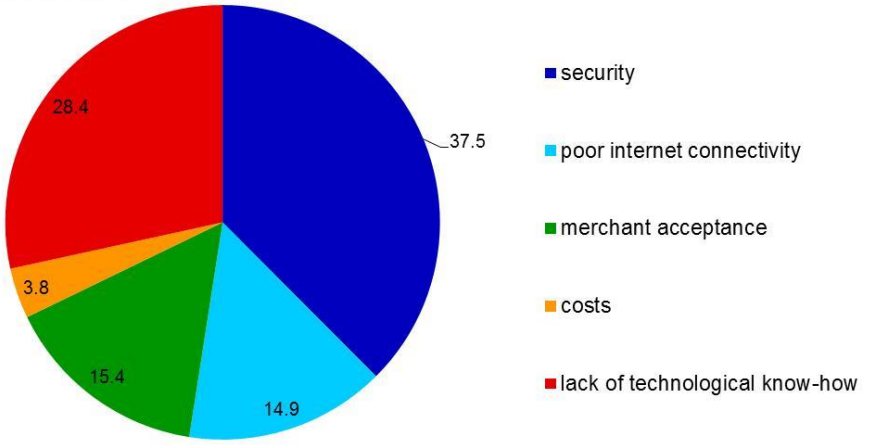


Source: Central Bank of Malta calculations.
(1) Respondents were asked if they use mobile payments to make payments.

The Survey shows that 59% of households felt, for undisclosed reasons that the question asking for reasons why they do not make use of mobile payments does not apply to them. Others (15.2%) noted that they do not see the need for using mobile payments while, 10% do not know how to use such payment instrument. Furthermore, 6.2% consider such payments as unsecure, 5.2% noted that they do not like the change and 3.6% said that mobile payments are difficult to use.

Lack of technological knowhow and security were the most frequently cited aspects that would concern households if cash was to be replaced by electronic payments (see Chart 17). By contrast, the cost of cashless system is the least worrying aspect.

Chart 17
FIRST CONCERN IF CASH WAS REPLACED BY ELECTRONIC PAYMENTS(1)
(percentage of households)



Source: Central Bank of Malta calculations.
(1) Respondents were asked to express their main concern if cash was replaced by electronic payments.

Assessment of Payment Instruments

The Survey also assesses the knowledge that respondents have on each payment instrument. This enables a clearer picture on how comfortable households are in using different payment instruments and how they perceive these instruments to fare in terms of security, acceptance for payment, cost, convenience, getting and setting up and payment records.

Security of Payment instruments

The Survey reveals that there seems to be lack of knowledge with regards to the security element of each payment instrument against permanent financial loss or unwanted disclosure of personal information. For example, 46.0% of households in this survey said that cash is a secure or very secure payment instrument. Furthermore 27.4% replied that cash was neither risky nor secure, when actually cash is exposed to risks of theft and counterfeiting. When asked about the security of cheques, 50.0% of households said that cheques are secure or very secure and only 4.8% considered cheques to be risky or very risky, with the remaining 45.0% of households being either unsure or did not know. Meanwhile, 53% of households said that debit cards are secure or very secure, 35.4% did not really know how risky they are, and 11.6% said that they were either risky or very risky. This picture broadly also holds for credit cards although households perceive them to be less secure than debit cards. When households were

asked to answer about prepaid cards, direct debits, credit transfers, mobile and online payments, a significant share were unable to identify the extent of risk and security in these payment instruments.

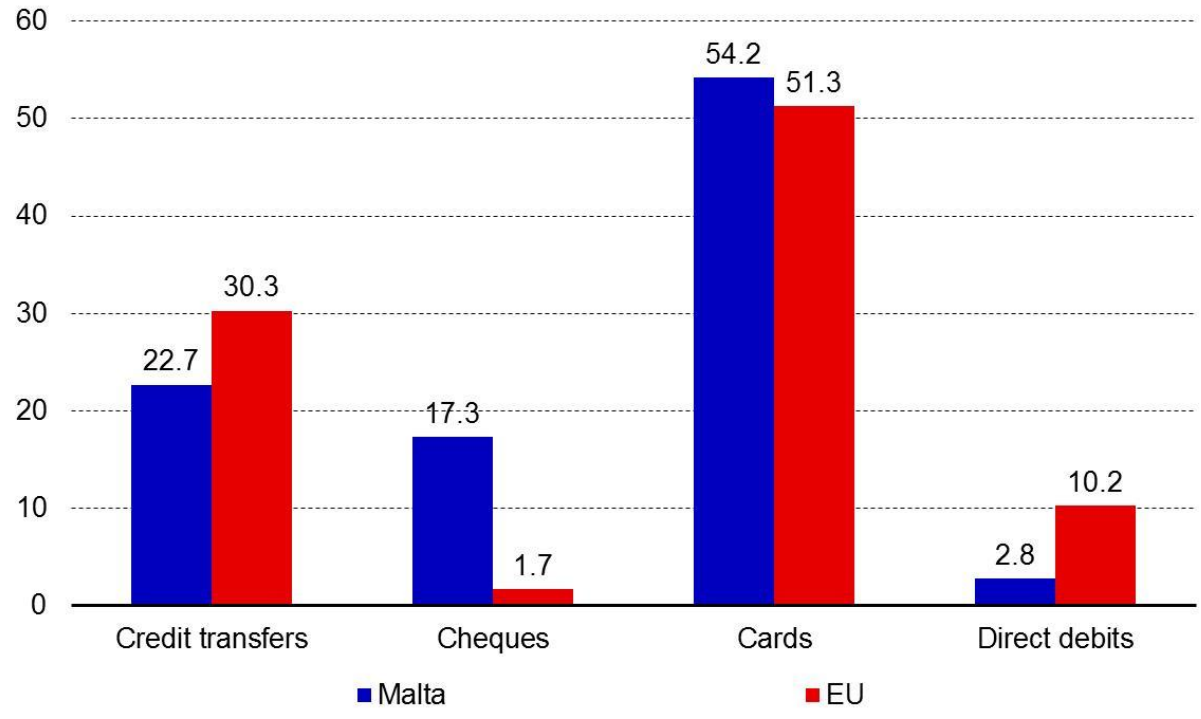
7. Comparison with EU Member States

This section compares the current payment habits in Malta with other European Union Member States on the basis of ECB payment statistics for 2017.[6]

These statistics suggest that even though modern payment instruments are highly efficient and reliable, the Maltese society tends to rely heavily on payment instruments which are considered inefficient, such as cash and cheques.

These statistics allow a comparison of the usage of the four main payment instruments (i.e. Credit transfers, cheques, cards and direct debits) in Malta relative to other EU Member States.

Chart 18
RELATIVE IMPORTANCE OF MAIN PAYMENT INSTRUMENTS OTHER THAN CASH IN MALTA AND IN THE EU IN 2017(1)
(percentage of total number of transactions)



Source: ECB.
(1) Percentages may not add up to 100%, as e-money transactions and other payment services are not shown.

[6] https://www.ecb.europa.eu/press/pr/stats/paysec/html/ecb.pis2017.en.html the data represents transactions reported by local Payment Service Providers (PSPs) for payment instruments issued locally.

Chart 18 shows that in 2017, cards accounted for 54.2% of non-cash transactions in Malta, while credit transfers and cheques represented 22.7% and 17.3% of such transactions, respectively.

At the same time, the usage of cheques in Malta is still relatively high, when compared with the EU average of 1.7%. Malta had the highest share, ahead of Cyprus with 12.0% and France with 8.8%. This contrasts with a number of other countries, where cheques were hardly used. Although cheques are not an efficient payment method due to the long clearing cycle and the very labour intensive and costly processing involved, these may be attractive mainly due to the fact that cheques are free and negotiable instruments.

Malta also registered a very low usage of direct debits. These accounted for 2.8% of non-cash transactions, which is lower than the EU average of 10.2%. The limited use of this payment instrument may be due to lack of knowledge and trust. The importance of this payment instrument could increase as people learn to use it and experience its benefits.

8. Payment Diary

The survey incorporated a one week payment diary in which respondents had to record each purchase made and the payment instrument used.

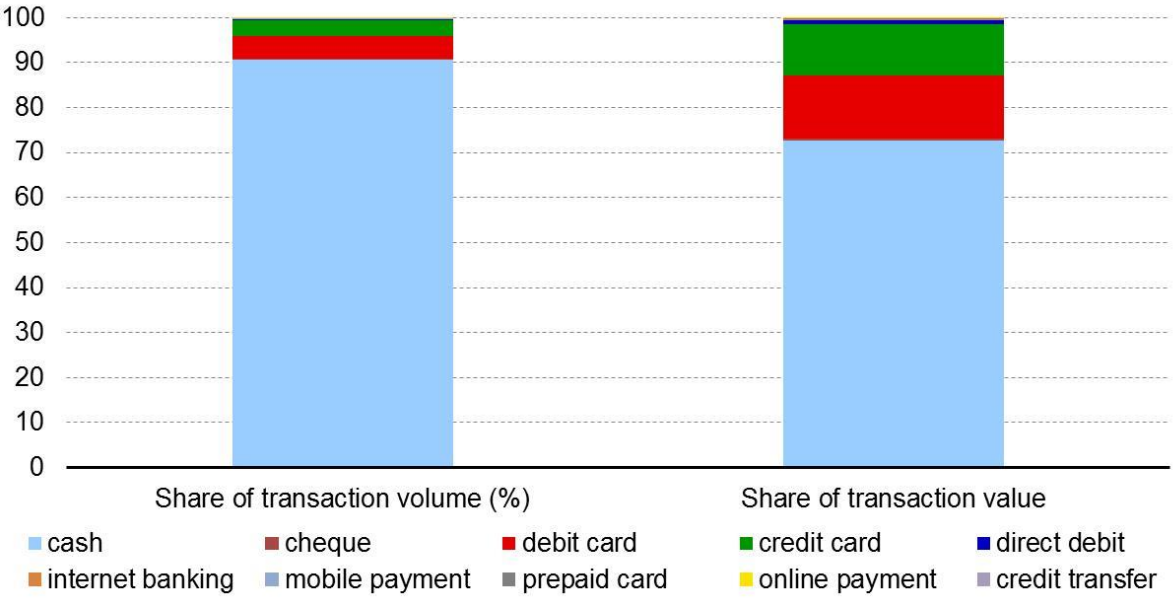
Different products and services were divided amongst categories as shown in Table 2.

This information allows the extraction of the relative importance of different payment instruments in the volume (number) and value of transactions in each product/service category. Furthermore minimum, maximum and median values are presented for each transaction category and instrument to ensure a detailed analysis.

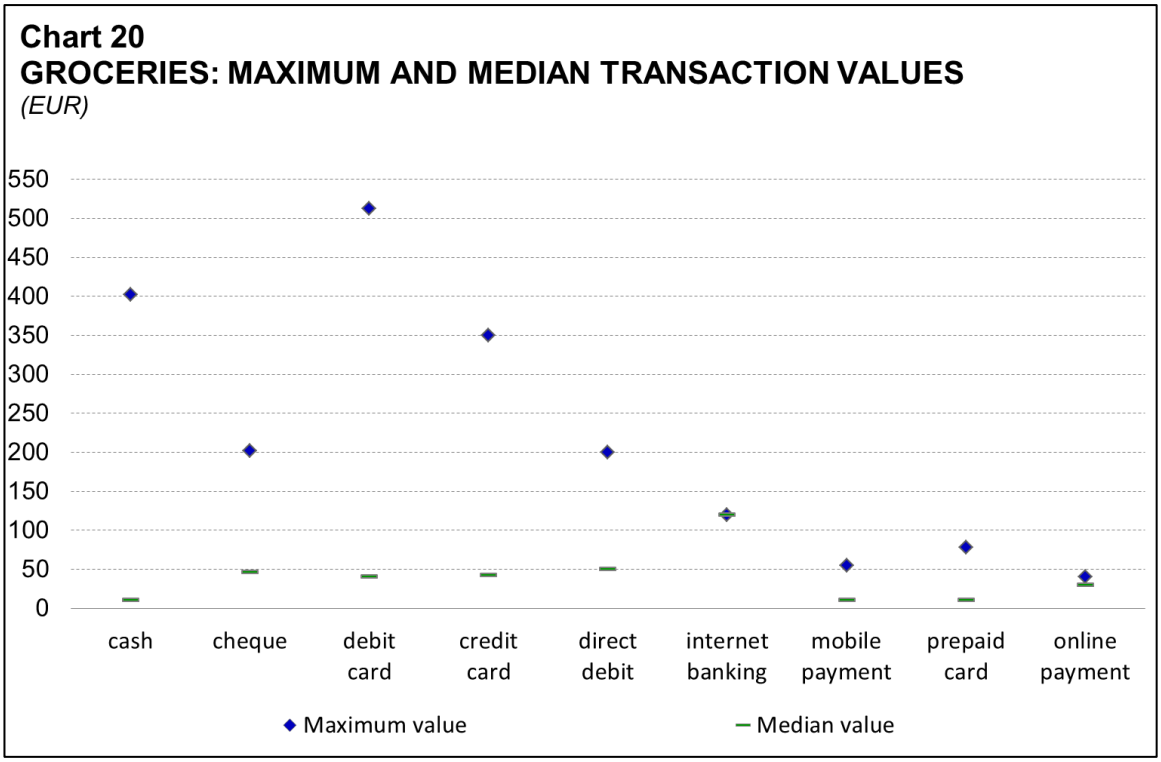
Category A – Paying for groceries

When paying for groceries, cash remained the dominant payment instrument. It accounted for 90.6% of all payments for groceries in volume terms, with most of the remaining transactions settled by means of debit cards and credit cards. The importance of cash in terms of value was also significant, with a share of 72.7% on this basis. Debit cards and credit cards jointly accounted for around a quarter of the value of grocery transactions (see Chart 19). The payments diary suggests that other payment instruments were used much less frequently to pay for groceries. For example, cheques were used for less than 1% of such purchases.

Chart 19
VOLUME AND VALUE OF GROCERIES TRANSACTIONS BY PAYMENT INSTRUMENT
(percentage of total)



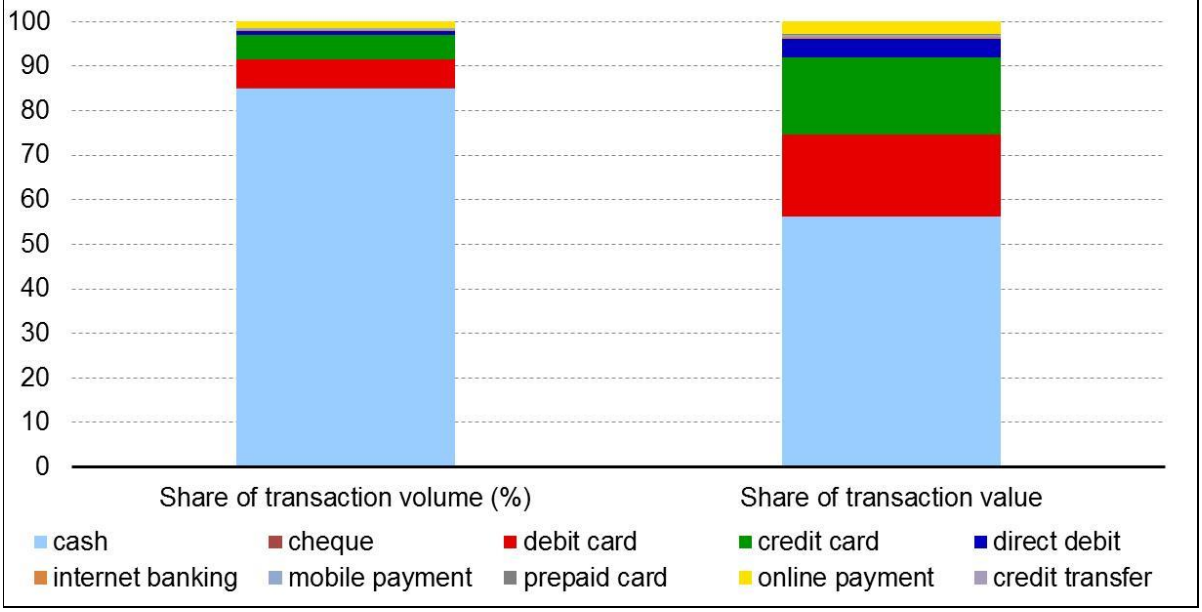
The median value of cheque, debit card and credit card payments for grocery purchases was in the range of €40 to €50 per transaction, while that of cash was only €10, suggesting that cash tends to be used for smaller transactions (see Chart 20). However, one can also detect a degree of dispersion in the size of transactions settled by individual instruments. For example, a small percentage of transactions settled by cash had a value exceeding €100. In fact the maximum value of any such transaction approached €400. A degree of variation in transaction size is also apparent in the case of cheques, debit and credit cards. In the case of debit cards specifically, transaction values ranged between €2.78 and €512.00.



Category B – Paying for consumables

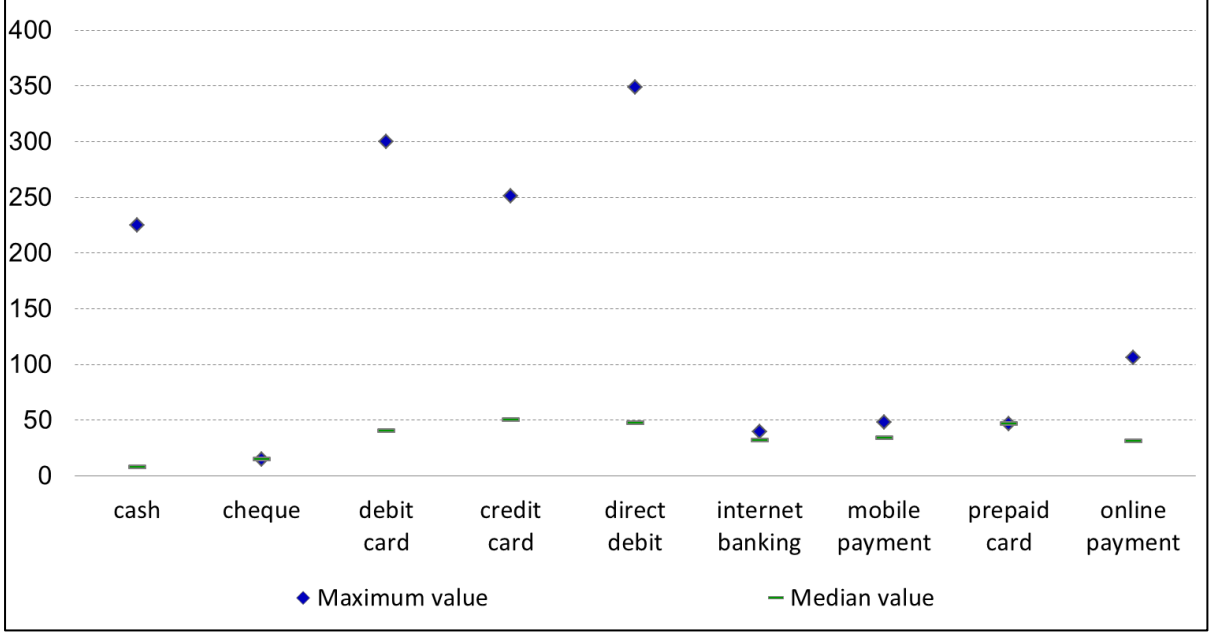
Cash yet again emerges as the most widely used payment instrument for consumables (see Chart 21). It was used in 84.9% of such transactions, followed by debit cards (6.4%) and credit cards (5.5%). A small percentage of transactions in this category (1.5%) were effected online. The importance of cash in terms of value was also significant, with a share of 56.2% on this basis. Debit cards and credit cards jointly account for about 35.6% of the value of consumables purchased during the period surveyed. The payment diary suggests that other payments instruments were used much less frequently to pay for consumables. For example, cheques were used for 0.1% of such purchases. Nonetheless, a non-negligible share of transactions by value (7.0%) was affected by means of direct debits and online payments.

Chart 21
VOLUME AND VALUE OF TRANSACTIONS OF CONSUMABLES BY PAYMENT INSTRUMENT
(percentage of total)



The median value of debit card, credit card and direct debit payments was in the range of €40 to €50 per transaction, while those of cash and cheque payments were only €8 and €15, respectively, suggesting that cash and cheques tend to be used for smaller purchases of consumables (see Chart 22).

Chart 22
CONSUMABLES: MAXIMUM AND MEDIAN TRANSACTION VALUES
(EUR)



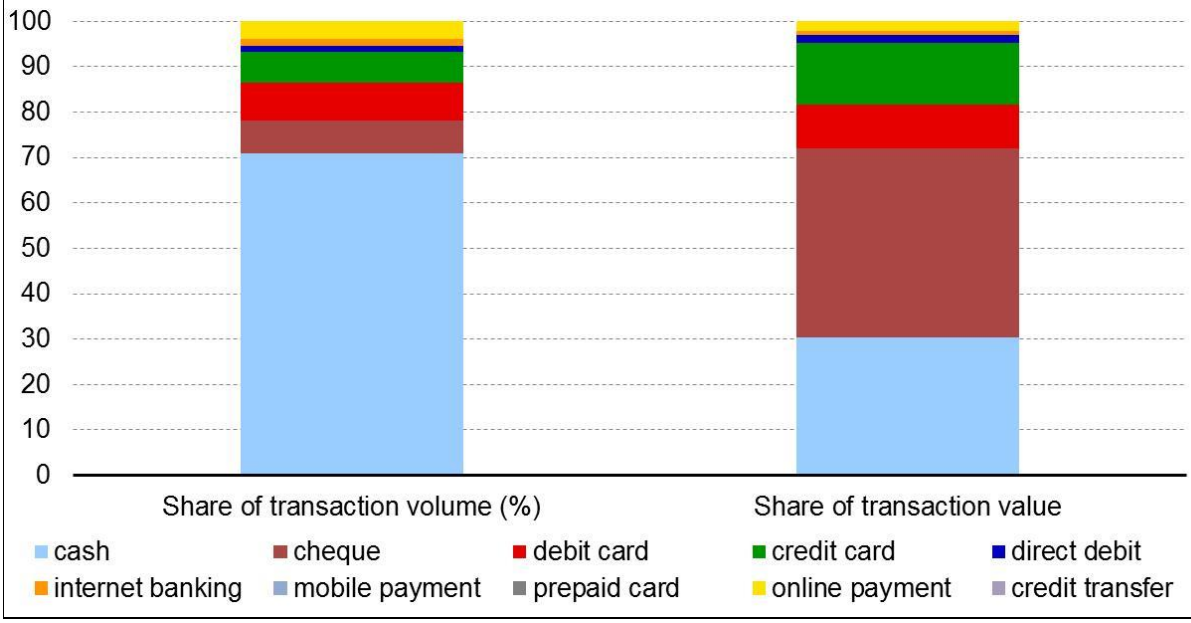
However, one can also detect a degree of dispersion in the size of transactions settled by individual instruments other than cheques. For example, a small percentage of transactions settled by cash had a value exceeding €200. In fact the maximum value of such transaction approached €225. A degree of variation in transaction size is also apparent in the case of debit and credit cards as well as direct debits with some transaction values approaching, or even exceeding €250.

Category C – Paying for non-consumables

This category includes payments for white goods, furniture, gold, cars, hi-fi, electronics and computers. Payments in this category are considered to be high value payments. During the survey period, cheques accounted for just over 40% of the value spent on such items, followed by cash (around 30%). Credit cards were the next important instrument used on this basis, followed by debit cards. Together, these two payment instruments accounted for less than a quarter of values transacted (see Chart 23). While cheques superseded cash in value terms, a different pattern emerges when looking at the use of the various instruments in volume terms. Cash was used in 70.9% of the total number of transactions in non-consumables with cheques only used around 7% of such transactions. Debit cards and credit

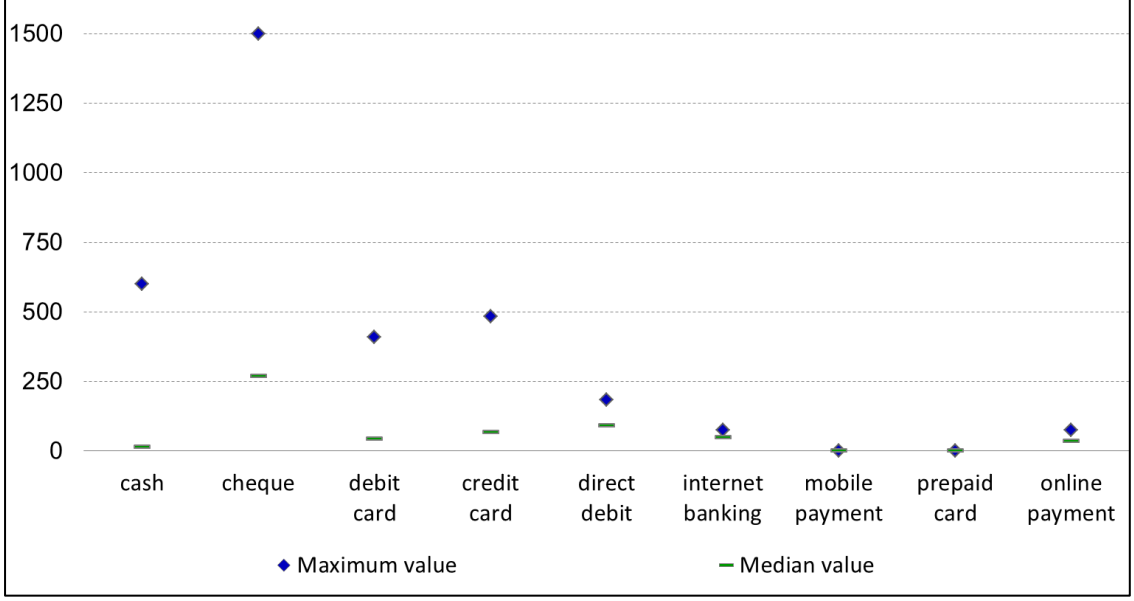
cards were only used in 15.2% of transactions in non-consumables. This suggests that cheques were used relatively infrequently when purchasing durables and other non-consumables, but the value of transactions settled in this way tends to be large. At the same time, although cash was the most frequently used instrument, this tended to be used for lower value transactions.

Chart 23
VOLUME AND VALUE OF TRANSACTIONS OF NON-CONSUMABLES BY PAYMENT INSTRUMENT
(percentage of total)



In fact, the median value of cash transactions for non-consumables was only €15, while that of cheque payments reached €270 per transaction (see Chart 24). By comparison, the median values of credit card and debit card transactions for non-consumables stood at, respectively €67.50 and €42.70. However, one can also detect a degree of dispersion in the size of individual transactions. For example, selected transactions settled by cash had a value exceeding €500. In fact the maximum value of any such transactions approached €600. An even more significant degree of variation in transaction size is also apparent in the case of cheques. In the case of cheques specifically, transaction values ranged from €24 to €1500. By contrast, the largest transactions settled by means of debit or credit cards approached relatively a smaller amount of €500. This may reflect the fact that while cheques do not carry limits in terms of the amount that can be spent daily, typically there are daily limits on the value that may be settled with debit and cards.

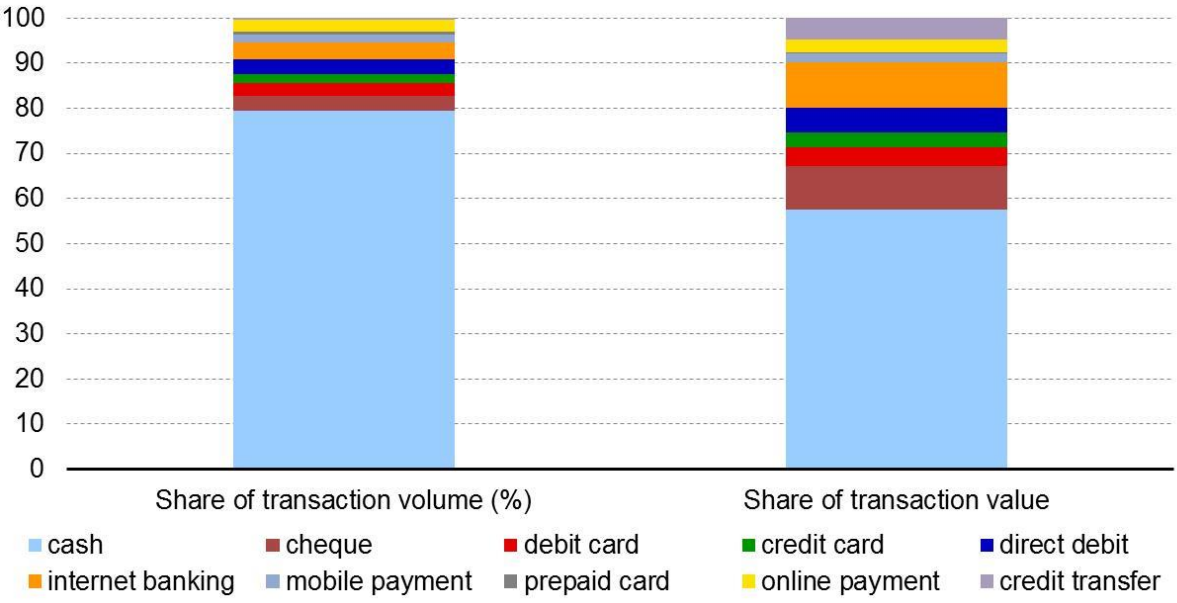
Chart 24
NON-CONSUMABLES: MAXIMUM AND MEDIAN TRANSACTION VALUES
(EUR)



Category D – Paying for utility bills

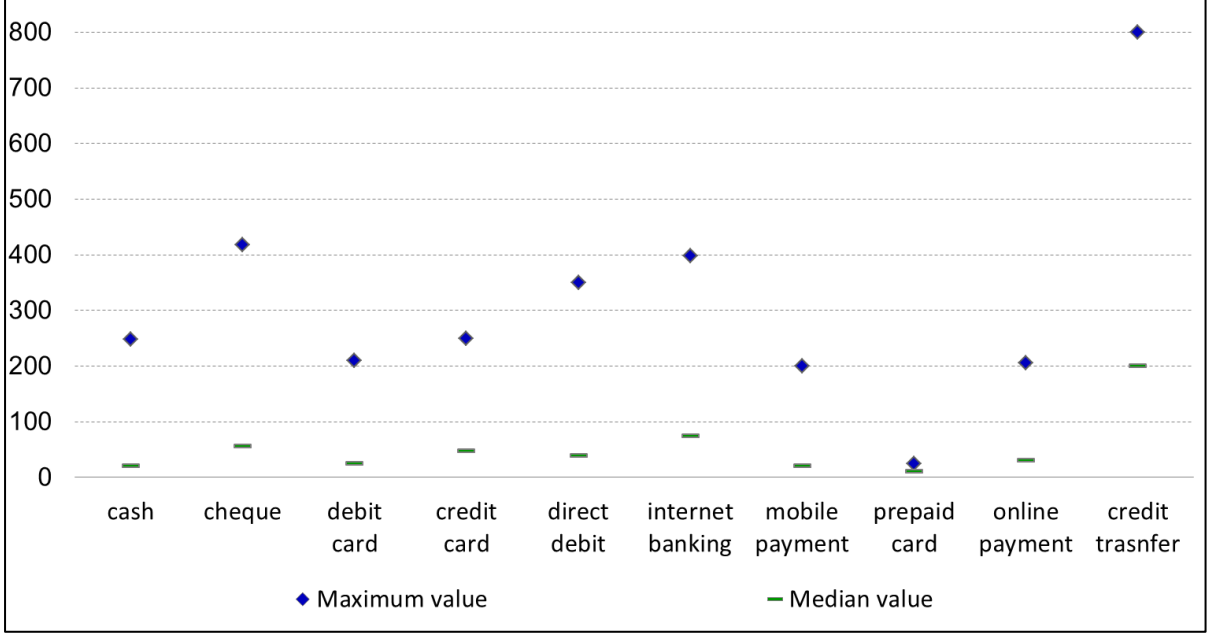
Cash accounted for 79.5% of all payments for utility services in volume terms (see Chart 25). All other instruments were used to settle the remaining 20.5% of transactions in this category, though in all cases the number of transactions settled was small. The importance of cash in terms of value was also significant, with a share of 57.6% on this basis. Internet banking and cheques each accounted for around tenth of values transacted. The payment diary suggests that other payment instruments were used much less frequently to pay for utility services. In particular, direct debits, credit transfers and debit cards accounted for less than 15% of values transacted, while credit cards, online payments amd mobile payments featured in less than a tenth of transacted values.

Chart 25
VOLUME AND VALUE OF TRANSACTIONS OF UTILITY SERVICES BY PAYMENT INSTRUMENT
(percentage of total)



The median value of cash and debit card payments, as well as mobile and online purchases is relatively small, in the range of €20 – €30 (see Chart 26). A higher median value per transaction is estimated for credit card payments, cheque payments and internet banking, at around €47, €56 and €75, respectively. It is also notable that while credit transfers were the least frequently used instrument, they were used for higher value transactions. Variation in the size of individual transactions settled by the various instruments is also evident in this category. For example, the maximum value per transaction settled by cash was €247.50, while the smallest transaction had a value of €1.00. In the case of cheque transactions, values ranged between €7.50 and €418.00.

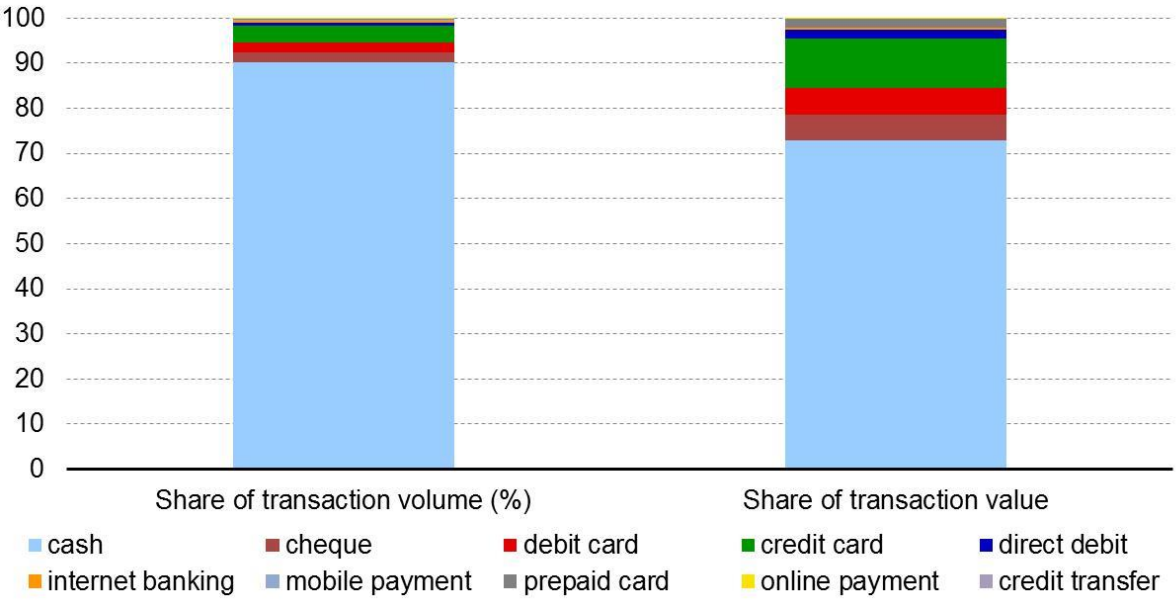
Chart 26
UTILITIES: MAXIMUM AND MEDIAN TRANSACTION VALUES
(EUR)



Category E – Paying for wellness services

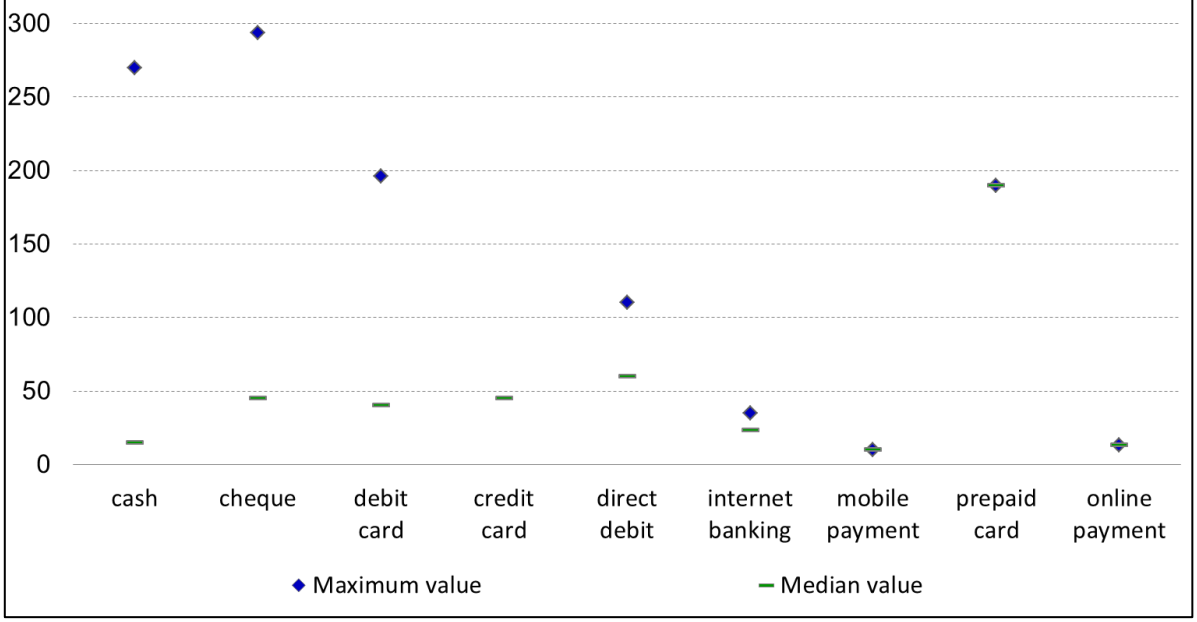
Category E involves payments for wellness services, such as hairdressers, beauticians and gyms. When paying for such services, cash remained the dominant payment instrument used. It accounted for 90.2% of all payments for wellness in volume terms, with most of the remaining transactions settled by means of credit and debit cards, and cheque (see Chart 27). The importance of cash in terms of value was also significant, with a share of 72.8% on this basis. Credit cards accounted for around 11% of the value of wellness transactions, while cheques and debit cards each account for a further 6%.

Chart 27
VOLUME AND VALUE OF TRANSACTIONS OF WELLNESS SERVICES BY PAYMENT INSTRUMENT
(percentage of total)



The median value of cash transactions in wellness services is €15, highlighting the widespread use of cash for small transactions (see Chart 28). Payments via internet banking were also small, though this instrument was sparsely used. Cheques, debit and credit cards as well as direct debits exhibit a higher median value per transaction, in the range of €40 to €60. As is the case for other products and services categories, a small percentage of transactions settled by cash had a large value. The largest transaction was value at around €270. A degree of variation in transaction size is also apparent in the case of cheques, debit and credit card and direct debits. In the case of cheque payments specifically, transaction values ranged from €10 to around €290, Debit card and credit card transactions ranged from around €9 to €196 and from €12 to €350.

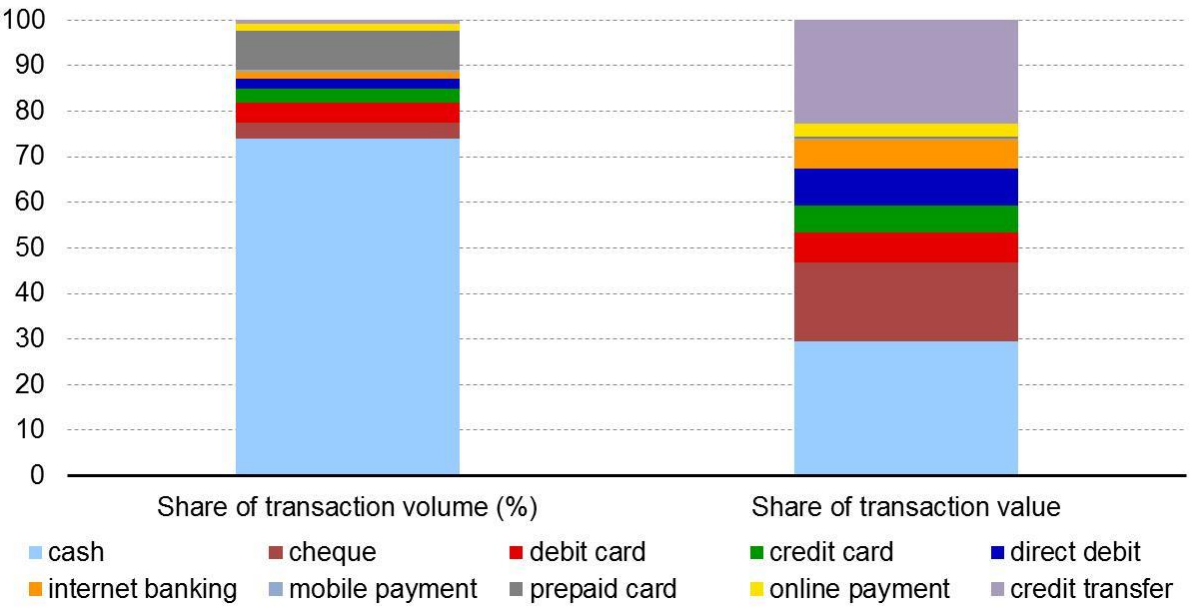
Chart 28
WELLNESS: MAXIMUM AND MEDIAN TRANSACTION VALUES
(EUR)



Category F – Paying for other services

When paying for other services, cash remained the dominant payment instrument used. It accounted for 74% of all payments in this category, with most of the remaining tansactions settled by means of debit cards, credit cards and cheques (see Chart 29). However, cash appears to be much less important in terms of value, with a share of 29.4% on this basis. The next most important instruments in value terms were credit transfers and cheques, in that order. The payments diary suggests that other payment instruments were used much less frequently to pay for other services. For example, the share of credit and debit card payments in the overall value of transactions considered in this section was around 12%.

Chart 29
VOLUME AND VALUE OF TRANSACTIONS OF OTHER SERVICES BY PAYMENT INSTRUMENT
(percentage of total)



The median value of cash payments was low, at €10, once more highlighting the predominance of cash for small value transactions (see Chart 30). Debit card and credit card payment had a moderately higher median value per transaction of between €40 and €50. Direct debits, internet banking and cheques tend to be more popular for larger transactions, as the median value per transaction in such cases was around €135, €190 and €248, respectively. The extent of dispersion in the size of transactions settled by individual instruments is very significant. In the case of cheques specifically, transaction values ranged from €10 to €2,279 while in the case of credit transfers, transaction values ranged from €30 to €13,150.

Such dispersion may be explained by the diverse nature of transactions classified in this category, which include transport services, financial transactions as well as travel-related expenses.

9. Conclusion

The Payment Habits Survey carried out in 2018, similar to the previous survey, shows that Maltese households are more inclined to use cash and paper-based payment instruments as the primary payment channel. The two main reasons given by interviewees for this high usage of cash, was due to the fact that cash is easy to use/fast, to avoid fraud/counterfeiting and avoid theft. However, cash is universally known that it is an instrument which is normally counterfeited and also attractive to theft. There was a high percentage of respondents who do not make use of many of the other payment instruments notwithstanding that these are highly efficient and convenient. The reason for this may be due to the unwillingness of the public to change their habits or due to lack of knowledge with regards to modern means of payment. Another issue concerning the use of certain payment instruments is the expenditure pattern that differs across households depending on a number of demographic and economic factors, such as disposable income, level of education and age. The Survey shows that the Maltese households are still unaware of the benefits of modern payment instruments, such as direct debits or card payments.

The public is also unaware that the traditional paper based payment instruments are costly to process and maintain, perhaps because individuals are not usually charged for the use of such instruments.

However, the latest survey shows that progress has been made and changes were recorded and more purchases of a considerable high value are being paid by debit cards, credit cards and cheques instead of cash. Moreover the younger cohort is showing a different perspective to the various means of payment. This may be attributed also to their spending patterns, where there is more spending on leisure goods and services rather than on energy or housing *(Darmanin, 2018).*[7]

It is important to note that there is lack of knowledge with regards to the security element of each payment instrument against permanent financial loss. Unwanted disclosure of personal information was also mentioned in the survey, and this may be the reason why cash registered a high percentage of 29% as being the most secure payment instrument. Furthermore when respondents had to answer about credit cards, prepaid cards, direct and credit transfers, mobile and online payments, respondents were unable to identify the extent of risk involved in these payment instruments.

[7] Mr Jude Darmanin "Household Expenditure in Malta and the RPI Inflation Basket" Quarter Review 3-2018 and NSO (HBS) 2015.

The survey also gave an indication that there is lack of information on the various payment instruments that exist and their benefits. This also maybe another reason why the public prefers using the traditional payment instruments which they are conversant with.

Change in payment habits warrants the need for a nationwide educational campaign, for all age brackets and all spheres of business. In this way individuals will be better informed of the advantages, disadvantages, benefits and limitations of all payment instruments and will be able to make informed decisions to make better choices when effecting payments. Some incentives are encouraged by various stakeholders that could drive the public to go for cashless payments, for example reduction in fees for online transactions. The example of Tal-Linja card is a clear example that given the necessary information the public could be willing to switch to a cashless system and make use of cards and other payment instruments and channels.

Way Forward

This survey has provided some insight on the volume and values of cash payments relative to other payment instruments and a better understanding of consumers' payment behaviour. The survey has also provided a broad background for policy making relating to the promotion of cost-efficient modern payment methods, which need to be supplemented by an educational campaign to drive the general public to change their payment habits as well as incentives to make such a switch. A shift towards the use of more efficient payment instruments should ultimately result in improved social welfare through cost savings for society.