

INTRAPAY ALTERNATIVE PAYMENTS RESEARCH IN EUROPE

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RESEARCH SUMMARY: THE DIVERSITY OF EUROPEAN PAYMENTS



When it comes to payments culture, our research has shown that fragmentation is the one consistent theme that extends across Europe. However, exceptions do exist: PayPal's global reach exists throughout Europe and millions of Amazon's customers regularly use features such as Amazon Payments and Pay with Amazon.

When we examine the continent country by country, variety is the striking feature. One of the more traditional payment methods is Kauf auf Rechnung, used by 70% of online consumers in Germany. This "try before you buy" method is a relic of catalogues and the pre-digital age, allowing customers to pay via invoice once the goods have arrived. Of course, this leaves the merchant open to potential consumer fraud, but it is a useful example of how local culture can have a radical impact on payment preferences. Invoice payments were once also popular in Scandinavia, but preference has now swung towards card payments in Sweden and PayPal in Norway, where alternative payments are expected to reach 75% of market share by 2019. In Denmark, the majority of the population use the Danish e-wallet MobilePay while Swish and Vipps are up and coming in Norway and Sweden respectively.

In the Netherlands, one of the most cashless societies on earth, iDeal dominates with 56% market share. While it traditionally enabled eCommerce consumers to pay online through their own bank, iDeal is increasingly being used more widely for any energy bills, donations to charities and local taxes.

In France, the world's fourth largest eCommerce market, credit and debit cards are the most popular method. In stark contrast to its German neighbours, bank transfers are used by just 9% of consumers and e-wallets are on the rise with Paylib which has three times as many users as PayPal France.

Italy and Spain share a similar payments landscape. Neither country is a giant of European eCommerce but the popularity of online shopping is growing along with e-wallet payments. Portuguese customers often prefer e-checks which delay the payment by some days, or PayShop, which allows customers to pay an agent stationed at a supermarket or kiosk. For smaller purchases at lesser-known online merchants, Portuguese consumers often prefer MBNet, a virtual card that is credited with funds and transferred to the merchant, keeping the customer's card details private.

The UK boasts Europe's largest eCommerce market and is dominated by the two major global card schemes, Visa and MasterCard, making up 60% of online payments, followed by eWallets and bank transfers. Alternative payments too are thriving in the UK and this research examines their prevalence in markets across Europe.

While some may see the European market as fragmented, different countries have shown a thriving appetite for innovation and a payments infrastructure that suits the way people want to pay. This customer-centric approach is what will drive "sink or swim" adoption of new methods until the next pan-European giant is born.

Note: This report is based on a compilation of third-party reports, desk research and the canvassing of opinion from Payments industry experts from within our team and contact base.

Understanding the global picture of the alternative payments industry

What alternative payment methods are there?

Google Wallet - is a digital wallet (where payment details are stored electronically, replacing the need for a traditional, physical wallet) that helps merchants create an engaging shopping experience, in-store or online. Merchants can showcase savable offers or integrate a loyalty program to Google Wallet through the Wallet Objects API. Additionally, merchants can create a fast checkout experience for their mobile sites and apps with Google Wallet Instant Buy. And Google Wallet can be linked to Google sign-in to reduce friction of registering to merchant sites. Price: Free.

Dwolla - is a payment network that allows any business or person to send, request, and accept money, without relying on credit cards. Dwolla connects to a bank account and allows you to move money at a very low rate. Easily create a "Pay With Dwolla" button on your website. Price: \$0.25 per transaction, or free for transactions \$10 or less.

PayPal - has 137 million active registered accounts and over 30 million U.S. mobile customers. Available in 193 markets and 26 currencies, PayPal is the 800-pound gorilla in alternative payment options. Merchants can quickly create and send invoices, accept PayPal payments from the vast user group, simplify PCI compliance, or even go mobile with its new plug-in card reader. Price: 2.9% + \$0.30 per transaction.

Square - is a payment-processing app for iOS on iPhones or iPads. Square Wallet lets customers pay with their phones — no card or cash is necessary. Its Square Register application for the iPad is an attractive alternative to the traditional cash register. And Square offers a selection of tools to track sales, tax, top-purchasing customers, and more. Price: 2.75% per swipe or online sale and 3.5% + \$0.15 per manually entered transaction. Card reader is free when you sign up.

Amazon Payments - features "Login" and "Pay With Amazon" options on a website can allow millions of Amazon customers to easily create a profile and purchase on the site. Amazon offers a seamless mobile payment experience and a massive user-base. With no redirects, you control your site and keep customers within your branded experience. Price: Based on a percentage of the transaction amount plus a per transaction fee, starting at 2.9% + \$0.30 per-transaction, and as low as 1.9% + \$0.30 per-transaction for monthly volume of \$100,000.

V.me - Visa's solution to receive payments and simplify the checkout experience for your customers. Add the "Checkout With V.me" button to your site with just a few lines of code. Your customers can check out with a username and password, confirming their payment details without leaving your site. V.me works with any major credit or debit card.

MasterPass - MasterCard's solution to streamline a customer's checkout. After selecting the MasterPass button on your site, a customer chooses the integrated digital wallet to use. MasterPass then transfers payment and shipping information to the merchant for processing. MasterPass supports all major credit cards. To use MasterPass, you must accept MasterCard-branded payment cards. Price: Free.

clearXchange - a service from Bank of America, Chase, and Wells Fargo that enables customers of its member banks to send and receive person-to-person (P2P). Send payments request by email or text message. If the recipient's bank is not a clearXchange member, a clearXchange profile can be created to respond to the request. Price: Free.

Intuit PaymentNetwork - a bank-to-bank electronic funds transfer solution. Create an ecommerce button on your website, or send payment requests to your customers. Insert a custom payment link anywhere. No setup or monthly fees, and no cancellation fees. Price: \$0.50 per transaction to receive money.

Bill Me Later - a service by PayPal that provides your customers with access to 6-month financing. PayPal provides a free banner ad to help you promote the financing option. Your customers get more time to pay, and you get paid up front and don't assume any credit risk. There is no additional charge to you when customers finance their purchases. Price: Free on all PayPal business products.



Bitcoin - the first "cryptocurrency," a peer-to-peer, decentralized, digital currency. Bitcoin's high cryptographic security allows it to process transactions in a very efficient and inexpensive way. You can make and receive payments using the Bitcoin network with almost no fees. In general, crypto currencies offer consumers an alternative to credit cards and the possibility of increased privacy. Download your free Bitcoin digital wallet and access merchant resources at Bitcoin.org. Price: Check each Bitcoin resource for pricing.

Kauf auf Rechnung - Order online and pay by invoice. You pay the bill by bank transfer within 10 days of receiving the goods and only the products that you actually keep.

- You must be at least 18 years old, credit rating provided.
- As a new customer, only one order per invoice is possible. Only when the payment is completed, another order with purchase on account can be made.

Giropay - an Internet payment System in Germany, based on online banking. Introduced in February 2006, this payment method allows customers to buy securely on the Internet using direct online transfers from their bank account. The system is similar to the Dutch iDEAL payment system, the Interac Online service in Canada, pagomiscuentas [1] payment service in Argentina, and Secure Vault payments[2] in the United States. Giropay is owned by giropay GmbH.

eCheck - is an electronic payment funded by the buyer's bank account. With an eCheck, the recipient should receive the money within 3-6 business days. Both eChecks and Instant Transfers are ways to pay with your bank account. With an Instant Transfer, the recipient receives the money right away. You only need to have a confirmed U.S. bank account to send an eCheck, but an Instant Transfer also requires a backup funding source such as a credit or debit card registered on your PayPal account.

Klarna - a method which allows the user to try before they buy. Developed in Sweden and used by companies such as Hype, Schuh and ASOS this service allows the customer to pay after 14 days of receiving the product. As Sweden is particularly rich in terms of publicly available data relevant to financial risk for example, you can check a customer's income online. Klarna has now developed advanced algorithms that model financial risk based on up to 140 variables including such data as a customer's geographical location, IP number, machine ID, time of purchase and so on.

1 <http://www.pagomiscuentas.com>

2 <http://www.securevaultpayments.com>

Including all payment methods except credit / debit cards, incl. pre-paid cards, wallets, mobile, bank transfer, SEPA, Zella, RTP, etc

- Throughout the world
- Region by region
- Country by country

GERMANY

Alternative payment methods (such as PayPal) are more popular than credit card transactions but Kauf auf Rechnung (payment on invoice), used by 70% of German online consumers, dominates the online retail space.

Kauf auf Rechnung sees consumers make their shopping choices online and bills them via invoice, sent by email. To outsiders, it is sometimes seen as a rather old-fashioned way to pay and has its roots in the popularity of the "try before you buy" German catalogues from the pre-digital age, but suits the market demands very effectively.

While it gives German consumers the opportunity to make sure they are happy with their purchase prior to payment, it does open the door to the potential of large scale consumer fraud. Merchants offering Kauf auf Rechnung must trust that consumers will pay their invoices in full and on time, once the product has been delivered.

AUSTRIA

Austria may comprise a smaller landmass and population than its Teutonic neighbor Germany, but it nonetheless boasts an extremely powerful eCommerce sector. By 2021, it is expected that almost 80% of Austria's population will be conducting ecommerce transfers.

Currently, 69% of Austria's 8.5 million people are thought to be e-shoppers, spending an average of US\$933.91 each year. The majority of these - 81% in fact - are also conducted via Kauf auf Rechnung for online purchases. Indeed, the Austrian online payment method 'eps' is linked with the German Giropay to enable Austrian buyers to easily shop at German merchants (and vice-versa) using their existing online banking setup.



UNITED KINGDOM

In 2016, the UK cemented its position as the largest eCommerce market in Europe with a 16% YoY growth rate, its second highest growth rate over the past five years. 80% of the population are expected to make a digital purchase in 2017 while a Google study found that 56% of consumers shopped on mobile in a single month in 2016. Overall, around a fifth of the UK's online shopping is conducted through mobile devices. The UK's payments landscape is dominated by the two major global card schemes, Visa and MasterCard, making up around 60% of online payments, followed by eWallets and bank transfers.

According to Ecommerce Europe, we prefer to pay in cash when we are shopping store however with the recent surge in contactless payments, this is rapidly becoming the preferred method of payment. Online, we still prefer to pay by card with e-wallets still vying for a slice of the market.

e-wallets

According to the Payers Payment Methods Report 2017; in 2016, 23% of online transactions were made through e-wallets, 59% were made by cards, 45% debit, 14% credit (Ecommerce Europe, 2016). As many international payment methods are often trialled out in the UK before entering Europe it has created a diverse market for e-wallets. Two e-wallets have emerged, we have outlined below.

Yoyo Wallet –Already having deals with Caffè Nero and Uber and a investment of 12 million pounds will see Yoyo Wallet grow internationally. The app isn't linked to a specific bank and wants to incorporate merchants and their loyalty scheme.

Pay by Bank App - Founded by BoS, Barclays, Halifax and Lloyds and can only be used by people that are with these banks. It offers a credible and secure solution appealing because it has household banks behind it.

FRANCE

The French market is the fourth largest eCommerce market in the world, according to the US Payments Forum. Credit and debit cards remain the most popular payment method, used by 57% of French eCommerce shoppers. PayPal is used by 25% of French consumers, while in a clear difference to their German neighbors, bank transfers are only used by 9% of consumers and cash on delivery is used by a mere 2%.

e-wallets

e-wallets have become increasingly popular, in particular the bank-backed Paylib, which already holds three times more users than PayPal in France, 40 million users, according to Ecommerce Europe.

SPAIN

With 54% of Spanish consumers shopping online regularly, it is roughly at the European average of 51%. Payment on delivery used to be the main method of payment for online commerce. However, Spanish consumers are becoming more tech savvy with 2016 figures indicating that 57% of Spanish online shoppers use electronic wallets for payments.

ITALY

Italy has a similar payment landscape to Spain. Again, Italy is not one of the giants of European eCommerce in the same way that the UK or Germany are, but it is growing at a steady rate and Italian consumers are happy to buy from across Europe, with British eCommerce sites being the most popular non-Italian destinations for Italian consumers.

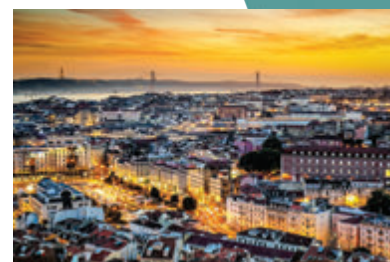
The anonymity of the pre-paid card could make it a greater risk than a debit or credit card, while the global prevalence of PayPal makes it a prime target for phishing tactics from fraudsters pretending there is a problem with a user's PayPal account, before stealing any personal details revealed by the concerned customer.

PORTUGAL

A popular and unique payment method in Portugal is the electronic check, or e-check, where a bank account will be debited for the transaction amount, with the recipient receiving the funds some days later.

Also popular is Payshop, a Portuguese payment solution that allows consumers to pay online by visiting a Payshop agent (such as petrol stations or supermarket) equipped with an invoice of a reference.

MBNet from MultiBanco is another widely-used payment solution in Portugal, which allows online transactions with a credit card without having to give away any credit card information to the online merchant. A virtual card is created with the exact amount of the purchase value on it, which is used to pay the merchant while keeping the consumer's bank details private. This method can be particularly useful when shopping with smaller, less well-known merchants, in whom consumers would typically have a lower level of trust. It means that bank account cannot be raided by illegitimate or unscrupulous traders.



BENELUX

With its booming fintech sector, it isn't surprising that the Netherlands has an incredibly diverse payments landscape and is noted for being one of the most cashless economies in the world .

For ecommerce, iDEAL continues to dominate with a market share of 56%, followed by credit cards at 12%. However, the remainder of the market is highly fragmented.

The Belgian payments landscape, however, is dominated by Bancontact (formerly Bancontact/ MisterCash) and it is the payment method of choice for Belgians both online and in-store. Bancontact uses strong consumer authentication for online payments, including PIN, so it is seen as being a relatively secure payment method, while overall, Belgium is not seen as a particular hotspot or threat for online fraud.

SCANDINAVIA

Pay by invoice has been the dominant method of online payment in Sweden, yet more recent evidence suggests that this has been overtaken by credit cards, with 56% of Swedes preferring this payment method for online commerce, valuing its perceived safety.

Unlike its Swedish neighbor, Denmark is still seeing a year-on-year rise in card fraud, currently at 5%. However, most of this is currently down to card-present fraud.

Norway's preferences differ slightly however, with PayPal rising in popularity, despite the current dominance of credit and debit cards. It is expected that alternative payment methods will rise to almost 75% by 2019, as more and more shopping is conducted online.

Finland, and Denmark, however, consumers prefer invoice, online banking, and e-wallets. Cards make up 44% of payments, invoice 23%, Direct Debit 22%, and e-wallets 6% (Ecommerce Worldwide, 2017).

e-wallets

In Denmark, most of the population are using the Danish MobilePay and is widely accepted throughout Denmark. Similar e-wallets are coming up in Sweden; Swish with 5 million users (Brunet, 2017), and Norway; Vipps with 2.15 million users (Finextra, 2017). In general, people from Scandinavia are confident online consumers using a variety of alternative payment methods, and it remains to be seen if e-wallets will become bigger than online banking solutions or invoices for ecommerce purchases.

Emerging Trends 2018

It is clear that although the European payment landscape is extremely diverse, there are actually many similarities between different countries in terms of consumer preferences. While debit and credit card payments remain popular, the rise of alternative payment methods will change the landscape dramatically over the coming years.

Below we have outlined five trends that you can expect to see in the payments industry in 2018.

Alternative payment methods coming together with more conventional methods. For example, PayPal expanded with Facebook and Skype to include peer-to-peer payments allowing users to send money via instant messaging.

Methods such as voice payments that are integrated in to Alexa's and Siri. The Internet of Things is becoming evermore present in all aspects of life and paying for goods will be the next step.

Introduction of installment payment products. Airlines have now started letting their customers pay over a period of time to allow more time to pay off big sums of money. Fintech start-ups have quickly emerged to address the demand for installment payments, with companies such as Affirm and Uplift offering financing to qualified users. As for sharing economy marketplaces, it seems inevitable that they'll become more deeply integrated with their payment providers if they want to provide credit options on-platform.

Being able to send money across Europe in real-time will be a huge factor of 2018. Importantly, it also means that sharing economy platforms can distribute payments to their freelancers same-day or even real-time, putting European marketplaces on par with their counterparts in other parts of the world.

With WeChat Pay being launched in the UK, we expect to see this happen around Europe. Given the increasing flow of both population and capital between China and the developed world, look for adoption of Chinese payment services in the EU and US to grow significantly through 2018.