COVID-19’S IMPACT ON THE US DEBIT MARKET

May 4, 2020

Please note that the information in this document is as of April 30th 2020, unless otherwise specified. In light of the rapidly evolving COVID-19 situation, it is possible that this information is no longer accurate after that date.

**Coronavirus pandemic**

COVID-19 is a black swan event, a global pandemic unlike any event in the past century

- Almost every country in the world is now dealing with the coronavirus
- First case detected in US on January 20, expanded at an exponential rate
- Over 1 MM cases and ~ 60,000 deaths in the US¹

**Shut down & impact on US economy**

To protect lives, major sectors of the US economy effectively shut down, resulting in significant contractions

- Factories and offices closed, retail stores shuttered
- 41 states (~88% of US population) have state-wide shelter-in-place rules¹
- Surge in furloughed workers and unemployment (+1600%)¹

**Impact on Debit Market**

The economic slowdown has directly fed into lower – and different – debit card use

- Total debit transactions fell by 25-30%, but some bounce back with stimulus
- Growth in some sectors (e.g. grocery); significant shift toward card-not-present spend
- Increase in attempted fraud and disputes

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**Where are we now?**

1

**Where do we go from here?**

2

3

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*Source: Information on the debit market is based on Oliver Wyman interviews with a broad sample of 55 FIs managing over 157 million debit cards (representing 42% of total market). Data on COVID-19 cases is sourced from Oliver Wyman’s COVID-19 Navigator. See section 4 for additional detail on both Oliver Wyman sources.*

1. Unless otherwise noted, all data is as of April 30, 2020. Given the fast changing environment (political, public health, economic, business and consumer responses, etc.), the reader is advised to seek the most up-to-date information.*
### RECOMMENDED ACTIONS FOR DEBIT ISSUERS

**Fraud**
- Re-calibrate current risk tools
  - Fraud attempts are increasing and static scoring models are not performing well with cardholders’ current out-of-pattern spending profiles
- Increase resourcing to manage disputes and chargebacks, and identify high risk and bad actors early

**Digital & Contactless**
- Introduce digital account opening and digital card provisioning (for new customers and for replacement cards), together with stronger self-service tools
- Accelerate migration to dual-interface contactless cards to support cardholder preferences in the CP space

**External messaging**
- With more card-on-file transactions, re-double efforts to ensure your FI’s debit card is the card that customers enroll
  - With CP, issuers get a crack at the transaction every time a card is pulled out a physical wallet; with CNP, it’s a one-time event to secure top-of-wallet status
- Promote your FI’s self-service capabilities, including mobile check deposit and card replacement

**Internal reporting**
- Develop dynamic, predictive reporting on what has and what is likely to happen; standard after-the-fact monthly MIS is insufficient in the current environment; ensure reporting captures the right metrics
  - Best-in-class reporting should combine three views – customer view (tied to DDA activity and deposits), network/processor view (tied to transactions, interchange and CP/CNP usage) and operations view (tied to approval rates, disputes, losses)

**Third-party payments providers**
- Engage with processors and networks to re-evaluate/reset baselines around volume thresholds for transaction pricing, and rebates or incentive payments
- Re-visit the earn/burn mix for rewards programs, especially merchant-funded rewards
  - Many MFR programs are designed to incentivize discretionary spend and their effectiveness is likely very low right now; similarly redemption options that emphasize travel, risk backfiring
- Ensure supply chain robustness for card plastics and chips; build additional inventory

**Customer service**
- Assess off-shore delivery and enhance back-up and resiliency plans for key functions (e.g., customer service centers)
  - Many FIs have offshore call centers (e.g., Philippines) and outsource some back office operations to other lower cost sites (e.g., India). As these countries also were locked down, FIs needed to quickly activate business continuity plans. In many cases, the short term effect has been service degradation and higher costs
- Introduce greater machine learning to automate certain tasks and increase go-forward resilience

**Looking ahead**
- Develop a blueprint to capture growth once retail spending picks up again and debit activity rebounds
WHERE ARE WE NOW: ECONOMIC IMPACT
# THE NUMBER OF COVID-19 CASES HAS GROWN EXPONENTIALLY

The number of COVID-19 cases has grown exponentially since the first case was tracked back to Wuhan, China in Nov 2019.

**Note:** The first case of coronavirus was tracked back to Wuhan, China in Nov 2019 where it was thought to be pneumonia of unknown cause. On January 7, 2020, China isolated and identified the coronavirus.


## Global Case Count (Millions)

<table>
<thead>
<tr>
<th>Global</th>
<th>January</th>
<th>February</th>
<th>March</th>
<th>April</th>
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<tbody>
<tr>
<td>• 1/7 China identifies novel coronavirus</td>
<td>• 2/9 China COVID-19 deaths surpass SARS</td>
<td>• 3/11 WHO declares COVID-19 a global health pandemic</td>
<td>• 4/2 1 million cases globally</td>
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<tr>
<td>• 1/11 China reports first death</td>
<td>• 2/14 NY cases came from Europe, Mount Sinai reports</td>
<td>• 3/11 White House restricts entry into US from Europe</td>
<td>• 4/15 2 million cases globally</td>
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<tr>
<td>• 2/29 First US death</td>
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<td>• 3/17 US cases breach 5,000; at least 91 dead</td>
<td>• 4/27 3 million cases globally</td>
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<tr>
<td>• 4/15 NYC new cases peak</td>
<td>• 4/2 1 million cases globally</td>
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<td></td>
<td></td>
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<tr>
<td>• 4/28 US cases surpass 1 million</td>
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<td>• 4/15 NYC new cases peak</td>
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</table>

## US Cases

<table>
<thead>
<tr>
<th>US actions</th>
<th>January</th>
<th>February</th>
<th>March</th>
<th>April</th>
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</thead>
<tbody>
<tr>
<td>• 1/20 First US case reported in Washington state</td>
<td>• 2/14 NY cases came from Europe, Mount Sinai reports</td>
<td>• 3/11 US declares national emergency</td>
<td>• 4/16 White House releases 3-phase framework for reopening</td>
<td></td>
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<tr>
<td>• 1/31 White House restricts entry into US from China; declares public health emergency</td>
<td>• 2/29 First US death</td>
<td>• 3/11 NBA suspends season</td>
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<tr>
<td>• 2/1 White House concerned with testing capacity</td>
<td></td>
<td>• 3/27 CARES Act signed</td>
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<tr>
<td>• 2/28 CDC declines WHO COVID-19 test kits due to efficacy</td>
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THE VIRUS AND ASSOCIATED ACTIONS HAVE HAD SIGNIFICANT ECONOMIC IMPACTS

<table>
<thead>
<tr>
<th>A</th>
<th>Social distancing</th>
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<tbody>
<tr>
<td>• Until a vaccine is developed and/or until there’s sufficient herd immunity, the key public health action to slow the spread of the disease and “flatten the curve” is social distancing</td>
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<tr>
<td>• In response, state governors implemented various shelter-in-place measures including closure of restaurants &amp; bars for in-person service, closure of numerous other non-essential retail establishments, school closures, limitation of public gatherings and work-from-home advisories</td>
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<tr>
<th>B</th>
<th>Unemployment</th>
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<tr>
<td>• With forced closures, many businesses reduced their workforces, directly or via furloughs. From record low levels of unemployment, 1 in 6 Americans are now out of work</td>
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<tr>
<td>• ~36% of US workers are in the gig economy, so reported unemployment may understate full picture</td>
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<tr>
<td>• Unprecedented increase in claims, overwhelmed unemployment offices; risk that state funds will rapidly be depleted</td>
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<thead>
<tr>
<th>C</th>
<th>Stock market</th>
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<tr>
<td>• Major indices plunged, wiping out $12.1 TN in market value, followed by ascent. Decline began ~3 weeks before declaration of national emergency, and began to rebound ~3 weeks before peak of active cases</td>
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<tr>
<td>• March had the three largest S&amp;P point drops in history, as well as two days with the largest point gains</td>
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</table>

<table>
<thead>
<tr>
<th>D</th>
<th>Consumer confidence</th>
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</thead>
<tbody>
<tr>
<td>• Closed retailers and restaurants, rising unemployment and extreme market volatility, combined with the endless news coverage of the pandemic and fear of getting sick, have all contributed to a record drop in consumer confidence</td>
<td></td>
</tr>
<tr>
<td>• Notable variations in “sense of normality” by demographics, as well as by US region as different states have responded differently</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>E</th>
<th>Retail sales</th>
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<tbody>
<tr>
<td>• The net result has been the largest ever drop in retail sales, directly impacting debit activity</td>
<td></td>
</tr>
<tr>
<td>• All card spend is down, with debit proving somewhat more resilient than credit cards</td>
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<tr>
<td>• Some bright spots (e.g. grocery, ecommerce) but broad decline, hitting SMBs (small- and medium-sized businesses) particularly hard</td>
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<thead>
<tr>
<th>F</th>
<th>Fiscal stimulus (CARES Act)</th>
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<tbody>
<tr>
<td>• Largest ever ($2.2 TN) fiscal stimulus program quickly passed to address widespread need</td>
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<tr>
<td>• Disbursements to individuals to provide immediate relief, providing short-term boost to spending</td>
<td></td>
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<tr>
<td>• Original Paycheck Protection Program (PPP) depleted in less than two weeks (since replenished by $484 BN top-up bill)</td>
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</tbody>
</table>
THE PRIMARY PUBLIC HEALTH RESPONSE TO COVID-19 IS “SOCIAL DISTANCING”

What

• COVID-19 is both highly contagious and significantly more lethal than other diseases
  – Estimated R0 (expected number of new cases to result from one infected individual) of 2-2.5, compared with seasonal flu R0 of 0.9-2.1
  – “Crude” mortality rate (in the US) of ~5.5%
  – Until a vaccine is produced (~12-18 months) to combat the virus or until a sufficient number of Americans develop herd immunity (~55-82%), the public health response has been “social distancing”
  – Ordinarily, a typical person physically interacts with 10–15 others each day; social distancing aims to significantly reduce this number in order to slow the rate of infection

Why & How

• Why? Slowing the rate of infection is critical to “flatten the curve” in order to keep the peak number of cases below the healthcare system’s capacity in each market
• How? Drastic actions to minimize contact
  – Limiting exposure to high density venues (e.g. airport, public transit systems, schools, stadiums) and avoiding large gatherings
  – Offices encouraged to close and implement work-from-home; most non-essential retailers required to close
• But, the health crisis has created an economic crisis
  – Social distancing has slowed/stopped commerce and is not sustainable indefinitely

Flattening the curve

Health versus Wealth

Source: 1 “Report of the WHO-China Joint Mission on Coronavirus Disease 2019 (COVID-19)” WHO February 24, 2020; 2 “R0: How Scientists Quantify the Intensity of an Outbreak Like Coronavirus and Its Pandemic Potential” University of Michigan School of Public Health March 27 2020; 3 “Mortality Analysis” Johns Hopkins n.d.; 4 “High Contagiousness and Rapid Spread of Severe Acute Respiratory Syndrome Coronavirus 2” CDC April 7, 2020

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UNEMPLOYMENT HAS HIT RECORD HIGHS AS THE US ECONOMY GRINDS TO A HALT

1970–2020 weekly initial unemployment claims

Initial jobless claims (000s)

6-week rolling cumulative unemployment

US unemployment

• Unemployment is at a record high, with 30 MM cumulative new claims over the last six weeks
• Lower income and blue-collar jobs were the first to be cut, now rapidly moving to higher income and white collar professionals as companies respond to lower demand and seek to preserve cash
• Estimates of the total number of unemployed Americans range from 20% to 45%, equaling the great depression

Source: FRED
THE STOCK MARKET DROPPED BY 34%, BUT HAS SINCE RECLAIMED ABOUT HALF OF THIS DECLINE

S&P 500 change from January 1, 2020

Source: CapitalIQ; Oliver Wyman COVID-19 Navigator
THE CRISIS IS DESTROYING CONSUMER CONFIDENCE AND HIGHLIGHTING THE SHUTDOWN’S DISPARATE IMPACT ACROSS DIFFERENT SEGMENTS OF SOCIETY

We entered the crisis with different starting points

- 53% of U.S. households had no emergency savings
- 33.6 MM civilian workers lacked paid sick leave
- 27.9 MM non-elderly lacked health insurance
- 550,000 homeless were living on streets

**Consumer Confidence Index** down 34% since COVID outbreak, lowest levels since tracking began (1984)

**World Pandemic Uncertainty Index** at record high


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INCREASING UNEMPLOYMENT, LESS WEALTH, MUCH LESS CONFIDENCE -> PLUNGE IN RETAIL SALES

US monthly retail sales
Retail sales plunged by 8.7% in March ‘20, the largest decline since the study began in 1992

TSA passenger screening
Down 95% day-over-day 2019 vs 2020

Miles driven down 44%, price per gallon down 25%
(Wholesale price per barrel briefly went negative on April 20)

March data is bimodal – first half of the month was “normal”, followed by extreme drop as shelter-in-place mandates went into effect state-by-state

April data will show full effect of lockdowns and are expected to capture very significant slowdown

Source: TSA; Census; Energy Information Administration; “U.S. National Traffic Volume Synopsis: Issue #5” Inrix April 2020; Mastercard and Visa company reports, J.P. Morgan estimates
US CONGRESS PASSED THE LARGEST EVER PEACETIME STIMULUS PACKAGE – THE $2.2 TN CARES ACT

Key elements of the third (and largest) Coronavirus Aid, Relief, and Economic Security (CARES) Act

Passed COVID-19 legislation
- Phase I (Mar. 6) $8.3 BN to CDC, FDA, NIH, State Department, SBA, USAID, Medicare
- Phase II (Mar. 18) $100 BN to paid sick leave, testing, food assistance, un-employment, protection to HC workers
- Phase III (Mar. 27) $2.2 TN (see left)
- Phase IV (Apr. 24) $484 BN which includes $310 BN to the Paycheck Protection Program, $75 BN to hospitals, $25 BN to testing, and $60 BN to emergency disaster loans and grants

Size of government support
- Cumulative fiscal response (to date) of ~$2.8 TN
- Total federal government income (in 2019) of ~$3.5 TN
- COVID-19 related payments are 80% of federal receipts, entirely funded through additional debt

<table>
<thead>
<tr>
<th>Public services</th>
<th>State &amp; local governments</th>
<th>Small businesses</th>
<th>Large corporations</th>
<th>Individuals</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Hospitals, doctors, nurses</td>
<td>• COVID-19 response</td>
<td>• New loans</td>
<td>• Loans for corporations</td>
<td>• Cash payments of $1,200</td>
</tr>
<tr>
<td>• Veterans’ healthcare</td>
<td>• Education</td>
<td>• Relief for existing loans</td>
<td>• Commercial and cargo airlines</td>
<td>• Extra un-employment</td>
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<tr>
<td>• Stockpiled equipment</td>
<td>• Family programs</td>
<td>• Grants</td>
<td>• National security</td>
<td>• Student loans</td>
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</table>
WHERE ARE WE NOW: IMPACT TO DEBIT
COVID-19’s Impact on the Debit Market

1. BAU
   January – March 11
   Debit market expanding in line with historic norms

2. Surge
   March 11-18
   Surge in debit spend as consumers stockpile in response to various public announcements

3. Collapse
   March 18-early April
   As shelter-in-place rules go into effect and businesses close, debit spend plummets 25-30%

4. Plateau
   Early-mid April
   Debit spend stabilizes at new lower run-rate

5. Stimulus
   April 15-May 1
   Direct stimulus payments to individuals; first direct deposit hits on April 15 (smaller waves on 4/22 and 4/29)

6. Debit outlook
   May 1-
   Numerous uncertainties for debit’s future (see section 3)

Debit outlook

- Rapid rebound
- Gradual growth
- Slow slide

Source: Oliver Wyman analysis based on interviews with a broad sample of 55 FIs managing over 157 million debit cards (representing 42% of total market)

1. The key metric for FIs with ≥$10 BN in assets is number of transactions. Smaller FIs are exempt from Durbin’s interchange cap and debit revenue is more tied to total spend on debit cards; these FIs are now experiencing a drop of ~5-10% as lower transaction activity is offset by higher average ticket sizes
# The Pandemic is Transforming All Aspects of Debit Issuers’ Business

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<thead>
<tr>
<th></th>
<th>First order effects</th>
<th>Second order effects</th>
<th>Net effect</th>
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<tbody>
<tr>
<td>1</td>
<td><strong>Stimulus package</strong></td>
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<tr>
<td></td>
<td>Debit usage (transactions) initially dropped 25-30% but has since regained some ground, buoyed by various stimulus payments that began hitting bank accounts in mid-April</td>
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<td></td>
<td>Numerous wildcards about how debit spend will evolve – see section 3</td>
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<td>2</td>
<td><strong>Change in merchant mix</strong></td>
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<tr>
<td></td>
<td>COVID-19 is changing where and how Americans shop. Certain merchant categories (grocery, warehouse clubs) are experiencing growth; while others (QSR/restaurants, travel, etc.) are down</td>
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<td>Spend on debit cards is proving more resilient than spend on credit cards, largely because debit usage tends to be concentrated in “everyday spend” categories</td>
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<td>Within debit, signature vs. PIN debit face different headwinds and tailwinds. Grocery is fueling PIN debit, eCommerce’s strength is supporting signature debit</td>
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<td>3</td>
<td><strong>Card Present to Card-Not-Present spend</strong></td>
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<td>The card-present to card-not-present migration has been accelerated by COVID-19</td>
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<td>Surge in ecommerce as stores are closed and consumers value the safety of shopping from home</td>
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<td></td>
<td>Many traditional CP merchants (grocery, restaurants) have shifted to remote CNP ordering</td>
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<td>4</td>
<td><strong>Change in card usage</strong></td>
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<td></td>
<td>Consumers are making fewer, larger purchases. The average ticket for debit has increased by 12-14%</td>
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<td>COVID-19 is driving greater adoption and usage of contactless and mobile wallet payments</td>
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<td>Cross-border spend, and the associated higher revenue stream, effectively disappeared, and is now showing some activity</td>
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<td>5</td>
<td><strong>Lower card issuance</strong></td>
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<td></td>
<td>Branches are the primary channel for acquiring new customers for traditional banks</td>
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<td>With branches closed, the rate at which banks can acquire new customers – and issue new debit cards – is severely curtailed</td>
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<td>6</td>
<td><strong>Increased fraud</strong></td>
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<td>The economic crisis is producing more fraudulent transactions and more cardholder disputes</td>
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<td>Issuers’ fraud models are designed to detect out-of-pattern activity, but transactions in the current environment do not resemble historic norms leading to more false positives and false negatives. At the same time, many issuers have fewer resources to manually investigate disputes, resulting in higher net losses</td>
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<tr>
<td>7</td>
<td><strong>Impacted FI economics</strong></td>
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<tr>
<td></td>
<td>Fewer debit transactions, change in spend mix, fewer new cardholders and more fraud -&gt; material challenges to debit P&amp;Ls</td>
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<td>With lower debit income, the economic underpinning of many DDAs (large banks) and overall non-interest income (smaller FIs) could face pressure</td>
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STIMULUS PACKAGES HAVE PROVIDED MOST AMERICANS WITH ADDITIONAL LIQUIDITY, SUPPORTING A REBOUND IN DEBIT ACTIVITY

27% of the $2.2 TN CARES Act was disbursed to individuals

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**Two sources of cash infusion**

**One-time cash payments ($300 BN)**
- Single US residents who earned less than $75,000 in 2019 are eligible for the full one-time $1,200 stimulus payment; those who earned between $75,000 and $99,000 are eligible for a portion of the full amount
- Those eligible may receive an additional $500 per child

**Extra unemployment benefits ($260 BN)**
- States on average provide ~26 weeks of benefits, with a maximum of $300-$500 per week
- To supplement state unemployment benefits, the federal government is supplying states with additional funds
- Eligible workers may receive an additional $600 per week in Federal Pandemic Unemployment Compensation (FPUC) for up to 39 weeks (i.e., an additional 13 weeks of benefits beyond state benefits)

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A quarter of Americans report using the stimulus money for food and basic household needs

- Put it into savings: 38%
- Pay off debts: 26%
- Food and basic household needs: 25%
- Pay rent or mortgage: 14%
- Donate it / give it to someone who needed it more: 5%
- Have not spent it yet, but plan to: 18%

1. Chart does not sum to 100%, as respondents can select all actions that apply

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COVID-19 IS CHANGING WHERE AND HOW AMERICANS SHOP

Card view
Analysis of card spend shows general decline with pockets of growth

SMB Merchant View

Note: Retail & Services is a broad category. This graph shows YoY variance in revenue for retailers still open, but does not account for retailers that have closed their doors
“Data dashboard: How coronavirus / COVID-19 is impacting local business revenue across the U.S.” Womply April 28, 2020

© Oliver Wyman
The decline in spend has a differential impact on signature vs. PIN debit

Number of debit transactions
By Merchant Category Codes (MCC)

- Spending in Quick Service Restaurants (QSRs) and sit-down restaurants is significantly down, hurting signature debit (tx in this MCC are routed 99% signature debit / 1% PIN debit)
- Gas sales are down, impacting both (35% signature / 65% PIN)
- Grocery stores, discount stores (e.g. Costco) and drug stores are enjoying more purchases, benefiting PIN debit. With active PIN prompting, 75% of all transactions route over PIN POS networks
- e-commerce, bill payments, and A2A transfers are relatively stable. More than 95% of these transactions are routed over signature debit

Debit is proving more resilient than credit, given relative mix between discretionary and non-discretionary spend

Change in Discover Card purchase activity
April 2020 vs. April 2019

Gas | Groceries | Other | Retail | Restaurants | Services | Travel | Other
---|---|---|---|---|---|---|---
-60 | -10 | -11 | -60 | -40 | -99 | -20

Everyday spend is ~22% of total Discover Card spend

Source: Oliver Wyman analysis
1. In Q1, Chase’s credit card volume growth decreased by 6 percentage points while debit only slowed by 2 percentage points. Similarly, Wells Fargo’s Q1 credit card volume growth was down 5 points sequentially while debit growth slowed by 2 points
© Oliver Wyman
E-COMMERCE SHOPPING HAS SURGED AMID STOREFRONT CLOSURES

Surge in e-commerce

• As brick-and-mortar stores closed, consumers increasingly turned to online shopping for many of their essential and discretionary purchases
• Card-not-present was ~27% of all debit transactions in 2019 but growing at a much faster path, representing ~56% of all growth in retail sales
  – COVID-19 has accelerated this shift
• Huge shift in spend toward Amazon and other brand name e-commerce merchants
  – Amazon has struggled to keep pace with demand, halting Amazon Prime’s two-day delivery promise and prioritizing certain products over others
  – Announced plans to hire 175,000 additional workers to add warehouse and delivery capacity

Increase in hiring demands from e-commerce, storage companies

<table>
<thead>
<tr>
<th>Role</th>
<th>Increase</th>
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<tbody>
<tr>
<td>Warehouse handler</td>
<td>699%</td>
</tr>
<tr>
<td>Online merchant</td>
<td>354%</td>
</tr>
<tr>
<td>Warehouse attendant</td>
<td>324%</td>
</tr>
<tr>
<td>Shopper</td>
<td>229%</td>
</tr>
<tr>
<td>Grocery shopper</td>
<td>186%</td>
</tr>
</tbody>
</table>

Key players

amazon  ebay  wayfair  jet

Source: Bond Capital; “Amazon suspending shipments of nonessential items to warehouses” The Hill March 17, 2020; “Consumer Spend Is Shifting to Ecommerce: The Untold COVID-19 Story” Emarketer April 24, 2020

© Oliver Wyman
CARD-NOT-PRESENT IS ACCELERATING FASTER THAN ITS PRE-COVID-19 PACE, FUELED BY SHELTER-IN-PLACE PURCHASING

• Traditionally Card Present-dominant industries have rapidly moved to Card-Not-Present spend
  – Grocery delivery services are seeing 75% growth
  – Restaurants have closed for in-person dining, driving an increase in order-ahead CNP transactions
  – Food delivery services are expanding quickly to provide additional consumer convenience, all with CNP payment experiences
• Additionally, at-home entertainment services like video streaming, gaming, and e-readers are substituting for consumers’ inability to participate in outdoor activities such as going to movie theaters, watching sports, and visiting bookshops
  – In each case, CNP activity is replacing what used to be CP spend

Key players

Source: “How the Virus Transformed the Way Americans Spend their Money” New York Times April 11, 2020; Bond Capital
CNP’S TRANSACTION SHARE IS GROWING

Number of debit transactions
Card-not-present share of total transactions

- Before the current crisis, debit card-not-present transactions were growing 9x faster than card-present.
- As debit dropped precipitously, CNP was less impacted. As debit has rebounded some, CNP has continued to gain share.
  - Result is greater share of the overall transaction “pie”
- With a larger average ticket, CNP now accounts for more total spend than in-person purchases.
- Operationally, CNP transactions have a different risk profile and different chargeback rights, requiring issuers to adapt their operational processes.
- Strategically, many CNP transactions are based on card-on-file (COF). As such, it is imperative for issuers to ensure that their card is placed top-of-wallet.

Source: Oliver Wyman analysis
The pandemic is transforming all aspects of debit issuers’ business

### Average ticket
- Pre-crisis, the average debit ticket was $40.50 ($34.10 for card-present spend and $61.48 for card-not-present)
- Average ticket is now up ~12-14%
  - Fewer shops but with larger spend in some categories (grocery)
  - Major drop off in small ticket (QSR, vending) but also in high end (travel)
- Fewer transactions directly impacts issuers subject to the Durbin interchange cap; lower reduction in total spend means less impact to smaller debit issuers

### Contactless payments & Mobile wallets
- At year-end 2019, 11% of debit cards were contactless; by year-end 2020 a projected 36% of debit cards will be NFC-enabled
- Commentary that mobile payments and contactless transactions may be safer than standard card-present purchases since they reduce physical touching
- Some issuers report a shift toward contactless and mobile wallets
  - “TD Bank saw contactless transaction volume surge last month following the coronavirus outbreak, providing a bright spot during a bleak cycle”
  - Visa and Mastercard report 40% growth in contactless activity in Q1 2020
- While other issuers have not seen any change in cardholder behavior (and note that most debit-centric merchants prompt for a PIN, so a contactless transaction still involves physical contact with the POS terminal)

### Cross-border transactions
- Networks disproportionately benefit from cross-border transactions – US consumers spending overseas, international cardholders shopping in the US
- Businesses have prohibited international travel and vacation travel has collapsed; major US airlines have reduced their international flights by 90-95%
- Modest impact to issuer income; material impairment to payment networks

Source: “Coronavirus brings lessons to retailers, issuers about contactless payments” PaymentsSource April 15, 2020; “Mastercard and Visa raise tap limits to $250 so fewer consumers need to touch payment machines” The Globe and Mail April 2, 2020”American Airlines slashes flights but has no plans to halt U.S. service” Reuters April 2, 2020; “United Airlines reinstates some international flights to help displaced customers get home” USA Today March 21, 2020; “Mastercard’s Contactless Transactions Jump More Than 40% Amid Coronavirus Crisis” WSJ April 29, 2020 (growth reflects both more contactless cards and more contactless transactions per card)
THE PANDEMIC IS LIKELY TO TRANSFORM CARD ISSUANCE

DDA Acquisition

• Pre-COVID-19, every year, a typical FI acquired new DDAs equating to ~19% of their total card base
  – With attrition of ~17%, overall net DDA growth (and therefore debit cards as a proxy) is ~2% per year

Acquisition Channel

• For traditional banks, the primary acquisition channel for new DDAs is branches
• With most bank branches closed or having limited operations, a key channel for opening new accounts is no longer viable, severely curtailing debit card issuance
  – Similarly, re-issuance for replacement, lost/stolen and other reasons is impacted

Impact on FIs

• Until branch operations resume, debit card managers will need to enhance their digital acquisition and digital provisioning capabilities
• Additionally, progressive FIs are using the crisis to promote their self-service capabilities, including
  – Self-service card replacement (versus requesting via the call center)
  – Mobile check deposit (versus depositing in a branch or at an ATM)

1. 2020 Debit Issuer Study, Oliver Wyman
DEBIT FRAUD IS INCREASING

Cardholders initiate more disputes

- The volume of disputes is growing due to a significant increase in attempted fraudulent transactions (e.g., account takeover) and
  - Goods or services not delivered
  - Unfamiliar merchants (i.e. aggregators)
  - Regret purchases (friendly fraud)
  - Temporary need for liquidity (to game FIs’ provisional credit policies)
  - Policy abuse (to game network/FI rules)

Higher overall impact on fraud

- More fraudulent transactions, more disputes, less capacity to review flagged transactions
- Overall fraud KPIs can be impacted significantly
  - Lower auth rates (or higher declines due to suspected fraud)
  - Higher false positives
  - Longer dispute processing times
  - Reduced chargeback efficiencies
  - Higher net losses

Issuers less equipped for the new environment

- Issuers’ fraud capabilities may not be capable to address the current environment’s dynamics
  - Fraudsters are using this dislocation to attempt more illegitimate transactions
- Risk models are calibrated to detect out-of-pattern spending behavior. Almost all spend is currently out of historic norms!
  - More legitimate transactions being declined, and more fraudulent transactions not being caught in time
NET: A MATERIAL EROSION IN DEBIT’S ECONOMIC CONTRIBUTION, DIRECTLY AND TO THE FIs BOTTOM-LINE

Debit P&L impact

• Revenue: With pressure on both transaction volume and interchange rates, debit interchange revenue has declined significantly

• Costs: With an increase in volume of disputes, the costs of both “working the claims” and net losses are likely to rise

• Incentives: Large issuers have brand agreements with their payment networks that incentivize volume growth. With negative growth, FIs will not qualify for these rebates and incentive payments, eliminating an important source of marketing funds

Fl Economic impact

For FIs with ≥$10 BN in assets
Debit generates $74 in revenue per active consumer card per year
This revenue underpins the financial viability of “free checking” for a majority of most FIs’ customers

For FIs with <$10 BN in assets
Debit revenue is even more critical for smaller financial institutions
Debit generates ~25% of total non-interest income for community banks and credit unions. As this declines, the financial strength of these FIs and their ability to continue to lend may be compromised
3

WHERE DO WE GO FROM HERE?
WHERE DO WE GO FROM HERE?

- To protect lives, the US economy is paying a heavy price (together with a huge increase in public debt)
  - As the number of COVID-19 cases wanes, attention turns to when and how the economy will re-open
- The federal government has proposed a framework with three phases for life “getting back to normal”
  - This framework is only one-part of a complex web of decisions and behavioral dynamics
- The prospects for the debit market are tied to the path of the economic recovery; three scenarios with potential outlooks
  - Without any prior reference points, market forecasts are widely divergent (and frequently revised)

### Rapid rebound
- Supply: businesses quickly re-open
- Demand: employment and confidence bounce back, spending habits resume
- COVID-19 moves into the “rear-view mirror”

### Gradual growth
- Supply: restrictions are slowly lifted, large gatherings remain limited, a number of SMBs never re-open
- Demand: workers are re-hired over time, spending slowly resumes; non-essential travel remains low

### Slow slide
- Demand: unemployment remains high, spend ticks down as consumers struggle to pay their bills
- Periodic regional shutdowns as cases of COVID-19 flare up until a vaccine (or herd immunity achieved)
THE NUMBER OF NEW COVID-19 CASES APPEARS TO HAVE PEAKED

### New confirmed cases (daily)\(^1\)

<table>
<thead>
<tr>
<th>State</th>
<th>Cumulative # confirmed total cases</th>
<th>Confirmed cases as % of state pop.</th>
</tr>
</thead>
<tbody>
<tr>
<td>NY</td>
<td>304,000</td>
<td>1.56%</td>
</tr>
<tr>
<td>NJ</td>
<td>119,000</td>
<td>1.34%</td>
</tr>
<tr>
<td>MA</td>
<td>62,000</td>
<td>0.89%</td>
</tr>
<tr>
<td>IL</td>
<td>53,000</td>
<td>0.42%</td>
</tr>
<tr>
<td>CA</td>
<td>50,000</td>
<td>0.13%</td>
</tr>
<tr>
<td>PA</td>
<td>48,000</td>
<td>0.37%</td>
</tr>
<tr>
<td>MI</td>
<td>41,000</td>
<td>0.41%</td>
</tr>
<tr>
<td>FL</td>
<td>34,000</td>
<td>0.16%</td>
</tr>
<tr>
<td>TX</td>
<td>29,000</td>
<td>0.10%</td>
</tr>
<tr>
<td>LA</td>
<td>28,000</td>
<td>0.60%</td>
</tr>
<tr>
<td>States 11-50</td>
<td>300,000</td>
<td>0.16%</td>
</tr>
</tbody>
</table>

---

1. As of April 30  
Source: Oliver Wyman COVID-19 Navigator
WHEN AND HOW THE ECONOMY “RE-STARTS” INVOLVES THE COMPLEX INTERPLAY BETWEEN HEALTH, ECONOMIC & BEHAVIORAL DYNAMICS

1. Re-opening by states
   - The Federal government developed a phased framework for re-opening, but states decide
   - Facing pressure, a growing number of states have announced plans to “re-open,” staging across industries and venues
   - Re-opening allows a store/office/church to open; separate question as to if they will

2. Health uncertainties
   - Prevailing wisdom is that the US/states/businesses will need more robust testing capabilities, together with contact tracing, before moving back to “business as usual”
   - Base case projection includes a new wave of infections in late 2020, raising the prospect of a second lockdown

3. Economic dynamics
   - Supply – if/when/how will businesses resume operations?
   - Demand – if/when/how will consumers resume their buying behaviors?
     - Path for unemployment?
     - Additional stimulus?

4. Behavioral uncertainties
   - Do consumers “bounce back” to their prior spending habits or has COVID-19 permanently shaped behaviors?
   - How employees return to work and operate productively is still to be resolved

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[Map showing re-opening by states with two categories: Businesses allowed to reopen before May 1 and Businesses allowed to reopen May 1 – May 8]
THE FEDERAL GOVERNMENT HAS DEVELOPED RE-OPENING GUIDELINES, BUT STATES CONTROL MOST OF THE KEY DECISIONS...

Abridged White House reopening phases

<table>
<thead>
<tr>
<th>Phase 1</th>
<th>Phase 2</th>
<th>Phase 3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Individu</strong>als</td>
<td>Vulnerable population to shelter-in-place</td>
<td>Vulnerable population to shelter-in-place</td>
</tr>
<tr>
<td></td>
<td>Social distancing, avoid groups of 10+</td>
<td>Social distancing, avoid groups of 50+</td>
</tr>
<tr>
<td></td>
<td>Minimize non-essential travel</td>
<td>Non-essential travel can resume</td>
</tr>
<tr>
<td><strong>Employers</strong></td>
<td>Encourage telework</td>
<td>Encourage telework</td>
</tr>
<tr>
<td><strong>Specific employers</strong></td>
<td>Schools should remain closed</td>
<td>Schools can reopen</td>
</tr>
<tr>
<td></td>
<td>Large venues may operate under strict social distancing policies</td>
<td>Large venues may operate under moderate social distancing policies</td>
</tr>
<tr>
<td></td>
<td>Bars should remain closed</td>
<td>Bars may reopen with limited standing room occupancy</td>
</tr>
</tbody>
</table>

Several states planning to reopen; forming regional clusters

- Several states have decided to form regional alliances to share information, purchasing power, data and strategies for dealing with COVID and reopening their economies
  - Western States Pact consists of CA, OR, WA
  - Multi-State Council consists of NY, NJ, CT, PA, RI, DL, MA
  - Midwestern coalition consists of MI, OH, WI, MI, IL, IN, KY

Growing economic and populist pressure to re-open

- State and local tax receipts are plummeting; governors and mayors will soon face very difficult choices to maintain current services, especially education and first responders
- Pushback on shelter-in-place restrictions is increasing, as people want to work, both for income and for purpose
- The longer the shutdown continues, growing concern that more and more businesses may not be able to re-open

Source: “Midwest States Will Collaborate To Reopen Economies, As Regional Alliances Take the Lead” Forbes April 16, 2020; “Coronavirus: US faced with protests amid pressure to reopen” BBC April 20, 2020; “Reopen Wisconsin’ organizers say protest will go on without permit” The Hill April 22, 2020; “Protesters in Richmond call for Virginia to reopen” The Hill April 22, 2020
1. Re-opening

...AND DIFFERENT STATES HAVE BEEN AFFECTED TO VARYING DEGREES

United States COVID heatmap

- Several COVID-hotspots emerged, largely concentrated in metropolitan and high-population areas
- “National” emergency creates tension, as virus is much less pronounced in some regions (hence discussion of “state border checkpoints” and inter-state quarantines)
- Despite many states passing their “new case peaks”, most are still projected to see 50%+ more cases
- Fear that downward case trajectory will reverse as shelter-in-place rules are eased

Majority of population, regardless of political affiliation, is concerned states may reopen too soon

Fear of the U.S. economy collapsing during the coronavirus outbreak
Republican: 89%
Democrat: 89%

Fear of respondents’ communities reopening too soon
Republican: 56%
Democrat: 88%

1. Survey conducted on April 24-27 2020 by Axios / Ipsos
2. Health uncertainties

**AS THIS IS A NEW VIRUS, THE US (AND THE WORLD) IS GRAPPLING WITH MANY UNCERTAINTIES ABOUT MITIGATION STRATEGIES**

**Vaccines & Testing**
- A safe, effective and tested vaccine is (reportedly) at least ~12-18 months away. The near-term focus is therefore on testing and tracing
- Can the US scale up testing to effectively be “on demand”?
  - Before entering a senior facility? An office? on enrolling in college?
- **And**, can the US have effective contact tracing?
  - Ability to identify everyone that interacted with a positive carrier?
- **And**, can these people be quarantined or self-isolated?

**Herd immunity**
- The risk from COVID-19 and the spread of the virus will be slowed as more and more people are immune
- With some viral diseases, once a person has the viral antibodies, chances of re-infection are significantly reduced
  - Hoped to be true for COVID-19 but the data is inconclusive so far

**Weather**
- Coronavirus viruses generally survive for shorter periods at higher temperatures and higher humidity than they do in cooler and dryer environments
- Given COVID-19 is a novel coronavirus, it is unknown what will happen with this pandemic

---

OUR BASE CASE PROJECTION HAS WAVES OF NEW OUTBREAKS, AND THESE MAY DEMAND NEW LOCKDOWNS

Current lockdown ends in early June 2020

Two short lockdowns during next winter

- As the economy re-opens and society returns to normal, recognition that “new normal” will be very different
- Activities with large crowds or high density may need to change
  - Sporting events & concerts
  - Movie theaters
  - Airplanes and cruise ships
  - Table spacing within restaurants
- Open question about universities
  - High risk dormitory environment but low risk population
- If there’s another surge in active cases, authorities may impose another lockdown

No lockdown required in summer months

Source: Oliver Wyman COVID-19 Navigator
1. “The first modern pandemic” GatesNotes, April 23, 2020;
2. “Brown University president says reopening campuses in the fall should be ‘national priority’” The Hill, April 26, 2020; “Purdue University plans to reopen campus for fall 2020, saying coronavirus poses ‘zero lethal threat’ to students” The Hill, April 27, 2020
BUSINESSES FACE TWO INTERTWINED UNCERTAINTIES – WHEN TO RESUME OPERATIONS AND EXPECTED DEMAND LEVELS

Supply
• Once states allow certain merchants to re-open, will they?
  – How many SMBs are able (and willing) to resume operations?
  – Did the shutdown accelerate the demise of struggling retailers (e.g., department stores)?

Demand
• Once certain merchants re-open, will customers shop as before?
  – Will unemployment (and fear) permanently suppress demand?
  – Will shifts to online shopping and curbside pickup last beyond the crisis?

Amazon has extended its work-from-home regime until October 2

Only 1 in 5 restaurant owners are confident they can survive the COVID-19 crisis

48% of consumers indicated they will not return to pre-COVID activities outside their home

• Once states allow certain businesses to re-open, will they?
• How do office managers minimize the risk of infection?
  – No open plan seating
  – Staggered shifts/WFH
  – Temperature checks

3 in 5 U.S. workers who shifted to remote work would prefer to continue working remotely

Source: “Amazon extends work from home regime till October 2” Reuters May 1, 2020; “U.S. Workers Discovering Affinity for Remote Work” Gallup April 3, 2020; “NEW SURVEY: Only 1 in 5 Restaurant Owners Are Certain They Can Survive…” Independent Restaurant Coalition April 16, 2020; “Navigating the COVID-19 Pandemic” PYMNTS.com April 2020

© Oliver Wyman
THIS UNCERTAINTY IS REFLECTED IN THE WIDE RANGE OF ECONOMIC FORECASTS

Most severe quarterly declines in real GDP compared to Q2 2020 (US)

<table>
<thead>
<tr>
<th>Analyst consensus (median)</th>
<th>Worst 10 historical quarters (1947–2019 series)</th>
</tr>
</thead>
<tbody>
<tr>
<td>-28.9</td>
<td>Q2 2020, Q1 1958, Q4 2008, Q2 1980, Q1 1982, Q4 1953, Q1 1949, Q4 1960, Q1 1975, Q1 2009, Q4 1981</td>
</tr>
<tr>
<td>-37.9</td>
<td></td>
</tr>
</tbody>
</table>

U.S. Real GDP Growth Forecasts – Q1, Q2, annual
Annualized growth rate, (9)

Variation in FY2020 earnings for the S&P500 shows wide forecast cone

1. Bank of America (Apr 2), Moody’s (Mar 25), UBS (Apr 2), Goldman Sachs (Mar 31), Bridgewater (Mar 19), Morgan Stanley (Apr 3). TD Securities (Mar 23), UBS (Apr 2), Citi (Apr 3).
2. From Citibank (Apr 3), Morgan Stanley (Apr 3)

Other sources: Oliver Wyman analysis; BEA (historical data); Imperial College COVID-19 response team; “Don’t Feel Too Relieved by the Bounce Back in Stocks” Bloomberg, April 14, 2020
CREATING UNCERTAINTY AS TO IF/WHEN/HOW CONSUMERS WILL RESUME THEIR PRIOR BEHAVIORS

Based on the situation today, would you feel comfortable going out to a restaurant or being in other settings with crowds such as theaters, stadiums, subways (i.e. situations where you would be less than 6 feet away from many people)?

Based on the situation today, how soon would you feel comfortable traveling on a plane?

What will be the turning point when you will feel more confident to go out shopping at physical stores? (select all that apply)

Sources: Oliver Wyman’s “Shopping Outlook Survey”. The survey conducted with about 1,000 US consumers every week measures consumer shopping propensity, along with stability and confidence in their financial security. The objective of the survey is to detect shifts in consumer confidence impacting commerce as the US navigates through COVID-19. Survey conducted April 13, 2020.
...While there is no consensus on how long the pandemic will last, surveyed consumers believe it will be another 2-6 months.

Large mean vs median gap shows skew towards skeptics
How long consumers believe the pandemic will last (days)

- 11-Apr: Average 178, Median 90
- 27-Mar: Average 145, Median 90
- 17-Mar: Average 138, Median 60

Share of consumers’ willingness to return to pre-pandemic activities once the US reopens

<table>
<thead>
<tr>
<th>Description</th>
<th>11-Apr</th>
<th>27-Mar</th>
<th>17-Mar</th>
</tr>
</thead>
<tbody>
<tr>
<td>I will resume activities away from home</td>
<td>48%</td>
<td>32%</td>
<td>16%</td>
</tr>
<tr>
<td>I will do more activities from home and fewer away from it</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>I will not resume my activities away from home</td>
<td>10%</td>
<td>14%</td>
<td>19%</td>
</tr>
<tr>
<td>Other</td>
<td>6%</td>
<td>6%</td>
<td>17%</td>
</tr>
</tbody>
</table>

Survey date
- 11-Apr
- 27-Mar
- 17-Mar

Source: “Navigating the COVID-19 Pandemic” PYMNTS.com April 2020
FOR MORE INFORMATION
OLIVER WYMAN IS INVESTING TO SUPPORT OUR CLIENTS’ RESPONSE TO COVID-19

COVID-19 Resource Hub

- Hub with extensive information related to the pandemic
- Regularly updated as the crisis evolves

COVID-19 Pandemic Navigator

- Dynamic model that forecasts the number of coronavirus cases in every US state/county and 40 countries
- Incorporates the effectiveness of containment and suppression measures

Webinars And Virtual Events

- Weekly webinars on the pandemic’s impact on the US Financial System and other sectors, including
  - Consumer credit
  - Pandemic modeling, credit and cyber

Insights

- Perspectives on topical themes across industries to help organizations plan for the post-crisis environment
OLIVER WYMAN HAS A FULLY INTEGRATED “ANALYTICAL STACK,” CONNECTING COVID-19 SCENARIOS TO ECONOMIC AND BUSINESS IMPACTS

**OW COVID-19 NAVIGATOR**

- **Epidemiology and Govt health response (by country)**
  - Lockdown patterns
    - Timing and frequency
    - Severity (sophisticated vs blunt)
  - Macro overlay and recovery
    - Industry capacity and earnings by sector
    - Fiscal/Monetary stimulus
  - Financial system
    - Loss-bearing capacity, funding etc
    - Risk/Loss transmission
    - Banking/Insurance/Funds/PE

**SCENARIOS**

**BUSINESS USE CASES**

- **Granular challenge to macroeconomic views**
  - Back to work planning
  - Footprint decisions
  - Cashflow expectations
  - etc

- **Decision support tools**
  - Control tower
    - Workforce availability
    - Customer behaviors
    - Liquidity management
    - etc

- **COVID-19 strategy operational delivery**
  - Models
  - Processes
  - Capacity
OUR PAYMENTS TEAM IS ADDRESSING COVID-19 AND RELATED THEMES

Payments
COVID-19 has sped up shifts in the payments ecosystem. This paper highlights some key trends, and short term and long term implications for payments players

POS Lending
The importance of POS lending’s value proposition is increasing. We offer perspectives on the state of the market and potential opportunities for providers to differentiate and grow

Payments Plus
Quarterly update on Oliver Wyman’s work across the payments industry, including perspectives and unique insights

Consumer Credit
An overview of conditions impacting consumer credit across credit cards, mortgages and auto lending, and longer term considerations for FIs

Cyber & Operational Risk
FIs have the opportunity to learn from the COVID-19 crisis in a way that defines a new resilience strategy and future operating model

US Banks – Q1 2020 Earnings Review
Summary of Q1 bank earnings, credit, capital and balance sheet, with notes on the actions FIs are taking to respond to the pandemic
COVID CONSUMER SHOPPING SURVEY: SAMPLE RESULTS
Weekly Oliver Wyman survey to capture evolving consumer sentiment

CHANGE IN SPENDING HABITS
Over the past week (7 days), how has your spending changed compared to the week before?

- Increased significantly: 8%
- Increased somewhat: 19%
- Stayed about the same: 47%
- Decreased somewhat: 18%
- Decreased significantly: 8%

SHOPPING NEXT WEEK
Over the next week, do you plan on buying things other than food, medicine, or household necessities?

- Yes: 18%
- Maybe: 47%
- No: 35%

TAKING TO THE SKY
Based on the situation today, how soon would you feel comfortable traveling on a plane?

- Today: 5%
- Next 2-3 weeks: 4%
- Next 1-2 months: 11%
- 3-6 months: 22%
- 6-12 months: 27%
- More than a year: 20%
- Never: 10%

BEING OUT IN PUBLIC
Based on the situation today, would you feel comfortable going out to a restaurant or being in other settings with crowds such as theaters, stadiums, subways (i.e. situations where you would be less than 6 feet away from many people)?

- Yes: 18%
- Yes with mask: 12%
- Not yet + social distancing: 70%

Source: Oliver Wyman COVID Consumer Shopping Survey, April 20, 2020
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