

*Cash is still very much king,  
but new payment solutions  
are gradually being adopted*



By Elena Fantechi

On a recent trip to Milan to meet various experts across the Italian banking sector to discuss some of hottest trends in consumer payments, I had a first-hand experience of the state of play within ten minutes of leaving the airport.

Finding a taxi that had a POS terminal on-board was challenging in itself. Finding a taxi driver that was actually willing to use it was another matter altogether!

This is a situation that we are seeing across multiple countries despite the efforts being made to drive the adoption of electronic payments, especially in regards to smaller everyday transactions.

## Cash is still very much king

The Italian payment landscape is still dominated by cash. It has been estimated that cash accounted for approximately 80% of all transactions in 2015, a higher percentage than most other European countries.

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While some Nordic countries, e.g. Denmark and Sweden, are moving towards cashless societies, Italy is still trying to encourage wider POS terminal adoption. The Italian government has recently issued a new law ('Legge di Stabilità') that includes a requirement for merchants and freelance professionals to offer the option to pay by card even for low amounts.

'Legge di Stabilità' came into effect from the 1<sup>st</sup> January 2016 and it now means that my fellow Italians can pay for a coffee with their debit or credit card at all merchants. Previous attempts by the

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Italian government have not been so enforcing so we expect that the new law will help drive card use and acceptance levels. In 2014 the government implemented a law that included the requirement for merchants to accept debit card payments for amounts over €30 when requested by the customer. The new law has lowered the spend threshold, included credit cards and more importantly has made it mandatory for merchants to accept card payments if presented with a card from a customer and forbidden merchants to actively suppress card payments in favour of cash.

Several banking experts that I spoke to believe that, whilst the new law could lead to a gradual increase in card payment transactions over time, only the introduction of fines would enforce it completely. No actions have been taken yet or appear to be in the pipeline and we will be keeping an eye on this potential development.

On the other side of the coin, the same law ('Legge di Stabilità') seems to take a step back as it has raised the limits on the cap for cash transactions. 2011 saw the government mandate that cash could not be used for transactions over €1,000 (down from €2,500). The new law has increased the cap to €3,000 (for both consumers and businesses). This is in fact not a new trend as there has been a historical cycle, for example in 2008 the cap was reduced from €12,500 to €5,000, but then raised again to €12,500 during the same year, and reduced to €5,000 in 2010. The main objective behind the cap on cash usage has remained consistent - to reduce the size of the black market and money laundering practices. There are still some exceptions with the new law, for example, the cap remains at €1,000 for transactions made by the public sector and for money transfers.

From my perspective, more still needs to be done as the law focuses on merchants and does not incentivise the adoption of alternative payment methods and new technologies amongst consumers, e.g. mobile payments, e-wallets, etc. Many of the experts that I have spoken to agree with me and support the notion that some other actions should be taken to

encourage a behavioural shift amongst the population.

## There are encouraging signs that things are starting to change

Despite the predominance of cash, electronic payment transactions are increasing in Italy.

According to a report recently published by the Bank of Italy<sup>1</sup>, debit cards in issue and the number of transactions are both growing. However, the number of credit cards and average transaction size has declined slightly since 2010 although the

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number of transactions has increased which suggests that credit cards are being used more for everyday purchases.

This trend is largely the result of issuers rationalising their value propositions, imposing stricter approval criteria and the preference of consumers for debit cards.

Encouragingly the number of active POS terminals is growing and is expected to continue to do so, especially following the introduction of new laws such as 'Legge di Stabilità'.

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<sup>1</sup> Supplements to the Statistical Bulletin – Payment System, n. 27 – 2016, Bank of Italy

## Online use is contributing towards the growth of card payments

Card payments have gained traction in the online space. E-commerce and m-commerce have both contributed to the growth of card spend in the last few years and this is still growing at

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exponential rates, although Italy is still behind most other European countries in terms of online sales.

Tourism and transportation spend, e.g. spend on train and airline tickets, currently represents a large part of online sales volume, alongside clothing and entertainment, electronics and insurance. Strong growth is expected to be seen across various industries, including food, health and beauty, books and music.

Mobile is increasing its importance, not only as a traffic generator but also a sales channel, thanks to the efficiency and convenience associated with the purchase process.

## Low adoption of new technology and solutions

Innovative payment features and solutions, such as contactless, mobile payments, e-wallets, peer-to-peer money transfers and mobile POS, could contribute to the growth of electronic payments in the near future, as long as

they are efficient and simple-to-use. Currently, several banks and specialised players are already promoting these offerings but the level of adoption is still relatively low.

A cultural change is needed before we see considerable growth in adoption levels. Consumers still have to understand the benefits of the new technology and solutions, i.e. speed, convenience, user-friendliness, etc. This is something that all the players in the payments ecosystem need to address.

In addition, merchants also still need to be educated on the cost of accepting cash and how card acceptance and other new payment solutions can contribute to the growth of their business, e.g. through encouraging customers to buy and buy more (i.e. larger basket sizes), learning more about their customers and also improving the efficiency of back office processes, to name just a few.

We believe that there is still a long way to go before Italy reaches the payment habits of other European countries, but we have witnessed some movement within the payment landscape.

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Maybe for my next trip to Italy, I'll be able to pay for a taxi ride with my smartphone!