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Forming a competitive European payments market that benefits society at large

Cashless payments are becoming ever more common place. In the EU, around 140 billion non-cash transactions were processed in 2018, up 8.8% on the year. Market intelligence is projecting further annual expansion rates of 8.5% up until 2022 and expecting associated revenues to grow by around 6% p.a. through to 2028.The bulk of global revenues is generated by card payments, which currently account for 62%.

However, incumbent banks appear to be capturing less of the revenue growth than their rivals. The last few years have seen digital banking and smartphone banks burst onto the scene and global technology firms, BigTechs, make inroads into the payments and banking space. These firms can leverage their platforms and capitalise on extensive network, scale and scope effects to enhance their market power. Considerable changes in user preferences are fuelling this development.

While consumers undoubtedly value the convenience of global platforms, there are some challenges for European societies as a whole. Platform economies tend to favour monopolies, so as BigTechs gain ever greater shares of the payments and banking business, the contestability and competitiveness of European markets will diminish. Furthermore, banks face the risk of being disintermediated by platform solutions as they lose their direct links with their customers. Consequently, they might end up as mere commodity suppliers of back-end banking infrastructure and regulatory compliance on behalf of digital solutions.

So their margins and revenues are at stake. In addition, European providers usually manage payments and other banking segments as a profit centre activity. That means putting a price tag on account-providing and payment services. For most platform models, though, it's the data analytics that tend to be monetised. Given the above-mentioned monopolistic tendencies, consumers should continue to be able to choose whether they wish to depend on data-driven models or accept a fair price for using services that minimise the collection and use of their data.

Against this backdrop, European authorities are calling for a compelling pan-European payment solution that addresses these challenges. National central banks on the continent have responded by defining five key objectives that this solution would need to satisfy: 1) pan-European reach and uniform customer experience; 2) convenience and cost efficiency; 3) safety and security; 4) European identity and governance; and 5) global acceptance in the long term.

Now it's time for European market players to make this solution a reality. A number of building blocks, like instant payments and the necessary infrastructure, are already being rolled out. Others, such as standardised request-to-pay and confirmation messaging, as well as common security mechanisms, are still lacking. Moreover, European providers need assurance that payments can remain an attractive business. Also, it is crucial for them to have a level playing field with their new rivals, like in terms of having reasonable access to technical interfaces such as NFC. Ultimately, though, the industry will need to forge a compelling solution for all the different payment situations – one that will be to the taste of European consumers. Otherwise, consumers might ultimately turn away. ●