

## WILL THERE BE AN EPI-DRIVEN INDUSTRY CONSOLIDATION FOR MOBILE PAYMENT SOLUTIONS IN EUROPE?



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The European mobile payment landscape has been evolving over the last fifteen years and mobile payments now prevail in Northern European countries, while the crowded market moves towards consolidation.

However, mobile payment providers are yet to offer services on a pan-European level. The European Payment Initiative (EPI) aims to remedy this by building a new payment scheme from scratch.

If its ambitions are fully achieved, it is likely to compete with all domestic mobile payment solutions and the future of mobile payments in Europe will very much depend on how the EPI evolves.

Hence, in this article, we analyse existing European mobile payments,<sup>1</sup> consider how EPI may affect the landscape, and present four possible scenarios that European mobile payments providers should consider.

### THE EUROPEAN MOBILE PAYMENTS LANDSCAPE

Over the last fifteen years, the payments landscape has changed significantly.

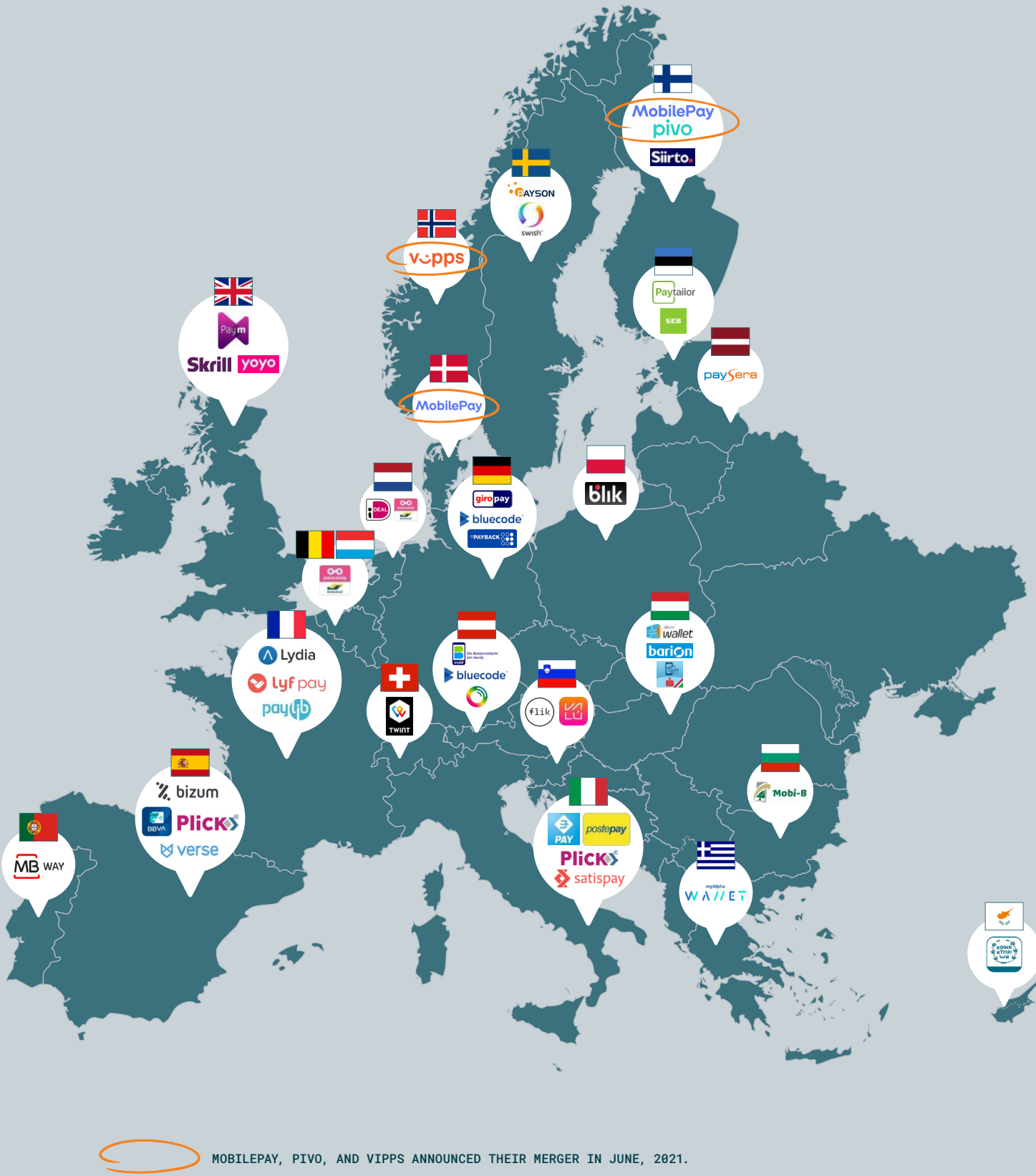
Today, markedly accelerated by the COVID-19 pandemic in 2020, the transition from cash to digital payment solutions is advancing rapidly as a result of European Generation Z's and millennials' preference for everything mobile, a general shift to online commerce, and a move away from cash towards digital person-to-person (P2P) transactions.

Similar to the emergence of mobile solutions in other parts of the globe, Europe has seen several successful digital payment solutions enter the market since 2005.

Notable examples include iDeal in the Netherlands and mobile wallets such as Swish in the Nordics and BLIK, the Polish industry mobile solution.

1 — This article is informed by Arkwright's research into the European mobile payments market. The 41 selected solutions are those deemed most relevant based on a qualitative and quantitative evaluation, taking into account indicators such as number of transactions and users. The analysis excludes international solutions (PayPal, AliPay etc.) and nascent new domestic solutions, that have not yet reached scale.

Fig. 1 — European mobile payment solutions.



The majority of these propositions usually do not use a dedicated payment infrastructure but are built on top of either existing domestic or international payment schemes or account-to-account payments for funding and settlements.

While these champions are known globally, they are only some of the many domestic mobile payment value propositions in the crowded, fragmented European market illustrated in **Fig. 1**.

Today's market is ripe for further consolidation, as shown by the merger of three highly successful mobile payment solutions: in late June, MobilePay, Pivo, and Vipps announced they would be "joining forces to create a single payments app with a combined user base of 11 million consumers across Denmark, Finland and Norway."<sup>2</sup>

Of the 41 solutions we identified in our research, 25 are only available in one country. Examples include MB Way (Portugal), Zoin (Austria) and iDeal (Netherlands). Most of the others are available on a regional level, including MobilePay (Finland & Denmark), Payconiq by Bancontact (Benelux), Bluecode (Austria & Germany).

## EVOLUTION OF THE LANDSCAPE

European mobile payments use cases have evolved over time. The offerings of a selection of the value propositions we identified in our research are depicted in **Fig. 2**. Since P2P payments are the most widespread use case of payment propositions, it comes as no surprise that some of the solutions – such as Vipps, Swish, Siirto and Lydia – started out providing only a P2P payment platform.

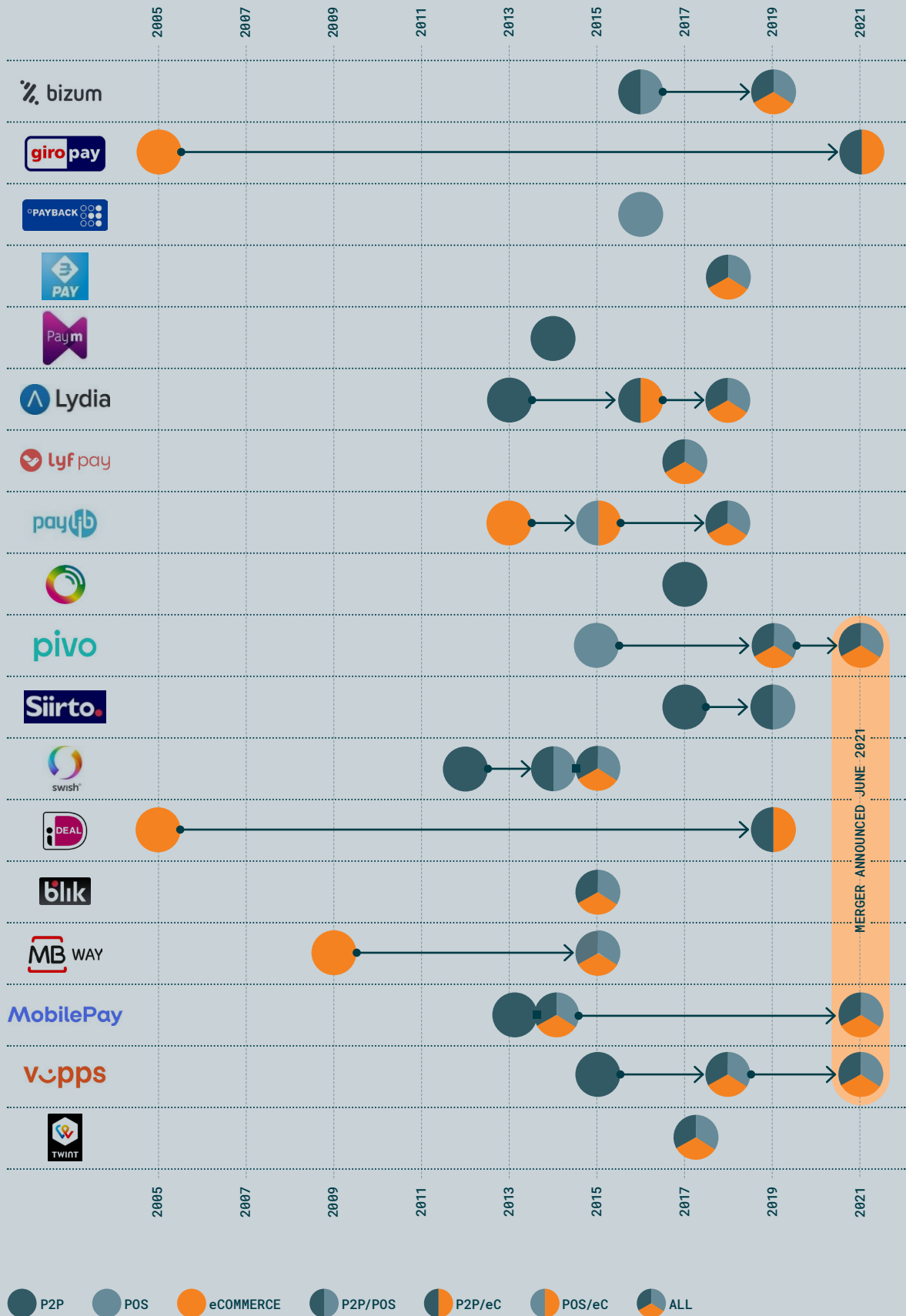
Over time, however, most of them became at least 2-in-1, if not 3-in-1, solutions; while only a small number – primarily late starters such as Twint and BLIK – entered the market as 3-in-1 solutions from the outset.

## FRAGMENTATION WITHIN COUNTRIES

Mobile payment solutions across Europe, similar to what is happening in other regions, also differ in terms of the nature and extent of their cooperation with their banking communities. While the majority partners with – or are owned by – a selection of their respective domestic banks (e.g. iDeal, Swish, Zoin, MB Way), other solutions are "bank specific", meaning that only people with an account at one particular bank (e.g. Santander Wallet, BBVA Wallet, Bank of Cyprus Wallet) can use them.

2 – <https://www.finextra.com/newsarticle/38373/nordic-mobile-wallets-vipps-mobilepay-and-pivo-to-merge>.

Fig. 2 – Development of mobile payment use cases over time (non-exhaustive).



As we have seen, there are already a variety of different but highly functional digital payment solutions in the EU and the region is well on its way to having several mobile payments champions. However, the Achilles' heel is fragmented infrastructure: while many mobile payments solutions are accepted in a few other countries, none is accepted across Europe, let alone issued outside the home market.

## **EPI AND THE COMMISSION'S AMBITION TO BUILD A PAN-EUROPEAN SCHEME**

Spurred on by a long-standing, ongoing ambition to establish a pan-European retail payment solution, and possibly disappointment over Open Banking solutions not developing fast enough to be able to challenge the dominance of international schemes, the European Commission is now putting pressure on some of the largest European countries to embark upon the development of the European Payments Initiative (EPI), a new European payment scheme.

This time, the context differs from that of the four previous attempts,<sup>3</sup> as the payments industry globally, and in Europe, has evolved significantly to a point where card-based solutions now co-exist with mobile solutions, the latter being already highly relevant in Northern Europe and a few continental countries (e.g. Poland). Therefore, the EPI's objectives<sup>4</sup> include pan-European schemes for both cards and mobile payments.

In parallel, the European Commission has proposed a framework for a "European Digital Identity Wallet".<sup>5</sup> Since this particular wallet, at the time of writing, aims to digitise everything Europeans store in their physical wallets except money and payment cards (e.g. ID card, driver's licence) it is not a direct competitor to existing mobile schemes but could complement the EPI. With this in mind, it is safe to say that mobile payments in the EU, just like in other parts of the world, are becoming more and more digital.

3 – Berlin Group, European Alliance of Payment Services (EAPS), Payfair, and Monnet.

4 – <https://www.epicompany.eu/>.

5 – <https://www.reuters.com/world/europe/eu-launches-digital-identity-wallet-driven-by-pandemic-digital-push-2021-06-03/>; <https://www.bloomberg.com/news/articles/2021-06-02/after-joint-debt-eu-seeks-more-integration-with-digital-id-card>.

## LARGE OVERLAP BETWEEN EPI AND EXISTING MOBILE PAYMENTS PROPOSITIONS' FUNCTIONALITY

Turning our attention back to the European mobile payments landscape, our research shows that the 41 mobile payment solutions we analysed each offer at least one of the three main digital wallet services which EPI is planning to provide:

- P2P: Person to person payments,
- POS: Payment at the point of sale, and
- eCommerce: payment in online stores.

Almost half – 18 out of 41 – of the propositions analysed in our research can, on a national level, keep up with the target functionality of EPI by offering all three of these. 73% offer at least a P2P solution and the same number offer POS payments, while 63% provide an eCommerce solution. The number of propositions with each of the possible combinations of the three main use cases is shown in Fig. 3.

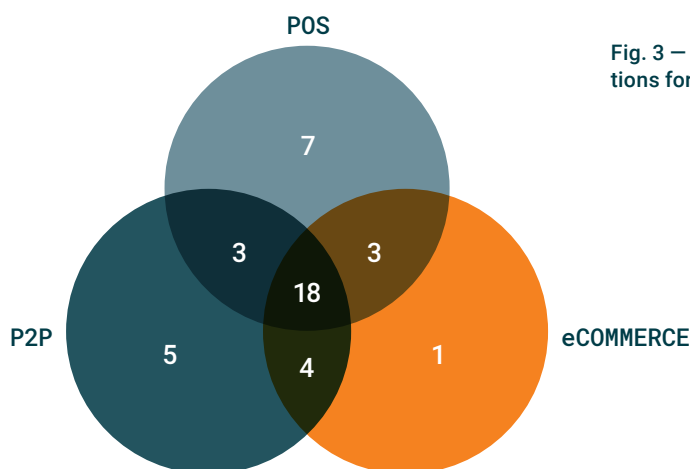


Fig. 3 – Number of the selected mobile payment solutions for each combination of the main use cases.

In addition, it is also interesting to note that at least 60% of the propositions offer their users QR-code payment initiation. In contrast to the common NFC payment initiation which is only used for contactless payments via card or phone at the POS, a QR code is more versatile in its use cases: embedded in online shops, at the POS, or as a unique code for each user in P2P payments. A third option – which BLIK, for example, uses – is to generate a unique code for each transaction.

This new pan-European solution appears to have momentum and political tailwind so far, and has the support of some of Europe's main banking communities and largest banks. As our research shows, it duplicates functionality present in existing European value propositions. If successful, it would pose a material threat of substitution to existing domestic mobile payments that could find themselves obsolete. Similarly, EPI could also compete with domestic ATM and debit card schemes, some of which are actively investing in innovation to become mobile-hybrid solutions.

## SCENARIOS FOR EUROPEAN MOBILE SOLUTIONS

Given Europe's growing mobile payments landscape, its domestic focus and the strategic challenges arising from EPI and the European Digital Identity Wallet, European mobile payment solutions are facing an existential threat because a question mark hangs over their market and future business case. All things considered, we envision four potential scenarios, displayed in **Fig. 4**, which operators of mobile payment solutions should consider.

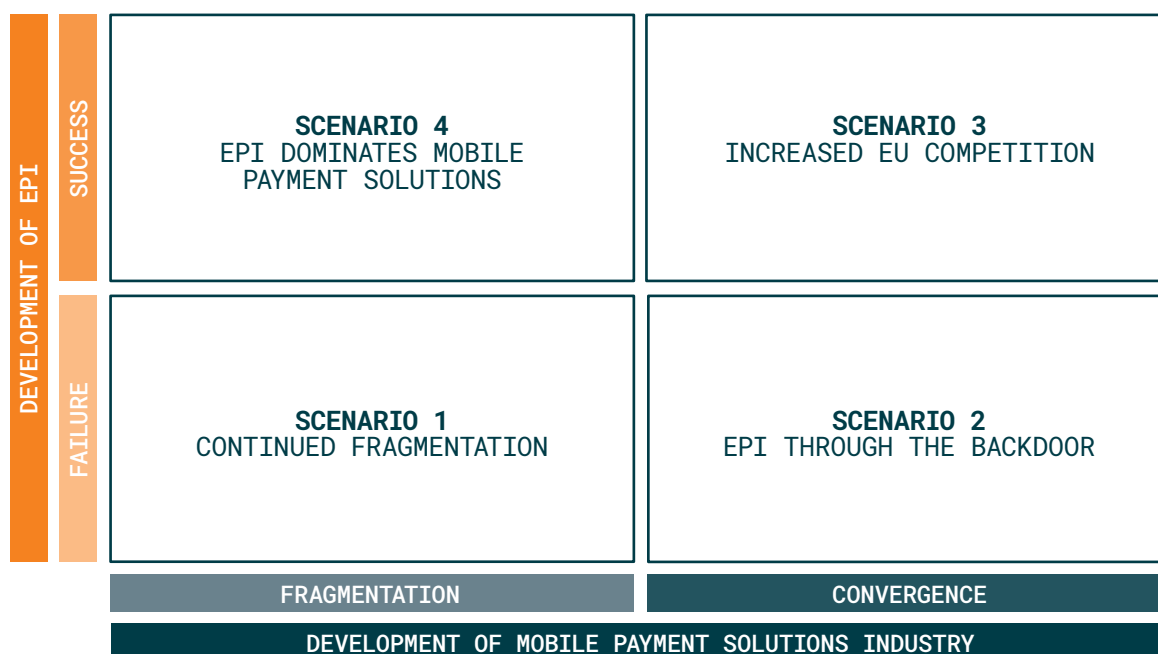


Fig. 4 – Scenarios for EU mobile payments depending on the development of EPI.



## **SCENARIO 1: CONTINUED FRAGMENTATION - EPI FAILS, FRAGMENTATION PERSISTS**

EPI is a complex project that is being considered despite the failure of four previous attempts. The project may turn out to be unviable, either due to lack of a business case or because of the technical and political difficulties, ultimately leaving the competitive landscape for European mobile payments solutions unchanged and EPI, sharing its predecessors' fate.

In this first scenario, the European mobile payments continue to evolve and grow on a regional level but don't converge onto an alternative European solution. Bank-owned propositions might however be seen as a fallback option to EPI to keep the customer interface in payment while competing against international card schemes. It is highly probable that this scenario would evolve into scenario 2 (see below) over time.



## **SCENARIO 2: EPI THROUGH THE BACKDOOR - EPI FAILS, MARKET CONVERGES**

In this scenario, the EPI project fails for the aforementioned reasons. However, the different European mobile payment solutions successfully continue their evolution to cross-regional convergence/interoperability on a European level. First steps in this direction can already be observed (e.g. recently announced merger of Vipps, MobilePay and Pivo or the foundation of the EMPSA<sup>6</sup> by 14 mobile payment propositions, including Blik, Swish, Vipps and iDeal for example) – presumably as a first reaction to EPI.

In consequence, this would result in cross-regional mobile payment solutions into which some of the incumbent propositions – likely the largest and those sharing similar ownership – might become interoperable or merge their brands into what would ultimately become a potential European proposition that meets (parts of) EPI's initial objectives.

However, this scenario requires a great amount of effort since the payment solutions vary significantly in terms of ownership, governance, level of ambition, ability to invest, technology and the scale of business and would not happen in the short- or medium term.

<sup>6</sup> – European Mobile Payment Systems Association.





### **SCENARIO 3: INCREASED EU COMPETITION - EPI SUCCEEDS, MARKET CONVERGES**

Similar to scenario 2, some of the propositions and incumbent domestic schemes become interoperable or merge their brands. But in this scenario, EPI is a success. Consequently, from a user perspective this would result in an increased level of competition in Europe between international schemes, EPI and converging mobile payment solutions.

Like scenario 2, participants in mergers or interoperability efforts are able to capitalise on their investments but this entails significant challenges of technical interoperability or sensitive decisions on which parts of the existing solutions should be kept or written off, for example. It would imply an even more rapid cycle from evaluation, to negotiation, design, and development than in the second scenario, as the EPI project would keep advancing in parallel.

Additionally, this would likely require major monetary investments, management attention, and commitment from some of the banks who, while being stakeholders in their incumbent domestic mobile solutions, are also participating in EPI at the same time.



### **SCENARIO 4: EPI DOMINATES MOBILE PAYMENTS - EPI SUCCEEDS, FRAGMENTATION PERSISTS**

In this scenario, like in scenario 3, EPI develops successfully but instead of only creating additional competition for the incumbents, it ends up dominating the market. This consideration is linked to the fact that banks owning mobile payment propositions and being part of EPI will be facing a strategic dilemma which would eventually lead to a merger of regional and cross-regional mobile solutions into EPI. Seeing the current state of EPI and the pace of consolidation among incumbent wallet solutions this scenario would require EPI to be at least as good as each of the domestic solutions for the respective users to make a switch and gain the necessary share of the market.

## **EPI WILL LIKELY ACT AS A STIMULUS FOR A PAN-EUROPEAN PAYMENTS SYSTEM**

As we have seen, the landscape of European payment providers has evolved over the course of 15 years, moving through a phase of fragmentation and, more recently, is beginning to show first signs of convergence.

However, it is unlikely that a pan-European mobile payment proposition will emerge without central co-ordination. Whichever of the four scenarios emerges, or even a combination of them, EPI has sparked a new sense of urgency for European propositions to establish themselves beyond national and regional boundaries.

Overall, a transition through several of the four scenarios over time is also imaginable if EPI takes longer than expected to enter the market. At that point, an “EPI through the backdoor” might already have happened, which would then be challenged and potentially dominated by the incoming EPI solution. The final state would resemble scenario 3, with both increased competition and a successful EPI.

## **ABOUT ARKWRIGHT**

Arkwright is a management consulting firm offering strategy advisory services to private corporations, NGOs, investors and start-up companies. Amongst a number of different industry-dedicated teams, our Payments and Digital Banking practice is one of the most experienced globally, positioning Arkwright as a high-end digital financial services and payments specialist strategy boutique.

When we founded Arkwright in 1987, we did so with a strong belief that clients’ sustained success requires deeper collaboration and a different working model than what we experienced at the time. Since then, our focus on deep-rooted, long-term partnerships with selective clients has formed the basis of our approach and helped us grow to what we are today: an international consultancy with Nordic roots, operating truly globally, from our offices in Hamburg, Oslo and Stockholm and with additional operational presence based in the Middle East and the US.