All eyes on payments at Christmas

The Australian Retailers Association has forecast Australians will spend A$41.2 billion in the six weeks leading up to Christmas, an increase of 3.9 percent on last year. Every state, with the exception of Tasmania, should see an increase in Christmas spending.

While those numbers are encouraging enough in an uncertain economy, the real issue is just how those payments will be made. Payments has been one of the big areas for change over 2012, with mobile payments, smartphone wallets and new online players all crowding into the market, and the once mighty dominance of the credit card now eclipsed by the rise of the debit card. Who would ever have thought "tap and go" would mean paying for something?

Whether it is the ongoing momentum for deleveraging by households, or a dislike of the high interest rates on credit cards, debit cards now account for the majority of payments accepted by Australian merchants.

East & Partners annual Merchant Payments Report illustrates the rise of the debit card. According to research done across 2247 Australian businesses in December, debit cards now account for 50.2 percent of business receivables, up from 46.1 percent over the last twelve months.

Banks are twigging to the rise of debit, and scheme issued debit may not rule the roost for too much longer if the trend continues. Scheme cards fell as a percentage of all debit cards in this survey for the first time in several years, down from 29.9 percent to 27.1 percent, while bank issued debit went from 16.2 percent to 23.1 percent. The gap is narrowing.

At the same time, the use of credit cards has declined to 17.7 percent and perhaps surcharging and card fees are part of the reason why. The East report showed that while card fees for Amex and Diners Club have come down to under 2 percent of a transaction, they are still significantly higher than the 0.6 percent charged by MasterCard and Visa.

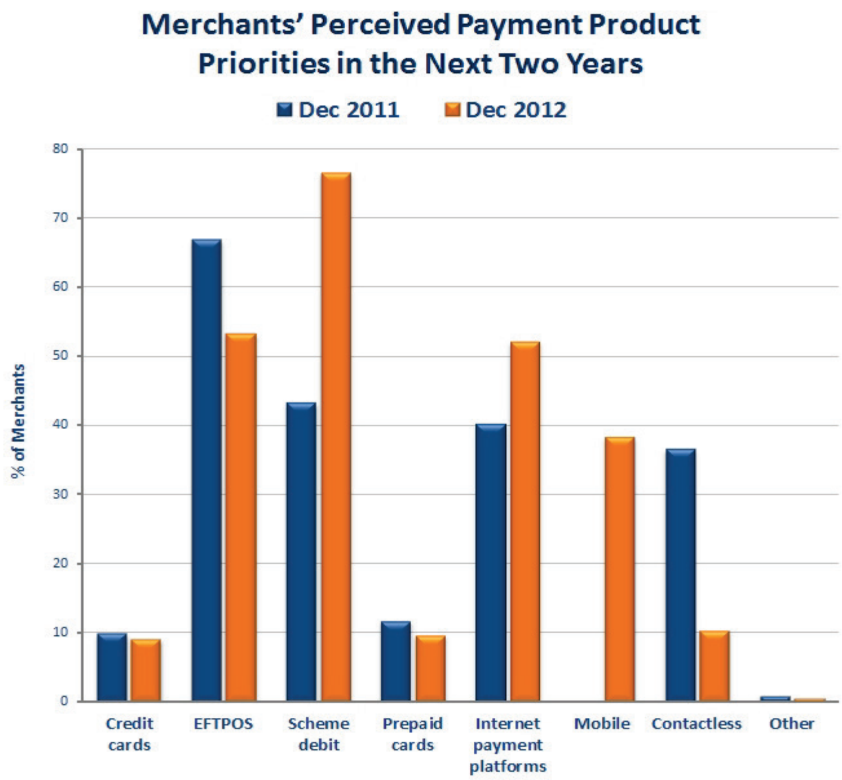
Surcharging is also coming down, but it is not going away. Merchants of all sizes continue to apply surcharges, with the practice most prevalent among the larger institutional and corporate segments, where six out of ten businesses are already surcharging, and three in ten are indicating they are planning to do so.

Merchant resistance to online payments is also crumbling, with the percentage of merchants either accepting payments online or planning to do so having exceeded 50 percent for the first time. 23.9 percent of merchants now accept online payments, and 28.4 percent say they intend to do so.

The other wave of the future is mobile payments with 38.3 percent of all merchants saying this is a priority area for them in the next two years.

Already, those trends are being felt this Christmas. PayPal Australia says 22 percent of Australians will make $5.6 billion worth of purchases on their mobile phones this Christmas, compared to $155 million in 2010.

That equates to roughly 20 percent of what the Australian Retailers Association says we will spend this Christmas. If that is the case, then we won't need our leather wallets for much longer, and wallets won't be such a useful choice as a Christmas present.



Note: Results sum to more than 100 percent due to multiple responding
Source: East & Partners' Australian Merchant Payments Report – December 2012