Sifted/Reports

# The payments revolution

## Fintech unwrapped 2.0


sifted / backed by FT FINANCIAL TIMES

Sponsored by PLAID

# The payments revolution

## Fintech unwrapped 2.0

*The payments revolution: fintech unwrapped 2.0* is a Sifted Intelligence report, sponsored by Plaid. It looks at the trends and startups powering change in the consumer payments sector.

This report follows our first *Fintech unwrapped* report, also sponsored by Plaid, which explored the startups providing infrastructure to the banking industry (Banking as a service, or BaaS).

The payments space is rapidly evolving and our industry coverage would not be possible without the expert insights of those on the front line. Throughout the report we share opinions and stories from selected operators and investors who are building new payment rails and facilitating the growth of new markets.

## Get in touch

Questions? Feedback?

Would you like to partner with Sifted on the next report into your sector?

Or help us profile your emerging tech hub?

Contact Christopher Sisserian, head of Sifted Intelligence via chris@sifted.eu

# Contents

# Q&A with Plaid's Keith Grose

As head of international for Plaid, Keith Grose has a front row seat to the shifting European digital banking ecosystem. We spoke with Grose about open banking and the role it has in changing the way we interact with our money.

**How has open banking influenced the payments landscape in Europe?**

I think it's had a massive impact since it came into effect, but it's also still just in the early days. You've had the early adoption phase, proving out the quality of the APIs and what this product is actually being used for. Now we're in the situation where enterprises and tech companies are creating brand new financial products and services to match shifting consumer demands, and all of this has been completely accelerated by Covid-19.

> **"Enterprises and tech companies are creating brand new financial products and services to match shifting consumer demands."**

**What aspect of financial services have changed the most through the implementation of open banking?**

On the payment side, the biggest impact has been on consumer account funding and creating instant payment experiences. There are increasing use cases for digital wallets, instant bank account payments, cryptocurrency exchanges, trading, savings and investment apps, opening and funding neobank accounts — all of that is rapidly moving into an open banking payment-first world.

What you've not seen yet, but you will, is the ecommerce side — checkouts with your bank. That will come as we build additional features, and open banking payments become trained in consumers' minds as a safe and more beneficial payment method than cards or card-on-file. It's already started in account funding and account opening, and it's moving towards ecommerce more broadly.

**When it comes to developing alternative payments rails, how does Europe compare to the rest of the world?**

I think Europe's doing a fantastic job with the underlying infrastructure, and it's making them a global leader. SEPA Instant Payments and Faster Payment rails in the UK are fantastic. They are some of the leading rails. What you see in places like the US, and certain countries in Asia, is that their markets are built on top of stale underlying infrastructure — which could cause trouble down the line.

But for Europe to make it a true payment rail they now have to ensure that the underlying infrastructure can be exposed and embedded into places where consumers will actually use it in the right way, and that is what open banking payments and players like Plaid are helping to do. But it requires the whole ecosystem working together.

**Where do you see the payments revolution heading in the next few years?**

You're going to see a world where you can use open banking payments at a physical point of sale. Part of this is the reemergence of QR codes, but also generally a world where everyone is paying from their phone and won't need a wallet or cards: instead you're going to start to see new payment apps.

The other thing you're going to see is price competition that benefits consumers and merchants. Open banking payments is fundamentally going to be a challenge to interchange for card networks, and I think competition between open banking players will mean that the benefits of these payment rails are ultimately felt by both consumers and merchants.

> "We're moving to a world where it shouldn't cost a merchant 3% of the sale just to process a payment."

I think we're moving to a world where it shouldn't cost a merchant 3% of the sale just to process a payment. You're going to start to see that getting negotiated down quite quickly over time.

**Do you think most consumers are aware of the revolution taking place in consumer banking? Do they need to be?**

The technical infrastructure underlying it isn't something that consumers need to understand as long as they trust and understand the experience they're going through. And that's where I think Plaid and others are really focused on building clear, consistent user experiences, high security and instant settlement payments, where it builds that consumer trust over time.

**What are you most excited about right now?**

As painful as Covid-19 has been, it has fundamentally brought awareness to people that this trend is inevitable. Everyone has a smartphone, everyone manages their bank accounts on their smartphone. It's so clear that in that app-based world you need account-based payment methods. I think you're starting to see the emergence of a new digital financial ecosystem.

# Market map

Payments headlines are often dominated by the biggest players, but here we list some noteworthy up-and-coming European payment startups. Most are early-stage companies (seed to series A) that bring unique solutions to the sector, while others are slightly more established players on the front lines of payment innovation.

## Payment initiation

**BANKED:** payment software platform between banks, businesses and individuals
**OPEN PAYMENTS:** infrastructure platform that connects users to multiple banks through one API
**TRILO:** consumer-led digital payment network without merchant transaction fees
**ZIMPLER:** account to account payment solution for companies that need to manage users payments and payouts

## Payment service providers

**FENIGE:** card to card money transfers, payouts, acquiring and processing
**PAYSEND:** card-to-card money transfers with just users' mobile number
**PRIMER:** enables e-commerce merchants and online payments facilitators to consolidate their payments services stack
**SALTPAY:** easy and quicky onboarding of merchant SMEs with payment and management tools
**SNAPIO:** shopping solution that lets users scan codes to make quick online or offline purchases
**TAB:** helps tourists to find and book with businesses without commission fees
**TRANSAK:** developer integration for a fiat-to-crypto payment gateway, connecting cryptocurrency with traditional banking
**TRISBEE:** a cashless payment solution for freelancers and online and offline businesses

## Buy now, pay later (BNPL)

**ALMA:** BNPL solution for the French market, with expansion plans to grow merchants' reach across Europe
**DIVIDO:** a global white label consumer lending platform for financial institutions and multinational retailers
**FRONTED:** pays users rental deposits upfront, paid back in instalments
**PLAYTER PAY:** a hire now, pay later payment alternative for SMEs hiring through agencies or online recruiters
**SCALAPAY:** allows users to pay back purchases in three equal installments without interest
**TILLIT:** B2B invoice financing solution, enabling businesses to offer customers flexible payment terms
**VIABILL:** allows customers to pay for their purchases over time, interest-free
**YOUNITED CREDIT:** online platform to facilitate financial transactions between lenders and borrowers
**ZILCH:** BNPL product that allows customers to split purchase into 4 payments over 6 weeks

## Back office payment functions

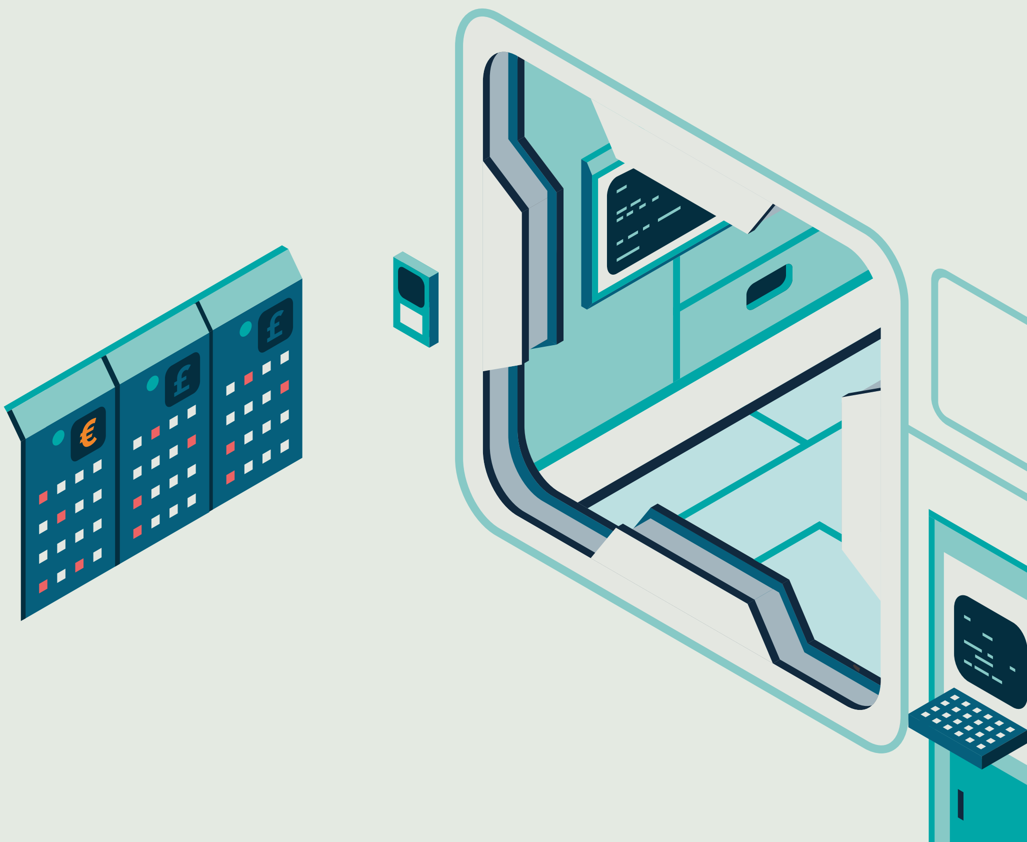
**BEN:** Platform for companies to personalise employee benefit budgets and rewards through payment cards
**FLIPFUL:** helps companies tackle financial wellbeing by advancing employees' salaries when they need it
**GETSALARY.IO:** companies can give employees the right to withdraw part of their earned wages early
**HAPPYPAL:** SaaS solution for French businesses to set up personalised employee benefits programmes
**HASTEE:** allows companies to pay staff a portion of their earned pay on demand
**LANO:** software to help global companies manage and comply with local benefits, payroll and tax regulations
**LIBEO:** platform to simplify processing and payment of account payables for SMEs
**PAID:** helps micro businesses and freelancers get paid on time through its invoice financing platform
**PAYACTIVE:** all-in-one digital payments solution for small businesses and large companies
**PAYFLOW:** allows employees to access earned wages through a mobile app
**PAYHAWK:** combines corporate credit cards, payments, expenses and cash into one integrated experience
**QONTO:** mobile first neobank for European SMEs and freelancers for B2B transactions
**SYMMETRICAL.AI:** businesses can enable employees to take partial pay out on earned salaries

\The payments revolution

# A primer on payments

Long gone are the days when cash was king. Many of us have barely touched a bank note in the past year, in large part due to the coronavirus pandemic. Even before that, however, the trend was firmly towards cashless transactions.

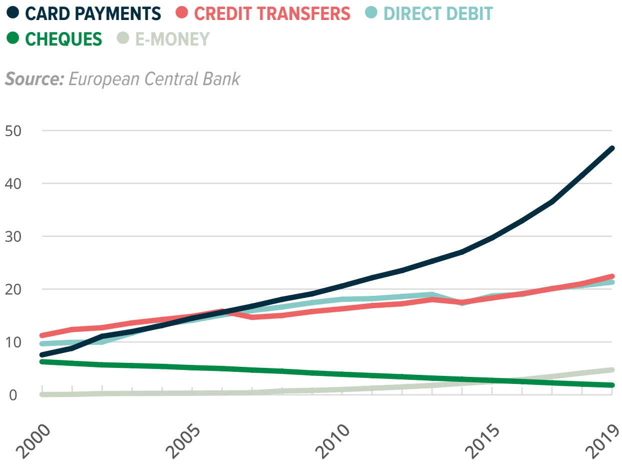
And while card payments still rule, in a few years we could be looking at a vastly different landscape for payment solutions, as fintech companies around the world push the boundaries of what's possible and what consumers and merchants are willing to trust and accept.



"We're living in a very interesting moment of the transformation of finance," Cyril Chiche, cofounder and chief executive of Lydia, France's leading mobile payments platform for millennials, tells Sifted. "The last big innovation in finance was the card in 1970. So, it's basically been 50 years."

"Payments are increasingly digital and cash is dying, accelerated by coronavirus," adds Rob Moffat, a partner at Balderton Capital, a venture capital firm that focuses exclusively on European tech companies.

**Main payment services in the euro area by number of transactions (bn)**




*Source: European Central Bank*

## CHANGING PAYMENT LANDSCAPES

Already, considerable progress has been made reimagining how we make payments.

Over the past 40 years, Europe has moved from cash-based transactions to credit and debit cards, with this change accelerating over the past decade as magnetic strip cards were replaced by chip and pin, then contactless, mobile phone payments and payment credentials stored on wristbands.

> **"Card payments are still growing globally, especially contactless, but new form factors like mobile are growing at a much faster rate."**

"The question is where the market goes over the next ten years," says Alasdair Ross, director of secure payment and NFC infrastructure at NXP Semiconductors. According to the latest reports, he says, more and more contactless and e-commerce payments will be made going forward, with traditional payment methods in sharp decline. "Card payments are still growing globally, especially contactless, but new form factors like mobile are growing at a much faster rate," he says.

At Sifted, we have watched the rise of alternative payments platforms and seen the emergence of important players across Europe and beyond.

While alternative payment methods are expanding in Europe, Asia is still considered the pacesetter, as an early adopter of QR codes and so-called financial 'super-apps' that are helping to develop a whole new payments ecosystem. These include the likes of WeChat Pay and Alipay in China, Paytm in India and Gojek in Indonesia. While in Africa, MPESA continues to expand rapidly across the continent from its base in Kenya.

The next big step in payments could happen anywhere in the world given this growing demand and interest.

At the same time, even the most successful payments startups are still almost wholly reliant on decades-old infrastructure. "Most payments startups and challenger banks rely on the same processes as incumbents, for instance the Mastercard and Visa networks," says NXP Semiconductors's Ross.

The next evolution of fintech solutions may be breaking down these monopolies.

## A HELPING HAND FROM REGULATORS

Startups aren't working in a void. Regulatory changes, notably Open Banking and the EU's Payment Services Directive (PSD2), which was launched in 2018 to regulate payment services and promote industry participation from non-banks, are already having a significant impact on European fintech companies as they look to both partner and compete with traditional banks. Merchants are also showing a strong willingness to embrace change.

Still, there is considerable work to be done building the necessary infrastructure to move alternative payments platforms into the mainstream — although they already have considerable reach, especially among younger generations.

### HUGE VALUATIONS

Investors are keen to capitalise on this growing market. The March 2021 funding round of payment processing platform Stripe valued it at $95bn, making it the most valuable private company to come out of Silicon Valley. This was a further sign of the potential of payments platforms — and the capital flowing into alternative payments solutions.

Huge valuations for payments platforms are likely to become the norm going forward. Swedish fintech Klarna also raised more funding in March, netting $1bn at a valuation of $31bn, making it the second most valuable European startup.

Klarna occupies an interesting space, as Buy Now Pay Later (BNPL) — the "younger, tech-driven sister of instalment payments" — continues to generate a lot of attention, and with just cause.

> **"In the UK, it is estimated that £4 out of every £100 is now spent using a BNPL payment solution."**

Klarna, along with many other BNPL platforms, appears to be tapping into changing behaviours around borrowing. In the UK, it is estimated that £4 out of every £100 is now spent using a BNPL payment solution. Many predict that this will rise steadily in the years to come, hence our decision to dedicate a whole section of this report to BNPL platforms.

## Payment trends by the numbers

**91m**

With over 90m downloads, PayPal was the most downloaded payment app in 2020, followed by Cash App and Venmo. European providers Wise, Remitly, Worldremit and Lydia were also in the top 10.

**-58%**

In the UK, cash dropped from 55% to 23% of total transaction volumes between 2010 and 2020, according to McKinsey.

**+26%**

Online retail sales in Western Europe increased by 26% in 2020, largely due to Covid-19.

**+125%**

European e-commerce sales as a percentage of total retail spending increased from 7.2% to 16.2% between 2014 and 2020.

### RISE OF ALTERNATIVE PAYMENTS

Payments are going through a pivotal moment of transition, and the pandemic has acted as a further catalyst to this transformation. Even so, this report isn't an attempt to predict the next champions of the payments world, but rather to highlight and delve into some of the key trends that we're seeing today.

The early payments revolution came from platforms like PayPal, which made e-commerce viable. The next revolution is likely to be driven by companies that can find solutions that push payments far beyond where they are today.

\The payments revolution

# A new world for payments

The growth of cashless payments represents one of the most significant shifts in commerce in recent years — and the coronavirus pandemic just threw it into overdrive.

The cashless payments revolution has been underway for over a decade, but the Covid-19 lockdowns turbocharged it. Stuck indoors, and with many hygiene-conscious merchants posting "no cash" by the till, payment patterns changed almost overnight. Around the world, payment providers saw a surge in online transactions and contactless payments.

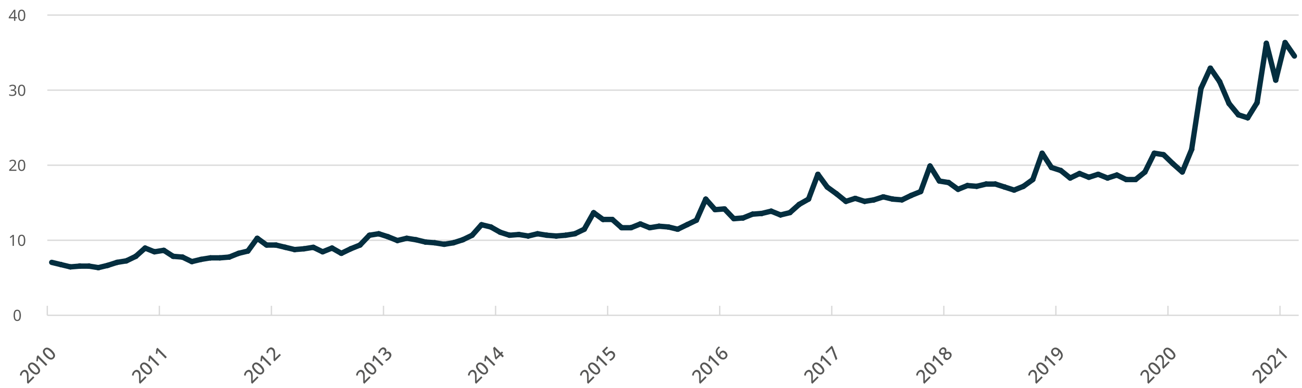
Throughout lockdown, many consumers who had not previously shopped online regularly became comfortable with it, even reliant on it. And merchants, eager to survive the closures, were quick to establish an e-commerce presence or update and streamline their existing one. For customers that did continue to shop in-store, the use of contactless payments soared, helped by most banks and card companies increasing the limits on such transactions.

In the UK, cash dropped from 55% to 23% of total transaction volumes between 2010 and 2020, according to McKinsey's 2020 Global Payments Report. In some countries the drop was even more pronounced: Sweden saw cash fall from 56% to 9% of total transactions, while it dropped from 52% to 14% in the Netherlands.

Across Europe, non-cash transactions grew at a compound average growth rate of 11.3% between 2014 and 2019, with the less mature markets of Central and Eastern Europe seeing the fastest expansion, according to consultancy and technology company Capgemini's 2020 World Payments Report. Meanwhile, the amount spent online in retail alone increased by 125% in Europe between 2014 and 2020, with 2021 off to a spectacular start as well.

## UK case study: internet sales as a % of all retailing

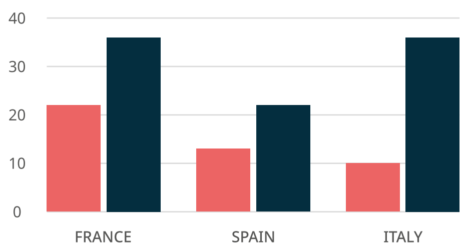
***Source:*** *ONS. All retailing excluding automotive fuel*




### % of domestic transactions which are online

AVERAGE 2019 ● APRIL 2020

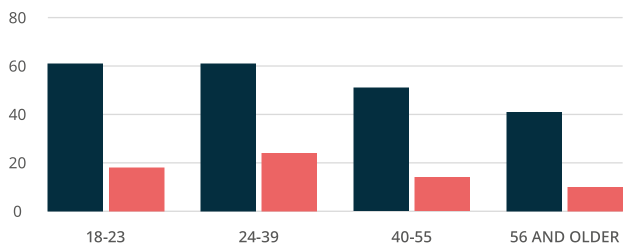
***Source:*** *Oliver Wyman, Covid-19 and European retail payments, 2020*




### Survey: how did your payment habits change within the Covid-19 environment?

Increase in ● DIGITAL and ● PHYSICAL payment channels

***Source:*** *Capgemini, World Payments Report, 2020*



In many cases, this shift in the payments landscape is expected to be 'sticky' — that is, consumers will continue to shop remotely and use contactless even when 'normality' returns.

## MORE ONBOARDING ON THE HORIZON

As well as accelerating the take-up of digital payments, the Covid-19 pandemic highlighted how much commerce remained un-digitised and how much is still left to onboard — and thus how much scope there is for growth.

According to Gilles Grapinet, chief executive of French payment company Worldline, despite non-cash transactions growing at four to five times the rate of GDP growth before the crisis, 75% to 80% of purchases in Europe were still not digital.

In fact, cash remains the "default means of payment", even in affluent countries like Germany, Switzerland and Italy. Grapinet says that on the eve of the pandemic, 80% of small European businesses had no online shopping capabilities.

But now, even retailers that held off digitising during the pandemic are feeling the squeeze to get on board with the changing payments landscape.

> **"Retailers that held off digitising during the pandemic are feeling the squeeze to get on board with the changing payments landscape."**

"Changing consumer expectations have played a vital role," says Antoine Nougué, head of commercial for Europe at Checkout.com. "Consumers are increasingly adopting alternative payment methods, and they expect merchants to accept their preferred means of payment; failing to do so is a conversion killer."

Hybrid online/bricks-and-mortar transactions are becoming more common and have gathered pace during the pandemic — for example, customers will select a product in a physical shop before ordering it for home delivery or ordering online to collect at a shop.

Eileen O'Mara, head of revenue and growth for the EMEA region at the payment processing startup Stripe, also cautions that merchants need to be conscious of changing user behaviours.

"We've seen in-person transactions using online payments, for example with diners paying for in-restaurant meals on their phone — brands like Wahaca, Zizzis, Coco Di Mama, YoSushi and more all use Stripe to collect what are ostensibly in-person payments," she says. "By now, even traditionally offline businesses need to consider an online-first strategy when it comes to their payments setup."

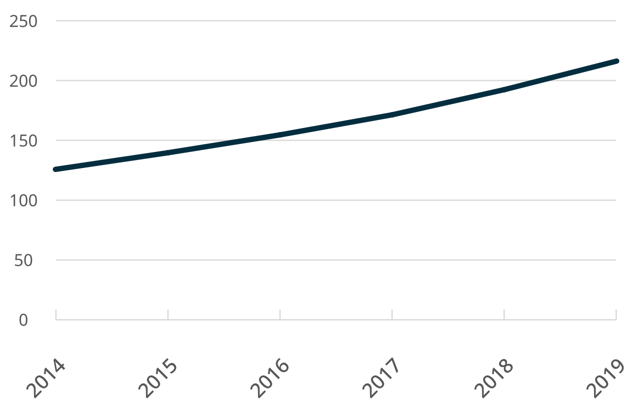
## STARTUPS ARE JUST GETTING STARTED

As digital payments proliferate and become more complex, and more merchants use digital payments for a broadening range of transactions, opportunities have grown for new payment platforms.

Credit where credit is due, it is not the biggest industry players that are pioneering the technology that powers a cashless society. Their size and regulatory constraints simply do not allow for such agile redirection. Instead, payment startups largely take the lead — though some have quickly outgrown the "startup" label thanks to their stellar growth over the past few years.

**Total non cash transactions in Europe (€bn)**

***Source:*** *Capgemini, World Payments Report, 2020*



"Technological advancements, regulatory support and enhanced payments infrastructure have all created the backdrop for innovative payments solutions to emerge," says Antoine Nougué, head of commercial for Europe at Checkout.com.

In Europe, the shift in payments and demand for services has most notably facilitated the emergence of the startup payment platforms Adyen, Checkout.com, and Stripe. Tom Lambert, a partner at venture capital fund Latitude, explains that each entered the market to address a different need: "Stripe removed onboarding friction and focused on developers as the customer. Adyen had a deeper offering with lower fees for enterprises. Checkout emerged more recently, gaining traction with merchants in the regions that Adyen had less coverage and lower auth rates [the proportion of transactions that are authorised] such as MENA, where they had Deliveroo as an early client."

Despite their different initial approaches, all developed quickly and have converged to win leading European clients. Checkout.com has also diversified away from a core e-commerce offering, winning support from some notable fintechs, such as Wise (formerly Transferwise) and Klarna.

Together, these players have almost single-handedly cut down prices for merchants and thus for end consumers, too.

And the work of payments startups is far from done. Arguably, the industry is still in the early stages of transformation. Disruptors will continue to shape payments as cash falls out of favour, the number of digital transactions grows and the demands of customers and merchants evolve.

## Stripe

**WHAT:** Online payments processing for online businesses.

**FOUNDED:** 2010. Stripe started out offering payments services to fellow startups, but now counts tech giants like Deliveroo, Zoom and Facebook-owned Instagram among its clients.

**FUNDING:** $2.2bn.

**FOUNDERS OF NOTE:** Two European founders, Irish brothers Patrick and John Collison.

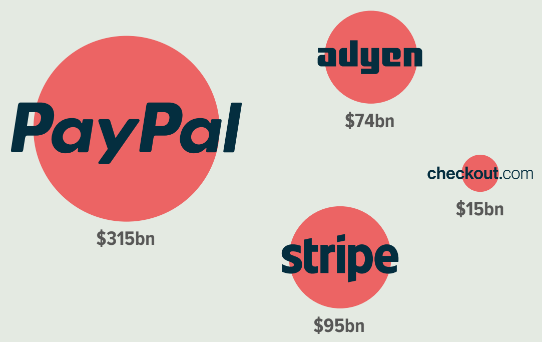
**GEOGRAPHY:** Based in California, US. It is growing its regional presence outside the US, including in Africa, the Middle East and Europe.

**GROWTH STORY:** The company's valuation has almost tripled in under a year, outstripping the performance of Facebook and Uber before they went public. Stripe now processes more payments in a year than the entire internet economy was when they started back in 2010.

# The big four

The infrastructure providers that process digital payments (PayPal, Stripe, Adyen, Checkout.com) have become the backbone of digital commerce. Combined, the firms have an valuation of $498bn.

***Source:*** *Google Finance and Dealroom. Adyen and PayPal's market cap as of 20/04/21. All others valued based on their most recent funding round.*




### ABOVE AND BEYOND PAYMENTS

Against the background of cashless payments adoption, two systemic trends are pushing startups to grow their offerings and market share: data and regulation.

The intelligent use of payments data has been a long time coming. Nougué says new payment service providers (PSPs) are helping merchants to capitalise on the shift from payments as a commodity and cost centre to a business asset.

Payments data in particular provides a rich source of new value to tap into, providing insights into customer behaviour that can inform business strategy. In other words, payments are still a cost for merchants, but they get back a lot more than just cash.

"The key development we see is that payments is becoming strategic for companies," says Adyen chief financial officer Ingo Uytdehaage. "Ten years ago, a lot of people thought that payments were just a commodity; but we're proving that if you work with a company like ours, you can really make a difference in the way you serve customers and improve customer journeys."

Uytdehaage is bullish about growth opportunities. While less tech-focused financial businesses can be slow to react to changes in the market, as a tech-first player, Adyen moves quickly, offering a single, simple platform to its clients. Regulation, increasing fragmentation in the payments market and the rapid development of new technology all make that single platform appealing to merchants.

“Complexity is only going to increase, and we want to be a partner to make sure that they’re always ready for these changes,” he says. “We are there to solve retailers’ headaches.”

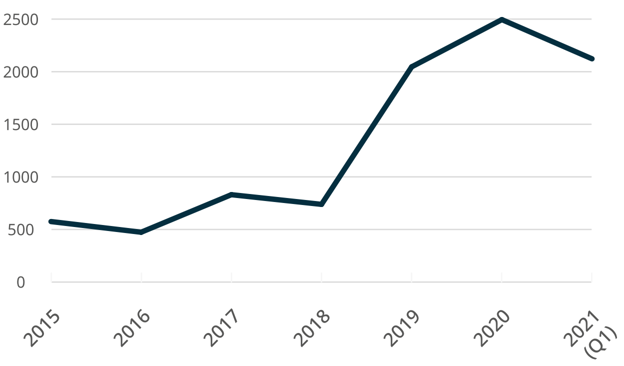
The second trend is regulation. Increased regulation across Europe continues to restrict traditional payments players like Visa and Mastercard, as well as major banks. The regulatory complexity creates opportunities for payments fintechs that are developing their own rails to process transactions and can provide solutions for businesses dealing with a multitude of financial rules across the continent.

Most significant to the sector has been the introduction of the EU’s second Payment Services Directive (PSD2), which has required banks to open up data to third parties, including fintechs, with the aim of levelling the playing field and increasing competition, innovation and security.

The latest set of rules to impact the sector is Strong Customer Authentication (SCA), which flows from the revised PSD2. This changes how customers confirm their identity when making online purchases and is designed to reduce fraud while enhancing the integrity of the overall payments ecosystem.

**Investment in European payment startups (€m)**

***Source:*** *Europeanstartups.co / Dealroom.co*




The tapestry of rules can be a minefield for merchants, who rely on their payments providers to deal with it for them.

“Businesses selling internationally still have to deal with lots of different regulations and our users often tell us this can put them off expanding their business into more countries,” says Stripe’s O’Mara. “Two-thirds (64%) of European businesses say they would be active in at least 10 countries if cross-border rules within Europe were less fragmented and easier to navigate. We think there is a really important role tech can play to make it easier for users to manage this complexity and stay focused on growing their business.”

## OPEN BANKING

PDS2 opened the door for “open banking”, which, upon a customer’s request, obliges banks to securely share their payments and financial data with other banks and third parties. Third party fintechs can then use that customer’s data — spending habits, regular payments, how and where transactions are made, and so on — to offer a range of tailored services.

Greater openness also allows a direct interface between merchants and customers’ banks, shortening the payments process and lowering fraud risk.

On the face of things, this may not seem monumental, but Rob Moffat, partner at tech-focused VC fund Balderton Capital, is one of many who believe it can completely transform the payment sector, and that startups will be among the biggest beneficiaries.

“Open banking could take payments away from the Visa/ Mastercard duopoly and instead integrate payments directly to banks,” says Moffat. “This should reduce costs, fraud and chargebacks. It will take time but startups will lead the way.”

New companies have been rapidly emerging on the back of open banking regulations. Startups like AI financial advisor Cleo, money management app Emma, and API builders like Plaid and Yapily wouldn't be able to operate without the regulation. Customers now have options to see multiple bank accounts in one app through startups like Yolt. GoCardless, a Balderton portfolio company, is accelerating its open banking strategy with bank-to-bank payment services without using card companies as an intermediary. The list goes on.

> **"[Open banking] should reduce costs, fraud and chargebacks. It will take time but startups will lead the way."**

All told, according to a report from PWC, in the UK alone, Open Banking created a £7.2bn revenue opportunity between 2018 and 2022. And as of late 2020, there were 262 Open Banking Platforms and 1048 Open Banking API products in Europe, compared to 78 and 476, respectively, just a year before.

### A NEW DANCE WITH MERCHANTS: PAYMENT ORCHESTRATION PLATFORMS

Although payment service provider startups set out to ease friction for merchants, their proliferation has created its own challenges.

Many merchants say they have had to build large payments teams to manage the range of providers and select the ones offering the best auth rates and fees for specific transactions. This has given traction to a new layer in the payments business: payment orchestration platforms.

"They allow businesses to dynamically route each payment to the most effective provider," says Latitude's Lambert. "Merchants can easily add new payment providers or services, such as the latest Buy Now, Pay Later solution or alternative payment method, and massively simplify the back-end reporting and reconciliation that comes with using multiple providers."

## Payment regulation timeline

**2007**
The Payment Service Providers Directive (PSD1), which aimed to develop a single payments market, is announced by the EU.

**2013**
The European Commission proposes an amendment (what will become PSD2) aimed at protecting consumers, making payments more secure and fostering competition.

**2016**
The EU starts to implement PSD2.

**2018**
EU-wide deadline to translate PSD2 into national law.

**2021**
Strong Customer Authentication (SCA) is due to be implemented in the UK by September.

\The payments revolution

# The elephant in the room: card networks

Together, card providers Visa and Mastercard make up 90% of the credit and debit card market — can non-card alternatives compete?

Much applauded fintech giants like Revolut, N26 and Monzo rely heavily on incumbent payment networks for both technology and revenue from interchange fees. As a result, Visa and Mastercard still overwhelmingly dominate the payments landscape. Revenue for Visa and Mastercard almost doubled over the past five years, and the two companies hold 90% share of the credit and debit card market. They are expected to be worth over $1tn by 2023, if their average growth rates over the past three years continues.

However, looking forward, there are plenty of companies starting to offer solutions that could bypass the likes of Visa and Mastercard, whether through the use of technologies like QR codes or other account-to-account (A2A) or peer-to-peer (P2P) solutions like those offered by PayPal and its US subsidiary Venmo.

**“There are plenty of companies starting to offer solutions that could bypass the likes of Visa and Mastercard.”**

## A PUSH FOR CHANGE

The first wave of fintech innovation primarily benefited existing payments rails like those established by Visa and Mastercard, with increased online spending generally via card. The next wave could challenge that duopoly.

To be sure, a shift from card payments won’t be easy or particularly dramatic — but, bit by bit, card alternatives are making inroads.

“The big thing that Visa and Mastercard have, and one of the reasons why they’re so hard to crack, is a very good two-sided network, they have consumers on one side and merchants on the other,” Brad Goodall, cofounder and chief executive of UK fintech Banked, tells Sifted.

Even so, Goodall points out that last year the total addressable market for non-card payments grew from nothing almost overnight, as people altered their payment methods largely due to the pandemic. Meanwhile, Open Banking and PSD2 changed the fintech landscape by opening up consumer data.

Goodall says that when PSD2 was first conceived, many banks saw it as a compliance exercise, but “now, global banks are seeing there is value to be taken off the table and that it doesn’t all have to be driven through Visa and Mastercard”.

“If you combine the technology, plus the banks that are saying ‘Well, actually we would like to potentially disrupt Visa or Mastercard’, that’s way more interesting now than when it was just an aggregate of being able to access the banks,” he adds.

By bypassing cards, banks can start to provide strategic features to merchants, like quicker settlement times and lower payment processing fees by adding ‘pay by bank’ into the checkout for their merchant customers.

## Banked

**WHAT:** Uses Open Banking to enable account-to-account payments at checkout, a key target for any fintech looking to take value away from the card networks.

**FOUNDED:** 2018.

**FUNDING:** £5.35m.

**GEOGRAPHY:** London, UK.

**ACHIEVEMENTS:** Banked exited beta mode in 2020. It claims it charges just 0.1% to process payments in real-time — much less than the 1% to 4% typical of the market.

“Banks also are able to stay connected to the payment event with the end consumers at the moment in time when a payment is being made,” says Goodall. “They can then start to offer solutions like spreading payments or capturing lower level payment data, which they can use to be helpful to their retail consumers with things such as budgeting, affordability support, digital receipts management.”

He adds: “These are all areas for merchants and consumers that are wide open to banks to capture value both in the relationships and also in the monetisation of infrastructure banks will use.”

Still, plenty of work needs to be done to develop viable large-scale alternatives to Visa and Mastercard and convince consumers to trust the solutions and switch over in large numbers.

## A WAVE OF NEW SOLUTIONS

One of the biggest challenges of bypassing cards is ensuring that the means to do so are readily available to all involved: merchants, customers and banks. So far, only a few technologies have succeeded in checking all these boxes.

QR codes are one of the early payments solutions that have caught on.

While QR codes have been around since the 1990s, until recently most smartphones required separate apps to read them, creating a barrier for usage. That's now changed, and in some countries QR codes have seen strong growth in recent years.

In September 2020, mobile-centric security platform MobileIron conducted a survey of QR code adoption and sentiment, talking with 4,408 consumers across the US, UK, Germany, Netherlands, France and Spain. They found that while only 36% of total respondents had used a QR code to make a payment, 53% of respondents believed they would do so in the near future. This points to the possibility of QR codes going mainstream as a payments solution.

Still, question marks remain over the future of QR codes, especially as a secure form of payment.

> **“Question marks remain over the future of QR codes, especially as a secure form of payment.”**

“QR code transactions may be convenient, but they are also insecure, as attackers can create counterfeit QR codes quite easily, something that secure EMV [Europay, Mastercard and Visa] payment methods protect against,” says Alasdair Ross, director of Secure Payment and NFC Infrastructure at NXP Semiconductors in Germany, who adds that their usability is clear for very low value transactions, but less so for larger transactions, say over €100.

Pavel Sokolovas, cofounder of Lithuanian fintech kevin, adds that “it's impossible to do high-scale in QR codes because you need to implement new infrastructure”, rather than use the existing point of sale (POS) terminals. This suggests QR codes will only have a complementary role in the future of cardless payments.

“The biggest opportunity is account-to-account payments at point of sale,” says Sokolovas.

Account-to-account (A2A) solutions bypass card-based payments through platforms that send money directly from the account of one person or business to another. This can lower transaction costs because fewer parties take a cut. It's hoped that account-to-account payments could offer a solution that entices both consumers and merchants to adopt new, predominantly mobile-based technologies.

Another alternative on the rise is peer-to-peer (P2P) payments; however, by definition, these transactions are between individuals, limiting their scope, although not their popularity.

According to a December 2020 report by Mercator Advisory Group, the use of P2P payment apps has continued to grow in recent years, with 57% of American adults reporting using a P2P service in 2017, compared with 70% in 2020. The sector is dominated by PayPal and, to a lesser extent, Venmo, Zelle, Google Pay and Square Cash, which have all roughly doubled in reported usage since 2017.

## MERCHANT DRIVEN

While much of the change in cardless payments will be driven by the choices made by banks and consumers, the true tipping point will be adoption by merchants.

“Merchants want to expand the payments ecosystem with more payment methods to adapt for local preferences,” says Gabriel Le Roux, who cofounded UK fintech Primer last year alongside another ex-PayPal employee, Paul Anthony.

### Primer

**WHAT:** Enables e-commerce merchants and online payments facilitators to consolidate their payments services stack.

**FOUNDED:** 2020.

**FUNDING:** £17.8m.

**GEOGRAPHY:** London, UK.

Primer helps companies consolidate their payments stack services. Its latest launch, Primer Connect, enables third-party payments services to build on top of its checkout and payments APIs and is already being used by fintechs like Klarna, GoCardless, Banked and Truelayer.

Le Roux says that in the EU market, you have certain payment methods that are more popular than others "and in some cases cards are not even the first payment method anymore". In Germany, PayPal has a high penetration, similarly with iDEAL in the Netherlands and Vipps in Norway, he adds.

Still, payments are about trust and there's going to be a transition phase of sorts, says Le Roux.

Primer provides a customisable checkout that is optimised across different devices, with the ability to add services and even test out different payments solutions against each other. "That's a major, major advantage for businesses if they will just want to see maybe if I try these payments methods with these types of customers," he says. "A lot of the merchants we've been working with were doing these things quite manually until now."

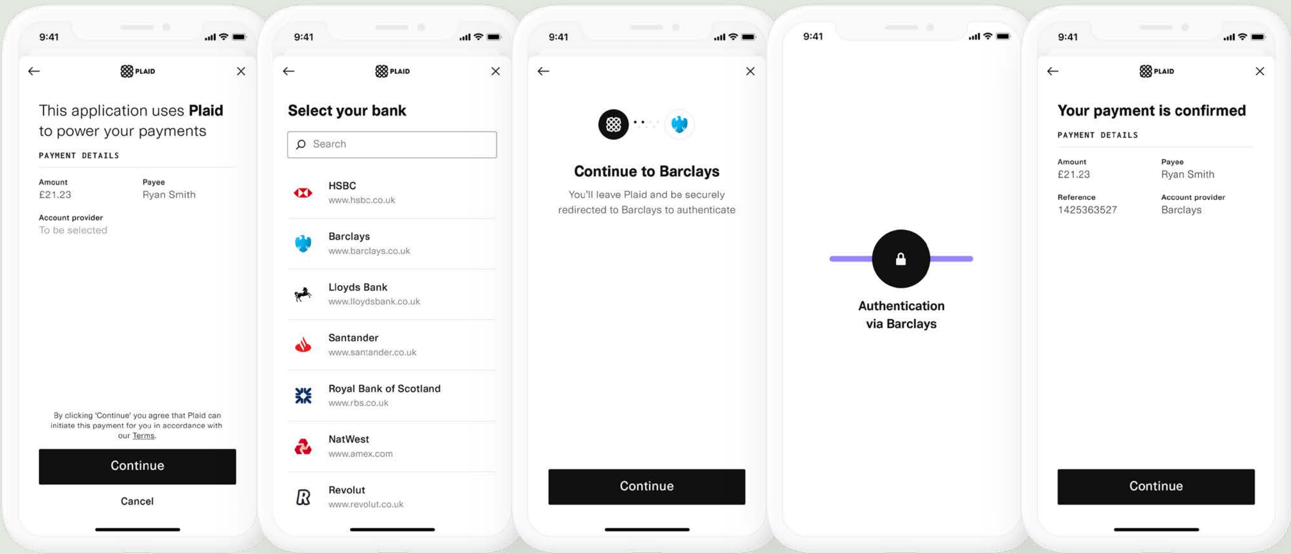
## LEARNING TO BREAK HABITS

Banked's Goodall says that the main role of companies like his is to play the facilitator for banks: "We want to get banks into this new network that can exist with merchants and to create a new network around account to account."

"The thing that I'm the most excited about is where we can facilitate a new network, can drag banks into this, can drag Banking as a Service (BaaS) platforms into this, can drag top-tier merchants that do things around loyalty and payments, those that can almost command their customers use this method instead of

# Plaid's Payment Initiation flow using Plaid Link

Quickly send and verify bank payments via open banking.



using a debit card or credit card," says Goodall. "It's only going to be at that point where you're starting to get a network that surrounds account-to-account that Visa and Mastercard are ever going to be impacted."

That network appears to be slowly taking shape. In March 2021, banking group BNP Paribas announced that it was partnering with London-based payments platform Token to offer instant account-to-account payments for EU merchants, allowing them to avoid the interchange fees charged by card schemes.

In January, when announcing a Series B round of $15m, Token claimed to be processing live transactions from over 600 banks in 14 countries across Europe through its APIs.

As for consumers, according to Cyril Chiche, cofounder and chief executive of Lydia, France's leading mobile payments platform for millennials, the main thing holding back their adoption of new methods is habit. "Habits are a very difficult thing to change, especially when it comes to sensitive matters, and money certainly is a sensitive matter," he tells Sifted.

## Lydia

**WHAT:** A mobile app that allows users to easily send money to friends without any fee (France's response to the US's Venmo).

**FOUNDED:** 2013.

**FUNDING:** €159.6m. Lydia raised an extension to its Series B funding in December 2020, bringing the total to $131m, the largest round ever raised by a French fintech.

**GEOGRAPHY:** Based in France with ambitions to grow internationally.

**GROWTH GOALS:** Plans to be profitable by late 2021.

Still, he believes that people will stop using plastic cards, though they'll likely keep on using the existing payment rails "because, honestly, it's a global acceptance network of millions and millions and millions of acceptance points, and I don't know of any other initiative that can compete with that at the moment. I don't want to have a payment method for each country I'm going to, it wouldn't make sense".

Chiche adds that he doesn't believe there will be a winner-takes-all approach. "I believe that all these payment methods will coexist, and new ones will pop up," he says. "What's important is that you don't have to understand them all, you don't have to get into the complexity — as a consumer, it should just be 'I want to move money from A to B'."

> **"I believe that all these payment methods will coexist, and new ones will pop up."**

### SO, IS THE FUTURE UN-CARDED?

What's clear is that the payments sector is changing fast all around the globe and that new solutions that challenge the space currently occupied by credit and debit cards will be more and more common.

"There's always going to be the question of, 'Well, why don't I just use my credit card, my debit card?'" says Banked's Goodall, referring to consumers, but also the desire of merchants and banks to break with the old methods and embrace new technologies. "My answer is there's just so much in it for the merchant and the size of the payment landscape, we're talking about trillions of dollars — even if you only get 1% of checkout for 30 or 40 top-tier merchants, that's a huge business."

At the same time, he doesn't envisage a 'Nokia moment' for the card giants. "I think they're going to be smart enough to understand what they've got to lose and I think they're going to do things like try to acquire lots of businesses like they tried to acquire Plaid," he says.

Others fintechs focusing on payments also don't believe that their growth needs to come at the expense of Visa or Mastercard.

"It looks like we are taking direct competition with Visa and Mastercard, but if industry professionals look deeper, we're taking money from card processing companies and bank interchange fees," says kevin's Sokolovas. He explains that when consumers pay with a card the majority of the fee goes to card processing companies, gateway developers and so on. "We are taking from that. So in the future, if we can be partners for Visa and Mastercard to change how the payment is going, they're open to that."

\The payments revolution

# The future of credit

Buy Now, Pay Later has changed the credit sector — but can it win the race? We look inside the transformation in consumer lending and at the wave of new winners on the horizon.

Credit cards were arguably the first 'fintech' phenomenon. The likes of Capital One burst onto the scene in the late 1990s with a new card rail that allowed consumers to defer digital payments and then repay the debt in one lump sum.

But more recently, there has been a wave of new innovation with Buy Now, Pay Later (BNPL). BNPL has become the younger, tech-driven sister of 'instalment payments'. It took the age-old mechanism of sale financing, automated it and made it mainstream.

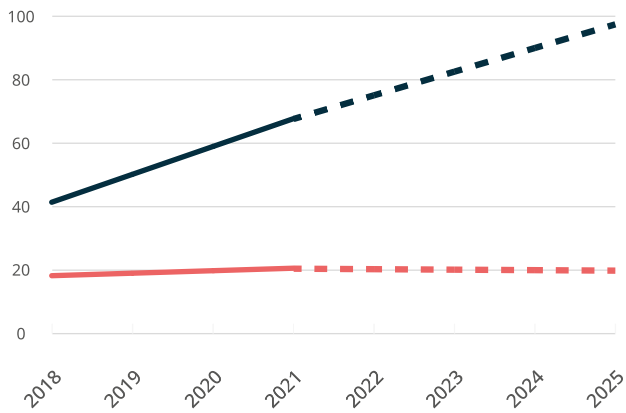
> **"It took the age-old mechanism of sale financing, automated it and made it mainstream."**

Today, BNPL — also known as Point-of-Sale (POS) credit or POS financing — tools allow retail consumers to instantly defer payments to millions of merchants, settling their debt in various instalments, and all at zero interest. According to research by Kaleido Intelligence, by 2025 e-commerce spend in Europe via BNPL is predicted to hit $347bn, constituting 30% of all predicted e-commerce spend in that year.

**BNPL/ePOS Finance Transaction Value ($bn) in Europe and Central Asia**

● ONLINE ● MOBILE

*Source: Kaleido Intelligence, 2020*




## A double-edged sword for consumers

Part of BNPL's appeal is its lucrative business model and sticky customer base.

Providers charge merchants an average fee of 3-6% of the entire transaction base. But, according to a 2020 report by PYMNTS.com, consumers spend 55% more in stores when offered BNPL options, meaning the value of each transaction far outweighs the cost.

The consumer does not bear the cost of the credit. Instead they are charged for late payments or pay interest on longer-term credit products.

Consumers may love the user experience, the flexibility and the lower upfront costs, but consumer protection bodies are concerned by the increasing debt linked to BNPL, claiming it exploits behavioral biases and encourages overspending.

Unlike credit cards, BNPL platforms like Klarna mainly target merchants, using them as a funnel to bring on thousands of customers. In doing so, BNPL has disrupted the $3tn credit card industry, tapping into changing behaviours around borrowing and transparency. So, what's next?

### TODAY'S MARKET

Record growth is the keyword underpinning BNPL. Top startups like Klarna, as well as more-established listed firms, are spreading into continental Europe. And in the last quarter of 2020 alone, Klarna saw over 4m downloads in the US, Apptopia shows. Across Europe, where available, Klarna has consistently ranked the most downloaded app in the shopping category and has captured 10% of Northern Europe's e-commerce market share.

# Europe's 'Buy Now, Pay Later' market


This follows a record funding year in 2020 for the BNPL sector, which raised $1.5bn globally according to CB Insights, and prompted a strong public listing by Affirm in the US at the start of this year. Investment in European BNPL players grew 118% year-on-year in 2020 to €1.1bn and 2021 kicked off with €930m in European BNPL investments in the first quarter alone, suggesting another record-breaking year is ahead of us.

Overall, the investor sentiment is generally optimistic about the future of the BNPL sector, with most companies trading at many multiples of their revenues.

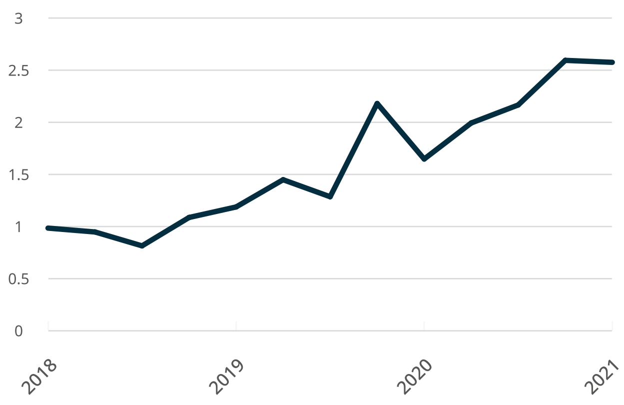
Meanwhile, the big-name companies are innovating on their offerings. For example, PayPal, Amazon and American Express all recently launched 0% 'instalment' payment options. In the UK, Curve is also set to launch its own credit line.

> **“Record growth is the keyword underpinning BNPL.”**

Demand is also heating up. Already nearly £4 in every £100 in the UK is spent using BNPL. It is proving especially popular among millennials and Gen Z consumers and demand has soared even further during lockdown: a combination of being forced to shop online, and (sometimes) as a way to ease cash flow struggles.

**Klarna's mobile app downloads in Europe (m)**

*Source:* Apptopia




"Covid has, if anything, accelerated Alma," says the BNPL company's chief executive Louis Chatriot. "What is interesting is that it is structural growth, it's new merchants using Alma. Lots of merchants are using this period to really rethink how they run their business and invest in their e-commerce channel, and as a result we are now onboarding hundreds of merchants every month, with no signs of stopping."

Another sign the space is heating up is the rate of BNPL consolidation. Most recently, Spanish BNPL player Pagantis was acquired by Clearpay as part of its expansion strategy, while Klarna bought a rival in Italy.

## BNPL, THE CREDIT CARD SLAYER?

There is a natural tension between credit cards and BNPL providers. The key threat is that BNPL payments are processed on their own networks, bypassing credit card rails at the 'point of sale'. If consumers repay BNPL with direct debits, this also completely cuts out the interchange fee that credit card providers earn on transactions.

BNPL companies takes some pride in this. Indeed, many BNPL operators have used their platform to highlight the dangers of large credit lines and has lambasted the credit card industry for failing to innovate over the last two decades.

Philip Belamant, chief executive and founder of London-based fintech Zilch, believes that "younger generations won't just accept the status quo and get a credit card simply because that is how it was done in the past — they are looking for better deals that work for them, which BNPL offers."

A 2019 Deloitte report stressed that BNPL had irreversibly taken some market share from credit cards. It also argued that issuers will need to innovate, unbundle and "modularise" to keep pace.

Yet Deloitte researchers also stressed that BNPL will reach a peak. "There will eventually be limits to its growth, as consumers realise the trade-off between flexibility and control, lenders struggle to extend their low-touch credit scoring for online [point of sale] POS finance to higher ticket items, and some existing products adapt to mimic features of POS finance," the report said.

PayPal is one example of a provider mimicking POS and BNPL. The payments giant dominates in Europe and their "Pay in 4" function doesn't charge merchants a premium like Klarna and other competitors do.

## WHY NOT BOTH?

In short, Deloitte argued that credit cards aren't going anywhere and that the market needs both. "The credit card will remain an important product due to its distinctive ability to combine the supply of credit with a payment device," the report summarised.

Belamant agrees: "Different transactions require different flexibility, and I can't see a world where consumers wouldn't have the option to select from a variety of credit products."

> **"I can't see a world where consumers wouldn't have the option to select from a variety of credit products."**

And there's arguably room for the two solutions to continue to grow market share without too much headbutting.

On one hand, BNPL is catering to a largely underserved market. Consider that, on average, just 33.7% of Europeans over the age of 15 have credit cards, and almost half of Americans in their 20s don't have a credit card. That leaves a big gap that BNPL providers can absorb without taking market share directly away from credit card providers. Furthermore, one US study showed that 14% of BNPL users weren't eligible for a credit card anyway.

BNPL may also cater to some people's needs better, allowing consumers to pay back in various chunks rather than a rigid one month cycle. They also help some people avoid high interest (the average US credit-card holder pays $753.80 per year in charges). Although BNPL has also faced scrutiny for its use of late fees.

> **"BNPL may also cater to some people's needs better, allowing consumers to pay back in various chunks rather than a rigid one month cycle."**

On the other hand, credit cards continue to lure customers with perks and convenience, with places like China now seeing a boom. Rewards packages are a temping hook for many customers and many credit cards offer payment protection schemes on larger transactions, as well as the option to be used seamlessly offline in 'contactless' transactions.

Credit cards are also arguably easier to manage, with BNPL platforms being criticised for failing to provide comprehensive tracking options — especially for users who have multiple accounts.

For many consumers, the choice is not binary. Both options have benefits and drawbacks, and customers are showing that they are open to leveraging all of their options. Some consumers even combine both in their transactions, by settling their BNPL instalments with their credit card.

Credit card gurus also seem to think there is enough of the pie to go round. For instance, Nigel Morris is the founder of Capital One — one of the biggest credit card companies — but is also an early investor in Klarna — the dominant BNPL player.

Morris told Sifted he backed Klarna as he deems BNPL to be an alternative, "largely complementary" model of credit to cards, catering to a different segment of the earnings spectrum and concentrated on one key area of transactions (namely, retail).

In other words, BNPL isn't (yet) considered a direct threat.

## THE BNPL AND CREDIT CARD HYBRID

Ironically, one key trend is the merging of BNPL and credit card models. For example, UK player Zilch has launched what it dubs "an American Express for millennials and Gen Z", offering a card with a personalised credit line which is then paid back in instalments.

Existing BNPL players like Klarna can be cumbersome, says Zilch chief executive Philip Belamant, adding that the checkout process can be disrupted when credit is denied and many providers are only available at certain merchants.

"BNPL has been built for retailers, not the customer," Belamant tells Sifted. "We wanted to make it customer first and retailer second… You don't have to worry about getting rejected at the very end now — and you can shop anywhere."

Having a single card also saves consumers from handling multiple BNPL providers, including Afterpay, Clearpay and France's Alma.

### Alma

**WHAT:** A BNPL platform for merchants and customers. It lets customers pay in installments and takes 100% of the risk from merchants.

**FOUNDED:** 2017.

**FUNDING:** €62.5m.

**FOUNDERS OF NOTE:** Cofounded by former Stripe executive Louis Chatriot and Guillaume Desloges.

**GEOGRAPHY:** Alma is a big deal in the French markets, where Klarna is not available. It plans to expand into other European markets and help French companies do the same.

**GROWTH GOALS:** €1bn in yearly payments volume within the next couple years.

"The market is fragmented," he says. "You're shopping on one site today and another tomorrow…[BNPL players] don't talk to each other, so Zilch consolidates that on to one platform." There's still a catch though: using Zilch credit at any non-partner merchant costs users £2.

Meanwhile, Klarna and Affirm also both launched card products. Like Zilch, payments are made across the board and then split into instalments. Fellow UK player Tymit has also followed suit.

"Instalment credit cards are a new emerging genre," says Tymit's chief executive Martin Magnone, adding that Tymit would cancel out the need for BNPL but that "killing the credit card entirely is not the answer".

It's not just fintechs doing this; traditional credit card companies are jumping onto the instalment model too. American Express, for instance, has launched a hybrid model in the US called Pay It Plan It, which gives users the choice of paying off small transactions instantly, lowering their monthly debt while still accumulating 'points'.

Equally, new credit card companies like Zero have launched in the US with a specific focus on preventing overspending. They do this by capping payments and doubling up as a current account. The "debit-style experience" offers credit card rewards with debit card-style control.

These products suggest consumers are still demanding a single card that can be used across merchants, challenging the traditional BNPL model.

## TENSION POINT

BNPL providers have traditionally invested time and resources to onboarding merchants individually as a shortcut to reaching thousands of consumers. Yet this has created an over-reliance on certain merchants — Affirm makes around 28% of its revenues from just one client, Peloton.

Being reliant on a small number of big merchants leaves BNPL providers vulnerable to disruption. For instance, Amazon is a big Klarna client in the US, but could well launch its own instalment payment system. This would first require technological investment and 'debt collection' hassle, but it's not impossible and illustrates the scope for disruption.

Meanwhile, Australia's Commonwealth Bank (and Klarna investor) has announced its own in-house BNPL product for account holders. That leaves the market open to both under-cutting (a so-called race to the bottom) and to a handful of casualties.

"Fintech BNPL apps face a fight for survival [in Australia]," argues Aussie fintech specialist Grant Halverson. The other issue he raises is that BNPL companies carry heavy balance sheets that are inherently vulnerable to missed payments. Among Australia's BNPL players, bad debts are now estimated to stand at AUD$267.8m — or 30% of revenues — showing the margin for risk.

These tension points and vulnerabilities are raising questions with some investors. It's also why large European venture capital funds like Index Ventures haven't invested in the space, because they are sceptical of how 'techy' BNPL really is.

"We have been very thoughtful about capital-intensive sectors. Companies with a heavy balance sheet component may not trade forever like tech companies. We'll see how these businesses perform," says Mark Goldberg, partner at Index Ventures, which has dual headquarters in San Francisco and London. "It's too capital intensive. What's going to happen to balance sheets and borrowing and financing costs?"

> **"We have been very thoughtful about capital-intensive sectors. Companies with a heavy balance sheet component may not trade forever like tech companies."**

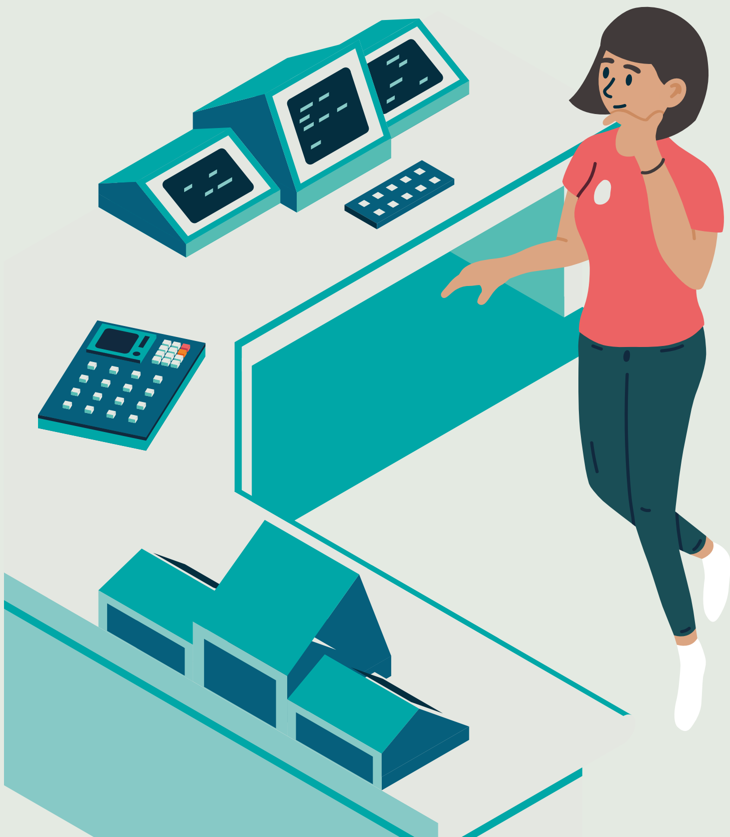
In short, credit payments won't be a 'winner-takes-all' market, but BNPL players clearly need to be aggressive to get traction.

\The payments revolution

# Predictions for the next era of payments

There's no denying that payments have come a long way, but innovation is still needed, and startups still have a massive opportunity to disrupt.

With that in mind, experts say there are several trends worth following across the credit and payments market. Here we break down their opportunities and potential challenges.



# The next wave of opportunities in a cashless future

## INSIGHTS-DRIVEN PAYMENT PREFERENCES

As payment options and services proliferate, businesses can expect customers to become more demanding about the way they want to pay.

Payment providers will provide insights to help customers choose merchants more wisely. Providers will also use insights to help merchants develop business strategy around payments.

**"Payments will play an increasingly central role in business and revenue growth in the coming years. It will become ever more important for merchants to find ways of removing complexity while also meeting consumers' expectations about how they want to pay."**

**Antoine Nougué**, head of commercial at Checkout.com

## THE PLATFORM ECONOMY

As platforms such as Amazon, Airbnb and Uber proliferate, opportunities for payments companies will grow.

Payment companies can provide tailored services for platform operators. These can take on responsibility for payment and regulatory functions while accelerating payment speed and options.

**"We're making a bet that over the next five years, platforms will be an even more prominent part of the internet economy, and we want to help them get there. Platforms like Shopify, Jobber and Doctolib can be the operating hub for their small business users, so why not embed their financial needs right into that hub?"**

**Eileen O'Mara**, head of EMEA revenue and growth at Stripe

## B2B PAYMENT PLATFORMS

Business-to-business (B2B) payments infrastructure has lagged behind the development of business-to-consumer (B2C) services — but not for much longer.

B2B payment volumes globally are much larger than B2C ones, but B2B payments technology has not developed as quickly. This is partly because payment methods and workflows are so different from B2C, and solutions to friction have not emerged.

The bulk of B2B payments are still made through manual invoices, emails and phone calls, and according to Lambert, more than 50% of B2B payments in the US are still made by cheque.

But startups Melio and Libeo have seen traction over the past 18 months with a focus on improving processes for SMEs.

**"At the B2B checkout, the infrastructure doesn't yet exist to facilitate payments in an automated and streamlined way. There are huge opportunities for startups that can facilitate this."**

**Tom Lambert**, partner at Latitude

# Credit card alternatives

### STEP ASIDE AMERICA, ASIA

The next few years are going to see major developments in the payments sector, with European companies potentially leading the way. Some suggest European companies are best positioned to adapt to local challenges and opportunities.

**"Over the next few years the 'pay by bank' market will be made by a handful of companies that incubated their product in Europe and quickly built a global network. They will achieve this by truly understanding and delivering to the needs of the local banks, merchants and end consumers."**

**Brad Goodall**, cofounder and chief executive at Banked

### ADDED VALUE TO MERCHANTS

Today's innovative payment features are tomorrow's standard fare. As the competition among payment providers heats up, merchants can afford to be picky.

Checkout.com's Nougué says those involved in the payments value chain will need to be "laser focused on delivering simplicity, convenience, speed, cost-competitiveness and strong fraud management capabilities".

**"Prices for online acquiring services will go to zero and payment service providers will need to start offering clear added value for merchants to make money."**

**Pavel Sokolovas**, cofounder at Lithuanian fintech kevin

# BNPL's next frontiers

### BETTER LENDING CHECKS

Infrastructure fintechs are helping BNPL platforms to better test for loan affordability, to ensure consumers are not borrowing more than they can afford to pay back.

Open Banking — which allows users to share their financial position with lenders — is being pitched as a medium for BNPL and beyond (including banks). This should allow BNPL providers to lower their defaults and to lend more responsibly.

Furthermore, if credit cards are no longer needed to boost credit scores, that could also limit their demand.

**"In today's changing credit landscape, customers want to know they can trust their financial provider to be absolutely clear on how much they are spending and saving and not be blindsided into falling into debt."**

**Philip Belamont**, chief executive at Zilch

### THE SME GAP

The corporate space looks like the next frontier for BNPL.

Currently, just 13% of UK SMEs use credit cards. This could be another area of disruption for BNPL, easing cash flow for a vast swathe of businesses on selected merchants.

Those starting to tap the space include Tillit and listed companies like SplitIt, who are targeting suppliers that want to offer different repayment options.

These players look more like invoice financing companies, allowing businesses to pay back providers in chunks rather than accumulating interest on debt.

**"There are going to be massive shifts in the coming years for SME financing. You're already seeing a world where cheques are going away and cash flow difficulties are being decreased as you have more instant payments and a greater ability to get paid instantly."**

**Keith Grose**, head of international at Plaid

### SALARY EASING

Change around credit could be driven by innovation on wage-payments.

"Salary-on-demand" fintechs like Hastee are helping employees get an advance on their wages, hoping to reduce the need for short-term lenders.

Nigel Morris, Capital One cofounder, says that this will only loosely overlap with credit cards and BNPL. He argues it broadly benefits a different demographic — including those who would have needed payday loans or who pay large interest fees on credit cards.

# Acknowledgements

Sifted would like to thank the following people for contributing their time and insights to this report:

**PHILIP BELAMANT**, chief executive, Zilch
**LOUIS CHATRIOT**, chief executive, Alma
**CYRIL CHICHE**, cofounder and chief executive, Lydia
**MARK GOLDBERG**, partner, Index Ventures
**BRAD GOODALL**, cofounder and chief executive, Banked
**GILLES GRAPINET**, chief executive, Worldline
**KEITH GROSE**, head of international, Plaid
**GRANT HALVERSON**, chief executive, McLean Roche Consulting
**TOM LAMBERT**, partner, Latitude
**GABRIEL LE ROUX**, cofounder, Primer
**MARTIN MAGNONE**, chief executive, Tymit
**ROB MOFFAT**, partner, Balderton Capital
**NIGEL MORRIS**, cofounder, Capital One
**ANTOINE NOUGUÉ**, head of commercial, Checkout.com
**EILEEN O'MARA**, head of EMEA revenue and growth, Stripe
**ALASDAIR ROSS**, director of Secure Payment and NFC Infrastructure, NXP Semiconductors
**PAVEL SOKOLOVAS**, cofounder, kevin
**INGO UYTDEHAAGE**, chief financial officer, Adyen

This report was written by **KIT GILLET**, **ANDREW MACDOWALL** and **ISABEL WOODFORD**, edited by **BECCA LIPMAN**, designed by **GAÉTAN NIVON**, illustrated by **GEORGE CLAYTON**, charted by **BILL LEAVER** and produced by **CHRIS SISSERIAN.**

PLAID

Plaid is the world's leading Open Banking platform.

We use our global network and local expertise, so your customers can see their financial data and make payments from your app.

We have a single API. But we don't believe in one-size-fits-all. We bring together the technology of AIS (Account Information Services) and PIS (Payment Initiation Services) so you can create the payments journey your business needs.

We take care of the details, so you can focus on your business.

Contact Plaid via plaid.com/contact

Sifted is the Financial Times-backed media platform for Europe's innovators and entrepreneurs. Our Intelligence Unit produces enjoyable, insightful reports on startup and investment trends, emerging tech hubs and the future of work.

Visit sifted.eu

## Get in touch

Questions? Feedback?

Would you like to partner with Sifted on the next report into your sector?

Or help us profile your emerging tech hub?

Contact Christopher Sisserian, head of Sifted Intelligence via chris@sifted.eu