

Fourth meeting of the European fintech payments dialogue

The 4th meeting of the European fintech payments dialogue took place on 7 March 2024, where representatives of seven European fintechs and of European central banks held a discussion on the theme of *'mobile-based payment innovations and their implications for efficiency, accessibility, and financial inclusion'*.¹ The participating fintechs comprised a wide range of different service models. During the meeting, participants exchanged views on the current challenges and opportunities in the market, identifying the fragmentation in European payment markets as the main current challenge. They discussed emerging business models, pointing at various business model adaptations according to the type of service provided. Moreover, the meeting covered innovation trends relevant to the European fintech ecosystem.

Scenarios for the development of mobile-based payment innovations

The participating fintechs discussed the most-likely scenarios for the development of mobile-based payment innovations in Europe. A major challenge was to expand the person-to-person (P2P) use case to the commercial retail payments environment, i.e., to e-commerce and to the point-of-sale (POS). Participants identified the architecture of payment systems underpinning retail payments as cementing the ecosystem and hindering the creation of new consumer journeys, e.g., instant payments at the POS. Furthermore, fragmentation of card schemes and payment methods in Europe was considered as holding back cross-border expansion. Specifically, fintechs indicated the lack of pan-European APIs at the POS for connecting with the merchant's back-office or ERP systems. This fragmentation is however

¹ Ahead of the meeting, an agenda with key questions was distributed to structure the discussion. Additionally, introductory slides about the fintech participants and their companies' main activities were distributed amongst all participants to replace spoken introductions. Fintech participants were asked to provide an opening statement for each of the questions. The key questions were:

- What are the most likely scenarios for the development of mobile-based payment innovations in Europe? And according to these, what opportunities and challenges do you see for their use? Do you expect fragmentation or integration between different solutions?
- Are there any contradictions in the payment processes regarding efficiency, accessibility, and financial inclusion (e.g., would 'SoftPOS' generally be more affordable for smaller merchants, but would visually impaired users not be able to use these)? If so, to what extent are efforts taking place to overcome these, and who is leading them?
- What are the dominant business models in the market today? Do you see features to cater for the needs of vulnerable groups of users emerge in the market today, and if so, is it necessary that they are commercially viable?
- What would you ideally expect from the ECB/Eurosystem regarding developments in mobile-based payment innovations, also in relation to efficiency, accessibility, and financial inclusion, over the next five years?

at the same time also shielding fintechs from having to compete with Big Techs, which can leverage their greater consumer and merchant coverages to propel their innovations. Specifically, one fintech pointed out that when smaller players suggested the adoption of touch- and face-ID for payment authorization they were met with great hesitations by banks and card schemes, while the adoption was seamless when introduced in the payment process by Big Techs. Nevertheless, as Big Techs are better equipped in adapting to the fragmentation of European payment systems, some participants argued that cooperation with Big Techs is fruitful in supporting and expanding their own services at a national level. At the same time, there is the concern that this opportunity could become a challenge considering that divergent national practices such as for KYC/AML might be easier to comply with for large companies without impacting their service prices but not financially viable for fintechs.

Challenges and trade-offs in the payment process regarding efficiency, accessibility, and financial inclusion

An important challenge is the ability of various customers to access mobile devices, as mobile payments solutions so far have limitations for the inclusion of less technologically savvy individuals and the visually impaired due to the characteristic digital interfaces and the payment verification process. One fintech suggested that an abundant offer of mobile payment solutions, each with their own complexities, can be a source of confusion, hindering accessibility among less financially educated users. Therefore, a participant proposed that it should be a paramount objective of the market to provide simple and user-friendly mobile payment solutions. Some participants suggested that a greater use of mobile payments favours adaptation among the less tech savvy (e.g., via family-and-friends mechanisms). Furthermore, participating fintechs also identified the presence of a diverse range of payment methods at the POS, including cash, as a workaround for the challenges to accessibility posed by mobile payments.

For the visually impaired, fintechs suggested that there is a trade-off between accessibility and security. Specifically, they suggested that the introduction of features that allow invoice reading, or voice identification can breach the privacy of users as well as open the possibility for fraudsters to intervene in the payment process.

From the point of view of efficiency, there were different views according to the service provided by the participating fintech. SoftPOS providers identify the reduction of hardware expenses as their main contribution to efficiency through the provision of a software to use an already existing mobile device of the merchant. Some providers do not offer just payments but fully-fledged business solutions for the merchant (e.g., reservation, order, billing).

Fintech participants suggested that, although merchants recognised the efficiency of their mobile service, the transaction costs often posed a challenge for adoption and merchants opted instead for more favourable deals with Big Techs. In most EU countries the fees incurred by merchants for alternative mobile payments – e.g., QR code payments – are higher than the ones proposed by card schemes. Thus, most fintechs identify the reduction of the costs for alternative mobile payment methods as a main area of action for their expansion in the market, especially given the current widespread reliance on card payments by participating fintechs. One fintech argued that to aid the scaling up of QR code payments they had lowered the fee to match the fee for POS card payments, despite higher software costs present for QR codes, expecting the volume increase and a small fee applied to customers to cover the decrease. There is hope that with the upcoming PSD3/PSR there will be more opportunities to supply more competitive and more efficient services through a reduction of costs. One fintech suggested that account-to-account payments could constitute a solution to reduce service provision costs, expecting it to be especially appealing among smaller merchants not enjoying profitable deals with large card payments providers.

An interesting implication of mobile payments for efficiency mentioned by one fintech is the ability to increase the resilience of the payment system by providing a backup solution in case of cyberattacks or other unexpected events. One fintech reported that when a retail store was hit by a cyberattack on its payment and checkout system, having mobile payments already integrated in their payments offering allowed them to establish a new payment solution within one day.

Following the Commission's competition action, Apple opened its NFC for the use by third parties providing wallet apps. However, this has not happened in the same scale for SoftPOS providers. SoftPOS providers participating to the meeting argued that even if Apple NFC was to be opened to third party SoftPOS providers in the same way, the implications for the market would not be as revolutionary as most SoftPOS providers have already negotiated bilateral agreements with Apple. Furthermore, the impact would be limited due to a lower penetration of Apple devices on the merchants' side, which stood at around 8% in the EU.

Prevalent business models in the market

The business models explored in the meeting highly depended on the type of service provided. Overall, there seems to be a tendency to apply fees to merchants instead of consumers. Similar to the fee applied by card-issuing and -acquiring banks upon payments at the physical POS, SoftPOS solutions overwhelmingly report to have adopted a business model that applies transaction fees to the merchants which subscribed to the service.

For fintechs working with payments data, the preferred business model seems to rely upon a free or almost free provision to the customers while imposing a transaction-based fee on providers to which customers subscribe. These fintechs reported that their business model is specifically catering to customers with lower digital skills, as they aim at improving the financial position of their customers by enabling them to benefit by avoiding unfavourable and high fees and prices of standard offers. For this reason, fintechs providing such services suggested to focus on simplicity of the interface and a business model allowing a free service for customers.

There are some exceptions to the fee-free provision to customers, such as for peer-to-peer transactions, while also for B2C transactions there was the opportunity to balance the contribution from merchants with a small transaction fee applied to consumers. For instance, in the hospitality industry a fintech reported it to be an efficient adaptation of the business model if establishments rely upon tourist customers.

All fintechs suggested that the growing presence of instant payments is expected to be largely integrated in the existing business models as the underlying infrastructure allows widespread adoption. Some participants pointed out that where private solutions are in place to provide instant payments infrastructure on a large scale, they have already been successfully and are widely offered as part of their mobile payments service provision.

Role of the ECB/Eurosystem regarding developments in mobile-based payment innovations

Most fintechs agreed that the main development for which the ECB/Eurosystem can be a catalyst is the adoption of a pan-European payment solution at the POS. As discussed in the first part of the meeting, one of the main challenges faced by mobile payments fintechs is the fragmentation of payment solutions across European markets. One fintech argued that in the absence of large European companies which act as a source of standardization, the ECB/Eurosystem should provide directions for standardization to allow cross-country flourishing of payment fintechs in the field. This couples well with the suggestion

of fostering the standardization of merchant APIs as well as protocols to support smaller companies to invest in and share innovations across Europe.

Another area of action raised by one fintech is the requirement for mobile payments fintechs to rely on a sponsor to access the SEPA schemes and payment processing entities. They argue that a direct access to schemes (and payment systems) might allow better business conditions, especially considering that the required sponsor is usually a bank, whose services are to some extent in competition with those offered by fintechs.

The future relevance of the EPC's QR code standard² has also been discussed. Most fintechs have a neutral stance on the matter as long as clear information concerning how to comply with the standard was present, yet at the same time, given the current limited developments of QR technologies, they did not deem it a game-changer. Furthermore, one fintech suggested that given the current the technology underpinning QR codes, there are still opportunities to exploit them for malicious purpose, and especially static QR codes are susceptible to hacking.

Technological innovation trends for mobile payments in Europe

Most fintechs reported Artificial Intelligence (AI), in particular for data analytics, as a key development to tackle issues of efficiency, financial inclusion and detecting fraudulent behaviour. One fintech suggested that the use of data, available through Open Banking regulations, is a game changer for the provision of services to consumers through the optimization of payments and the possibility to identify savings from unfavourable recurring payments and fees. Another fintech reported great untapped opportunities for the use of data on the merchants' side. This fintech reported that they provide an application of AI and BI (Business Intelligence) platforms to supply technologically educated merchants with data tools.

Another technological advancement that was reported is the adoption of eID. While some fintechs expect it to facilitate the payment process in the future, for others it is already a reality embedded in their current service offering.

Other innovation developments reported by the fintechs participating to the meeting included the adoption of regulations facing big players' role in the European markets, as this will influence the barriers for fintechs. Similarly, most fintechs also agree that in the field of mobile payments the key future development revolves around the possibility of a pan-European payment solution at the POI to further the process of harmonization among EU countries.

² Compare: [Standardisation of QR-codes for MSCTs | European Payments Council](#)

Annex – List of participants

Institution	Participant	Position
Deutsche Bundesbank	Mr. Dirk Schrade	Chairperson

Fintech Participants

PatronGO	Mr. Jiří Paták	
Softpay	Mr. Ivan Sandqvist	
Divilo	Mr. Juan Guruceta	
Splitser	Mr. Matthijs Piëst	
Splitser	Mr. Maurits van Rijckevorsel	
De Grazie	Mr. Hugo Hilario	
Spark	Mr. Krzysztof Marszałek	
Spark	Mr. Michal Kwiecinski	
Focalpay	Mr. Birkir Veigarsson	
Focalpay	Mr. Morteza Kalhour	

National Central Banks Participants

Oesterreichische Nationalbank	Mr. Christoph Gluszko	
National Bank of Belgium	Mr. Vincent Lanthier	
Central Bank of Cyprus	Ms. Stella Ioannidou	
Central Bank of Cyprus	Mr. Andreas Antoniou	
Deutsche Bundesbank	Mr. Dirk Schrade	
Deutsche Bundesbank	Mr. Julien Novotny	
Danmarks Nationalbank	Mr. Marcus Clausen Brock	
Banco de España	Ms. Lourdes Cremades	
Banco de España	Ms. Rosa Brave	
Suomen Pankki	Ms. Maria Huhtaniska-Montiel	
Croatian National Bank	Ms. Iva Kopecki	
Croatian National Bank	Mr. Tomislav Mišić	
Central Bank of Ireland	Ms. Helena Roche	
Banca d'Italia	Ms. Francesca Perrota	
Banque centrale du Luxembourg	Ms. Li-Chun Yuan	
Central Bank of Malta	Mr. Stefano Savo	

De Nederlandsche Bank	Mr. Marc Van Der Maarel
Narodowy Bank Polski	Mr. Robert Klepacz
Banco de Portugal	Mr. Rui Pimentel
Sveriges Riksbank	Mr. Johan Schmalholz
Banka Slovenije	Ms. Rebeka Reven
Narodna banka Slovenska	Ms. Iveta Behunova
Narodna banka Slovenska	Ms. Lenka Sidorova
European Central Bank	Ms. Karine Themejian
European Central Bank	Mr. Iddo de Jong
European Central Bank	Ms. Elsemargien Constance Naudts
European Central Bank	Ms. Tania Di Biase