

How will coronavirus impact global payments?

26 February 2020

While too early to fully understand the economic fallout of Covid-19's global spread, markets have certainly begun reacting: European shares plunged to their lowest point since the 2016 Brexit vote as news of the outbreak in Italy emerged. The Dow Jones, having fallen by over 1000 points on Monday, has not fared much better.

How then might payments be affected? Mastercard announced this week that it expects a drop in revenue as both cross-border travel and e-commerce have been negatively impacted. Not alone in this gloomy outlook, other major companies have reported modified expectations of similarly sluggish growth.

E-commerce under pressure

While one might expect that e-commerce firms, and thus methods of online payment, would be well-positioned to monetise the current preference to avoid bricks-and-mortar outlets, Alibaba has actually also warned of a drop in revenue too as its supply chain and logistics come under pressure. "Similar problems are being experienced in South Korea," noted Lorna Baek of Verisk Financial Research, who has been in regular communication with her contacts in the country. "Merchants are facing issues fulfilling orders and getting items delivered, despite a surge in demand. This supply situation, coupled with empty shelves after panic buying in supermarkets, means that consumers are unable to spend their money any which way, despite the desire to do so."

Accelerating to cashless?

While revenues fall for the first quarter, one bright spot could be a rapid transformation in attitudes towards digital payments that might trigger a boom in contactless, digital and mobile payments as savvy, Coronavirus-conscious spenders and their



cautious governments work to minimise avoidable biological contact. Chinese banks have already been ordered to sterilise all banknotes, while interprovincial cash transfers have been suspended. Instead, the People's Bank of China has gone into overdrive to promote and further support mobile payments, already in wide use. May we now see a similar drive from governments around the world who thus far have remained largely complacent about the development of electronic payment options?

Export pressures

The deeper effects of this Black Swan event are difficult to establish in such a fast-moving situation. Most affected on the ground is China, which, at one point in February, had two thirds of its economy closed for business, with many factories still shuttered at the time of writing. This comes at a time that the ongoing US-China trade war has not only resulted in a sharp downturn in bilateral trade but is compromising the stability of the global economy and its future growth. According to a recent report from the UN's Conference on Trade and Development, Chinese exports to the US market lost \$35 billion in tariffs in the first half of last year, the costs of which are mainly being absorbed by Chinese firms reducing the prices of their exports.

Manufacturing by global brands of automobile and electronic products have all but ceased, and crude oil prices have fallen as plummeting Chinese demand forces OPEC to consider further output cuts. While the authorities in Beijing have signalled their resolve to continue deleveraging bad debts to strengthen its banking industry, that priority may now also fade as banks are being instructed to lend to the most affected sectors of the economy. With growth outlooks being downgraded to as low as three percent or less in the first quarter, stress tests have revealed that many Chinese banks would fail to meet capital adequacy ratios if growth slipped to 5.3 percent. Standard & Poor's cautioned that China could see its non-performing loan ratio jump above six percent if the current situation continues or worsens.

Focus on consumers

In the meantime, consumers are more focused on health than wealth. Will wallets around the world – digital or otherwise – be snapped shut? Or will markets find new ways around old problems to keep the cash moving? [Watch this space.](#)

ABOUT VERISK FINANCIAL RESEARCH

The market-leading online, interactive database and data dashboards covering the global cards and payments industry in detail, plus a range of data-packed country and regional reports. Leveraging financial cards data going back to 2010 - and forecasts up to 2022 - our unique datasets cover 72 countries around the world and feature more than 250 metrics per market.

To find out more about Verisk Financial Research's capabilities or to discuss subscription options:

Email: research_enquiries@verisk.com

Telephone: +44(0)20 7337 4200

Online: veriskfinancialresearch.com