

NAVIGATING THE NEW LANDSCAPE

IN EUROPEAN PAYMENTS





A visitor from 2015 would be hard pressed to recognise today's payments industry: in the last half decade, we've seen the advent of Open Banking legislation and the EU's Second Payment Services Directive (PSD2), plus the impacts of Brexit and COVID-19. In case that's not enough, we've also dealt with the rise of digital and mobile payments, contactless cards, biometric security and wearable payment technologies.

Taken together, these forces are completely transforming our industry. Take e-commerce, for instance: COVID-19 saw a huge rise in e-commerce as people shopped from home at the same time as PSD2's requirement for Strong Customer Authentication (SCA) brought about a wholesale change in security for online

shopping. Just five years ago, people shopped online for books, music, flights and clothes. Now they shop for everything online – and they bank online as well.

While significant challenges remain in the months and years ahead, we believe that great opportunities exist for all kinds of organisations issuing new payments products across Europe, from governments to banks and non-financial companies. Taking advantage of these opportunities is going to require flexibility, as well as a combination of technical excellence, regulatory expertise and flawless execution. In what follows, we offer a brief overview of some of the opportunities we see in Europe's major markets and regions, together with links to our free, in-depth case studies on these markets.

“We believe great opportunities lie ahead for organisations issuing payments products throughout Europe.”

— Kriya Patel, Chief Executive Officer, Transact Payments Limited



THE UK: POST-BREXIT ATTRACTIONS

Our prediction is that the UK is going to remain an attractive market for payments issuers. With a growing market of 67 million consumers, a sophisticated and digital-savvy population and a forward-thinking regulator, we see Britain retaining its leadership position in payments technologies. This will be due in no small part to the depth of talent and capital in London, with recent statistics showing that UK FinTechs attracted more investment capital in 2020 than the next five European markets combined¹.

The annual planning paper from the Payment Systems Regulator (PSR) suggests² that the UK may be about to pursue a strategy of “smart divergence” from EU legislation. In essence, this will give the UK the flexibility to follow EU rules where it’s in their interests to do so, but also to diverge for commercial benefit. Our [case study on the UK](#) explains our view that some of the most interesting opportunities for British payments firms lie outside Europe in partnerships with markets like Australia (instant payments, buy now pay later) and Canada (instant payments), given these countries’ similar cultures and legal frameworks.

1 See Innovative Finance: <https://www.financemagnates.com/fintech/news/uks-fintech-sector-secures-4-1-billion-investment-in-2020/>

2 Payment Systems Regulator Annual Plan 2021-2022: <https://psr.org.uk/news-updates/latest-news/news/payment-systems-regulator-publishes-annual-plan-and-budget-for-2021-22/>

SPAIN: MODERNISING FOR DIGITAL

Historically, Spain has presented fewer opportunities for payments players given its relatively bureaucratic systems and standard debit-led card portfolios. In recent years, though, Spain has taken great strides to modernise its payment systems and the pace of digitisation in its economy has been impressive.

In February 2018, Spain’s three major payment systems merged into a single infrastructure provider, SistemaPay, and Spanish regulators have been actively engaging with the possibilities presented by PSD2. Our [case study on Spain](#) outlines the steps Spain has taken, including licensing Account Information Service Providers (AISPs) and Payment Information Service Providers (PISPs) to enable instant payments and other services, as well as regulatory sandboxes and trials of new payments methods between FinTechs and banks.

In particular, we see FinTechs such as Hubuc and Aplazame having an important role to play in the future. We predict that credit products for small and medium enterprises (SMEs) are going to be huge in the Spanish market, as well as for individuals. In the past, the credit market has been under-served in Spain and we expect this to flourish via the digital channel, something that’s good news for both payments companies and the Spanish economy.



"We expect credit products for SMEs and consumers to flourish in the digital channel, something that's good news for payments and the Spanish economy."

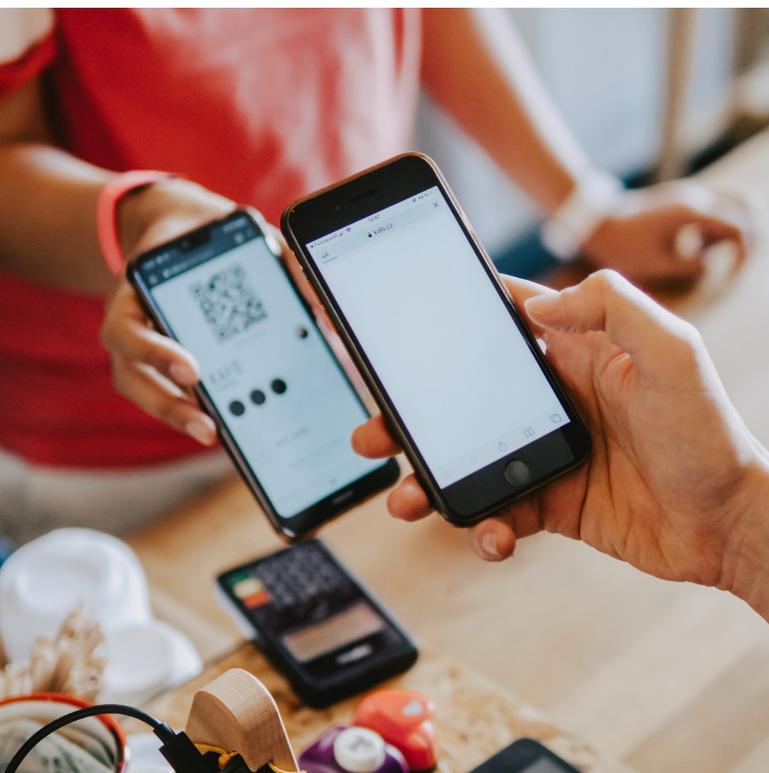


GERMANY: CREDIT TO CORPORATES – FROM FINTECHS

Europe's economic powerhouse and a leader in payments, Germany has embraced PSD2 and created a common standard for open Application Programming Interfaces (APIs) through the Berlin Group. In our [case study on the German market](#), we explain how banks are now working with FinTechs such as Moss and Pliant to enable new payment services. As with Spain, we expect to see dramatic growth in corporate credit products, and for the same reason: SMEs have struggled to gain access to credit in Germany, and new specialist lenders using Open Banking to prove the creditworthiness of smaller companies are taking hold in the market.

According to the latest statistics from PCM's *Digital and Card Payments Yearbooks*³, Germany is second only to the UK in terms of the number of permissioned intermediaries able to deliver payments services under PSD2. This is certain to be good news for Germany's smaller companies which were previously forced to accept payments through more expensive third-party players. As trust in FinTechs as payments players grows, we expect opportunities to grow. At Transact Payments, we've partnered with FinTechs to deliver Germany's first premium card scheme branded credit products for all scale companies – and we look forward to more of this business in the future..

³ See PCM's 2021-2022 Germany Yearbook at www.paymentyearbooks.com



“Germany is second only to the UK in terms of the number of intermediaries permissioned to deliver payments services.”



CARD PAYMENTS GROW FAST ACROSS EUROPE IN LAST FIVE YEARS

	2018	2019	GR 18/19	CAGR 5Y
Card payments (m)	91,709.7	102,528.0	11.80%	11.77%
Cheque payments (m)	2,441.1	2,166.6	-11.25%	-9.82%
Credit transfers (m)	35,233.3	37,934.4	7.67%	5.93%
Direct debits (m)	25,951.7	26,763.5	3.13%	4.08%
Other payment services (m)	1,808.8	1,616.5	-10.63%	13.83%
Total cashless payments (m)	157,144.6	171,009.0	8.82%	8.52%
Total card payments per capita	148.70	165.53	11.32%	<u>11.36%</u>
Total cheques issued per capita	3.96	3.50	-11.62%	<u>-10.16%</u>
Total credit transfers per capita	57.13	61.25	7.21%	<u>5.54%</u>
Total direct debits per capita	42.08	43.21	2.69%	<u>3.69%</u>
Total cashless payments per capita	251.86	273.49	8.59%	8.08%

Notes: Card payments include e-money purchases.

Other payment services include remittances, transactions via telecommunication, digital or IT devices, and cashless OTC cash withdrawals and deposits.

Payment data is for 33 countries: EU27 + UK, Norway, Iceland, Switzerland, Turkey and Serbia.

Source: ECB, national central banks, PCM research.



THE NORDICS: WORLD-FIRST DIGITAL MARKETS

The Nordic markets – Sweden, Denmark and Norway – have the highest penetration of electronic transactions anywhere in the world, and a functioning, consumer-permissioned digital ID system known as BankID that makes Know Your Customer (KYC) compliance for e-commerce much easier, speeding up transaction times and making online transactions safer for all.

We expect the Nordics to be the first markets in the world to fully realize digital transformation in payments, and to that end we've been working with FinTechs like Enfuce, Rocker and Mynt on the provision of payments solutions, both stand-alone and in partnership with financial institutions. Our [case study on the Nordics](#) discusses the challenges that still lie ahead in these markets' digital journeys – but we remain confident that the Nordics are well-positioned to lead in the digital economy.

“We expect the Nordics to be the first markets in the world to fully realize digital transformation in payments.”

As with Spain and Germany, we're seeing the rapid rise of specialist banks built to meet the needs of smaller companies. Banks like Norway's Aprila are experiencing stratospheric growth by taking advantage of PSD2's open banking mandate to access SME credit data and deliver innovative payment products and lending solutions.





“All the evidence shows that effective partnership is going to be the winning strategy in the years ahead.”

— Aaron Carpenter, CEO, Transact Payments Malta Limited

FLEXIBILITY AND PARTNERSHIP: THE KEYS

As we move further through digital transformation, getting the basics right and keeping regulators happy is not going to be enough. Now more than ever, success means identifying opportunities across markets, and creating products that respond to those opportunities. The payments business is changing so fast that doing everything yourself is no longer an option. All the evidence shows that effective partnership is going to be the winning strategy in the years ahead.

Those issuing payments products need to select the right partners to help them unpick the unique complexities in each of Europe’s 34 markets, from regulation to programme management. Furthermore, flexibility – for issuers and their partners – is going to be equally important. In this context, flexibility means offering a wide range of products to customers, products that respect the differences between markets and the specific needs of each market. Experience tells us that inflexible, “one-size-fits-all” approaches are not effective, and the signs are that such approaches will be even less effective in the future.

To find out more about how to adapt your payments products to Europe’s changing market, get in touch with Transact Payments at info@transactpaymentsltd.com



www.transactpaymentsltd.com