The future of **payments** is open

2022
survey
report

How open banking
is powering the next
generation of payments.

tink
A Visa Solution

This report presents results from a 2022 survey of 380 financial executives across Europe, conducted by independent research firm YouGov on behalf of Tink.

Foreword

by **Tom Pope,**
Head of Payments
and Platforms

Open banking has generated plenty of hype and headlines over the last four years. To speak of its industry-changing potential can sometimes feel like a truism, even a cliché.

This is why we do these surveys every year. **Our research helps us understand the momentum, what the challenges are, and what we need to do as an industry to overcome them.** Today, it looks inevitable that the payment industry is on the verge of a big bang caused by open banking.

There's little doubt that the pandemic has accelerated the shift from analogue to digital in most aspects of our life, and for payments that meant the shift from cash to cashless took on a new momentum.

As digital services become more embedded in our daily routine, it's hard to imagine we'll give up on the 'new normal' now that we're so accustomed to the convenience it brings.

Businesses, meanwhile, are faced with the dual prospect of keeping pace with increasing customer expectations by providing an ever better user experience and, amid all the economic uncertainty, finding ways to streamline their processes and protect their bottom line.

In short, people are more willing than ever to try out new ways to pay, and businesses are more driven than ever to improve their digital journeys, grow their revenue, and reduce their costs.

Yet the opportunity presented by open banking feels like something different: a broader shake-up in innovation. Its ability to enable a more seamless way to engage with customers and, ultimately, a more efficient and cost-effective way to move money is beyond doubt. And now there's tangible evidence of mass user adoption to go alongside the claims of potential.

Tink is fortunate to partner with Europe's leading financial institutions and fintechs, including PayPal, American Express, Adyen, Revolut, and Crypto.com. We're seeing firsthand how open banking is already leaving its mark on the payments ecosystem, with early adopters reaping its game-changing rewards.

At Tink, our mission is to empower pioneers to build industry-leading payments experiences, powered by open banking. In this report, we give Europe's financial leaders the opportunity to share what they truly think will drive the future of payments – not just what the buzz is saying they should.

Enjoy reading, and we look forward to hearing your thoughts.

In this report

Executive summary

The move to a cashless world isn't really about rejecting cash – it's about meeting customer demand for frictionless, tailor-made payment experiences. The pandemic may have fast-tracked the shift into a digital world, but the change would have occurred even without it – albeit over a longer period of time. **Because customer demand has always centred around convenience and choosing the path of least resistance.** And this is more possible today than ever before.

In fact, many of the payment methods we use today were established in a world when online payments were nascent – or didn't exist at all. When it would take days to settle transactions, to the frustration of both merchant and customer.

As payments systems evolved with changing retail experiences, increasing complexity came with increasingly safe and secure online payments. It enabled merchants to sell to customers both domestically and across geographical borders. But to keep meeting customer expectations we need to gaze further, beyond the horizon. It's time to open up the world of payments.

We believe open banking is the key to doing this. Surveying nearly 400 financial executives revealed that they expect open banking to provide fast, secure, and frictionless payment experiences at low cost.

However, those same financial executives also report that there is work to be done on the industry side. **Our survey shows that for open banking payments to flourish, we need increased adoption of instant payment rails, to increase user awareness, and improve the user experience.**

As we approach full-scale adoption across Europe, open banking payments need to offer more than low cost and low friction. The survey shows that the industry also recognises the need for a solid foundation of trust and reliability to be built to let this new ecosystem reach its full potential.

Moving to a cashless world

The declining usage of cash has been one of the most well-documented shifts that has been taking place over the last decade. All around the world, customers and businesses are rapidly moving towards digital payment solutions. While this has been ongoing for many years, the pandemic has accelerated the transition considerably. According to McKinsey & Company, cash payments have declined by 16% globally and **the pandemic has sped up the digitalisation of our economy by an incredible seven years.**

Since the introduction of credit cards in the 1950s, debit cards in the 1980s and the rise of ecommerce through the 1990s, electronic payments have grown in popularity, displacing cash and cheques for obvious reasons. The estimated costs to a national economy associated with printing and distributing cash can be as much as 2% to 3% of the country's annual GDP.

This estimate would include the costs for customers, merchants, and banks to accept, distribute, and process cash transactions. Going digital not only provides a more efficient economy, it supports the rise of digital innovation, the expansion of ecommerce and provides both customers and businesses with a more convenient method for exchanging goods and services.

But the popularity of electronic payments is not just thanks to lower costs, it also makes payments transparent, verifiable, and traceable because it leaves a trail of data. **With open banking (and explicit consent), this data can be leveraged for the good of both businesses and customers –** leading to more personalised experiences and better-targeted offers. Today, open banking is creating opportunities for millions of people and businesses to improve their finances and help them overcome the financial challenges ahead.

The pace of the transition to electronic cashless payment options varies from country to country. In the UK, debit cards overtook cash as the most frequently used payment method in 2017, and in Germany, this happened in 2018. If you look at Sweden, where Tink was founded, the central bank estimates that only 9% of the population was using cash as their primary payment method in 2020.

The European Central Bank (ECB) published that, despite the pandemic and its lock-downs, the total number of non-cash payments in the euro area, comprising all types of payment services, increased in 2020 compared with the previous year, with a total value increase by 8.7% to €167.3 trillion. Card payments accounted for 47% of all transactions, while credit transfers accounted for 23% and direct debits for 22%. While the number and value of card transactions remained broadly unchanged in 2020, **the number of credit transfers within the euro area increased as a result of open banking.**

The rise of electronic payments
(number of transactions per year in billions)

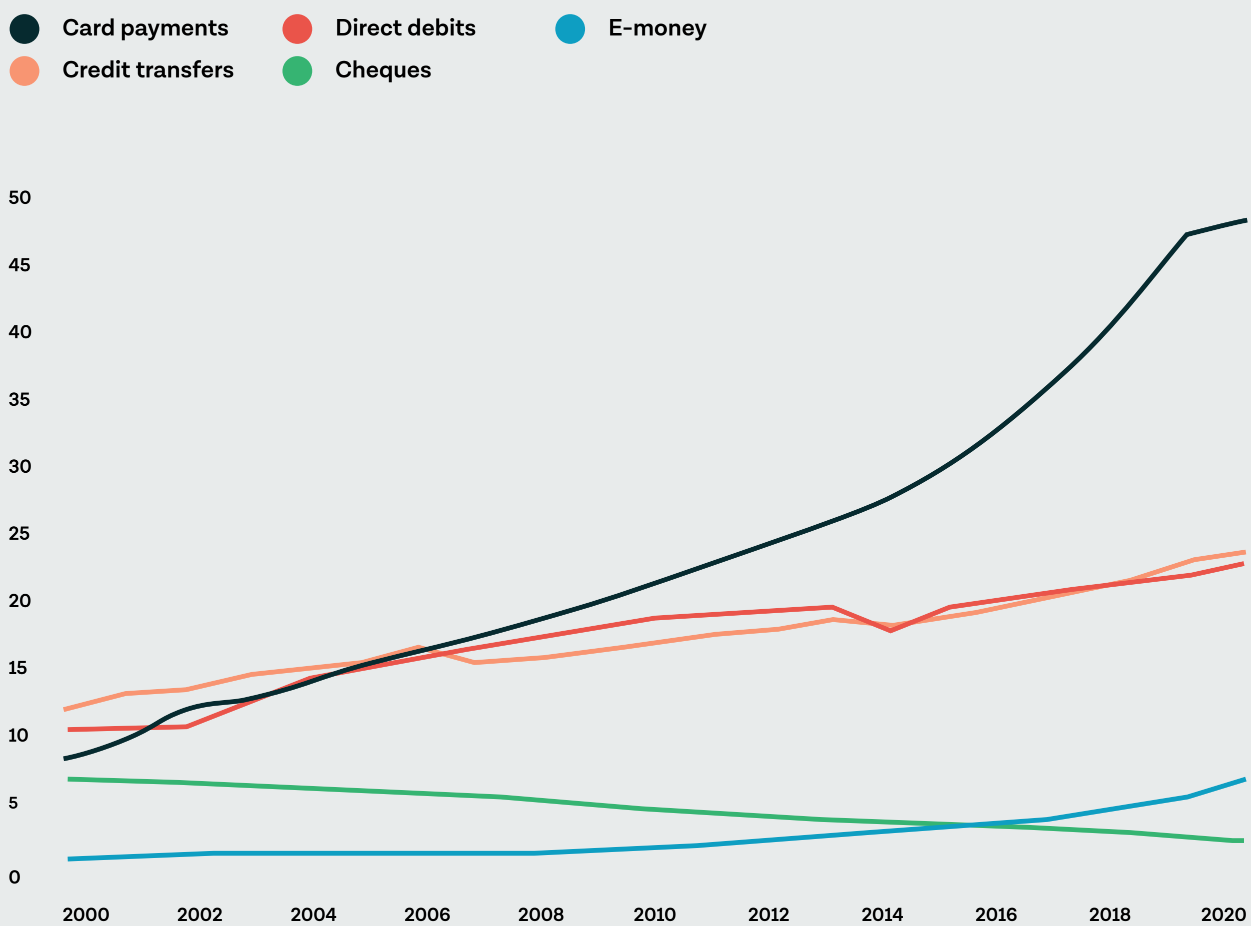


Figure 1
Note: Data has been partially estimated for periods prior to 2010, as methodological changes were implemented in previous years and some corresponding data is unavailable. The historical estimation done by the ECB ensures comparability of figures over the entire period. Statistics are also collected on other payment services, which accounted for 1.0% of the total number of euro area transactions in 2020.
Source: ECB, Payments statistics: 2020, July 2021

‘Cash payments declined by 16 percent globally in 2020’

Source: McKinsey & Company, The 2021 McKinsey Global Payments Report, October 2021

In Europe, all payment instruments pictured in the graph are regulated under the European Union's (EU) revised payment services directive (PSD2). This directive was adopted to support open banking innovation, while keeping payment safety to the fore. Among other things, PSD2 formally recognised the potential for payment initiation services (PIS) and the providers of such services (PISPs) to use the capabilities available in the online banking interface. This, in turn, allows PISPs to launch new and competitive payment alternatives and support the ongoing shift towards a cashless society while leveraging the existing infrastructure of the banks.

Open banking payments explained

Open banking is about giving customers more control over their money and their data. Historically, banks have created on proprietary services and offered them exclusively through their own channels. The enforcement of PSD2 created a strong legal framework for open banking to take effect in Europe. It encourages all account servicing payment service providers (ASPSPs) – more than 4,000 banks, card issuers, and e-money institutions – to create application programming interfaces (APIs) that enable authorised third-party providers (TPPs) to access account information and initiate payments with the customer's explicit consent.

This means TPPs can build services 'on top' of bank infrastructure – similar to how so many of the mobile services used today rely on geolocation data provided by Google Maps APIs.

Under PSD2, the main act for open banking so far has been the development of account information services, which has enabled the launch of tailored services and personalised product decisions. Today, access to payment account information is being used for real-time income and account verification tools, risk decisioning, personal finance management, and carbon footprint trackers.

However, the biggest untapped opportunity of open banking payments remains payment initiation services. In fact, our survey report from 2021, showed that **72.1% of executives consider PIS as the most important open banking use case to invest in for their business** – making it the highest ranking use case of all.

And what makes PIS even more valuable is when it's combined with AIS. For example, a merchant can perform basic KYC by receiving account information through the same API request as the payment is made, without any additional process, unlocking incredibly powerful payment experiences. This is why open banking payments are not a replacement for legacy payment methods: they are the next generation of them.

'I told them it would be like the App Store, but for banking.'

– John Gibson, former member of the Prime Minister's Policy Unit, on how he pitched it to the UK's Her Majesty's Treasury

Source: Wired

Get to grips with payment initiation services

So what is PIS? Put simply, payment initiation services are account-to-account (A2A) credit transfers that run on top of the existing interbank infrastructure. A good way to understand how PIS works is by comparing it against the classic card payment model (Figure 2).

In the classic "four-corner model" for card payments, the four main parties (consumer, merchant, issuer, and acquirer) exchange information among themselves. The card schemes facilitate this exchange and manage clearing and settlement, as well as setting the rules.

Traditional card payments flow

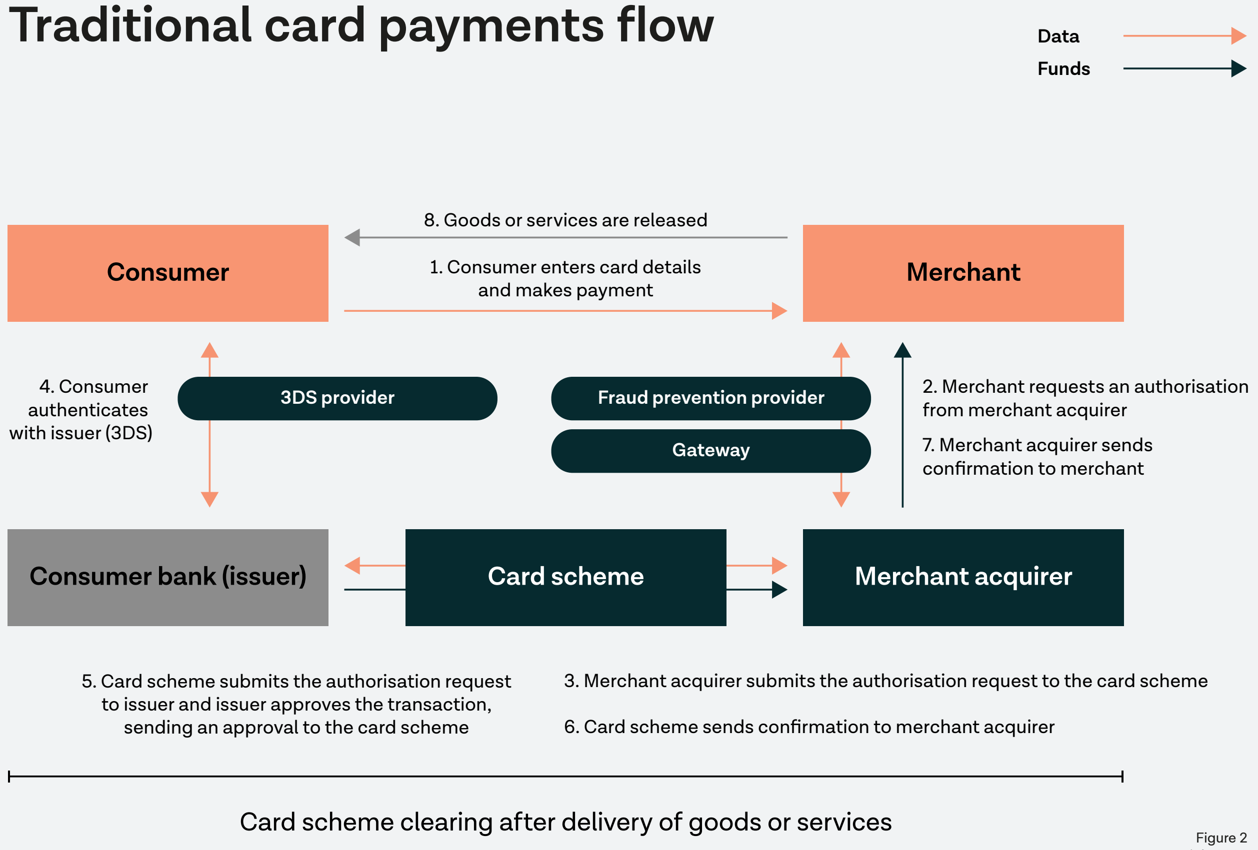


Figure 2
Source: Tink, 2022

PIS flow

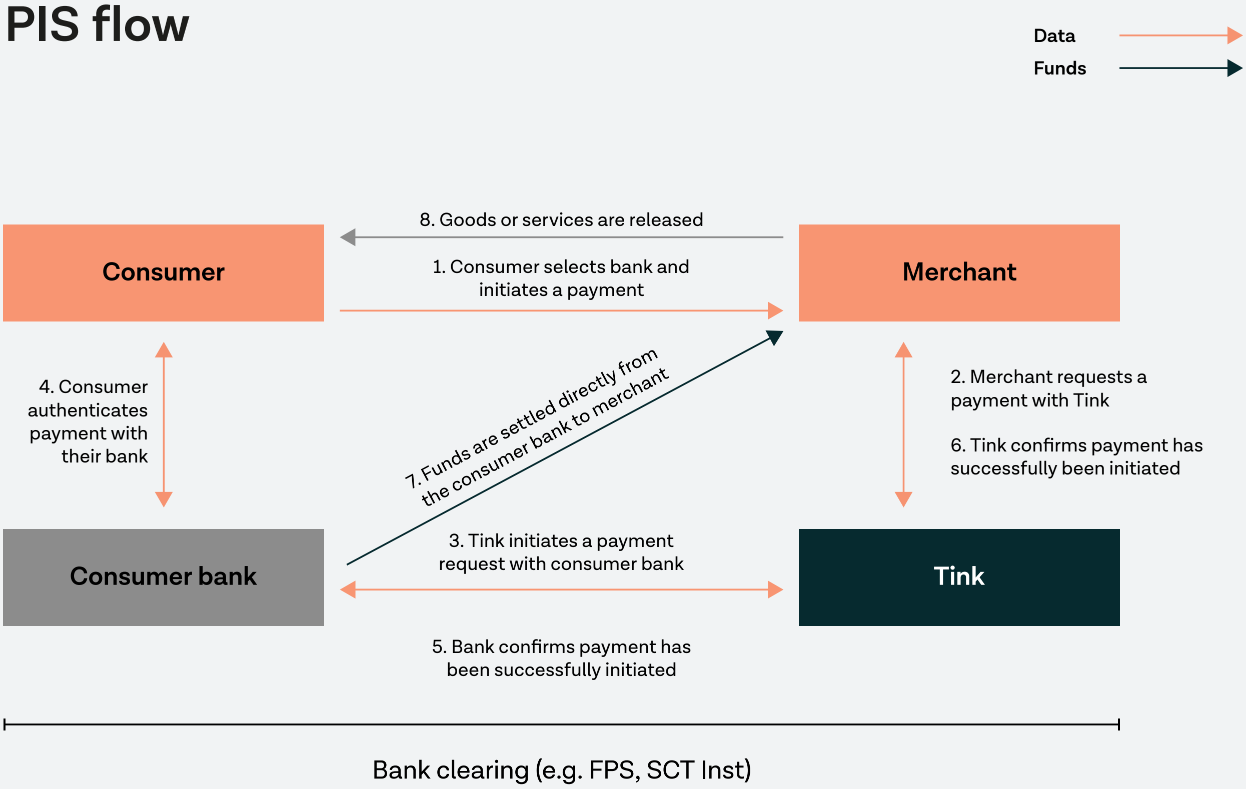


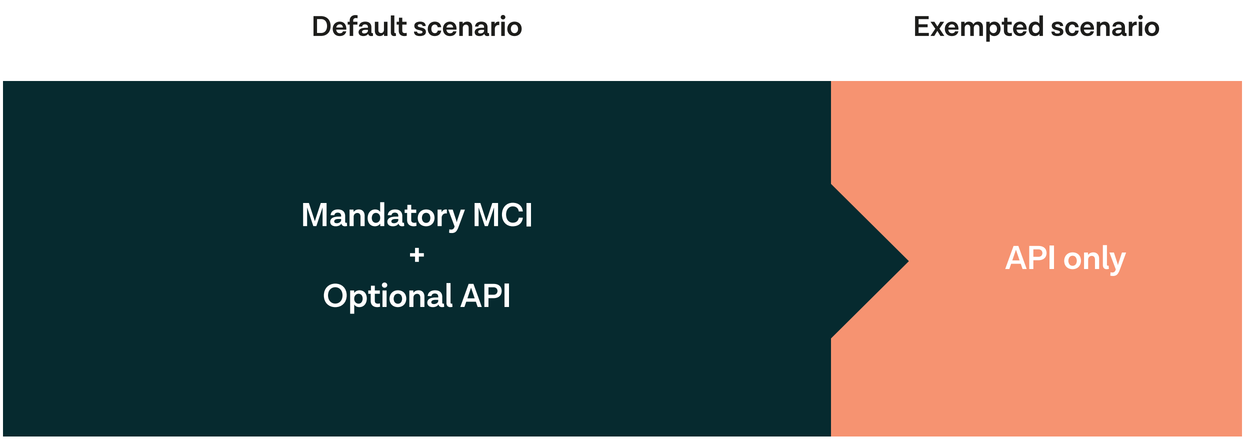
Figure 3
Source: Tink, 2022

The PIS model (Figure 3) brings an inherent simplicity of design as it sits alongside the card model (Figure 2) rather than trying to replace or interrupt it. PISPs like Tink typically have contracts with either the merchant or the consumer, but rarely with the bank. In any case, what happens is that the PISP gets consent from the customer to initiate a payment from their bank account.

The connections that PISPs have with the banks are especially crucial, as the reliability can vary across banks and markets. The quality of the bank connections and the available redundancies goes a long way in determining the strength of a PISP's coverage as well as the user experience and payment success rates.

Given the variety of the connections offered by banks, any PISP worth their salt should be investing heavily in testing and optimising these connections. So far it's been clear that it's not the API, but the ability for PISPs to create a differentiated proposition is that is driving demand for payment initiation services.

Options for banks to provide access to account under PSD2



Banks must allow PISPs to use a modified customer interface (MCI). They have the option to provide a dedicated interface which is typically in the form of an API.

Banks that can prove to the regulator that their API is as good, or better than the MCI, can be granted an exemption to only provide the API.

Figure 4
Note: The options that banks have when providing access to account differs by jurisdiction around the world. In some countries, regulators mandate banks to provide dedicated interfaces or even APIs for TPPs to use.
Source: Tink, 2022

Banking Circle: preparing for account-to-account payments

Anders la Cour,
CEO of Banking Circle

Who he is

Anders is co-founder and CEO of Banking Circle, which is on a mission to make cross-border payments more efficient by providing banks and payment firms with mission-critical financial infrastructure.

What he's known for

He's known for his great one-liners and he's a straight shooter. Anders knows what he's talking about and is not afraid to tell it like it is.

Why we spoke with him

Anders is a fintech enthusiast, enabling banks and payment firms to provide their customers with access to fast, low-cost international payments and banking solutions.

1. What are some of the big trends in electronic payments according to you?

There's a brave new world around payments that was pushed into hyperdrive by the pandemic. When you look at the payments ecosystem you can see that it's currently dominated by card payments. While this won't disappear short to medium term – in fact, I expect it will continue to grow as we move away from cash and emerging markets become more digital – I think the pandemic has accelerated three big trends for the global payments market.

The first big trend is the move from cards to account-to-account (A2A) payments. **With open banking and regulations such as PSD2, we know the technology is here now.** Now we'll start to see the adoption increase which I expect will spark a revolution in the market.

The second big trend is the move from traditional batch-based payments to the widespread adoption of instant real-time payments. Here too, most banks have the ability to offer and receive real-time payments by using their own liquidity. This can, however, only scale to a certain extent and it will be interesting to follow the different use cases that will be developed around the adoption of the real-time payment schemes.

Finally, it's the introduction of digital currencies. And I'm not just talking about CBDCs (central bank digital currencies), but all types of crypto assets and liabilities that are being exchanged. Whether crypto currencies ever convert into a 'payment class' or not remains to be seen. For now it is primarily an asset class. Regardless, Banking Circle caters for all types of payment clearing systems, whether that's from digital currencies to fiat, or the other way around.

2. What are some of the drivers for change?

Everyone looks to the regulator as one of the main drivers for change. When looking at open banking, we all know this has been true for the data side – that is the account information side. However, the liquidity side, with interbank payment powered by payment initiation services (PIS), is still at its infancy.

I believe that one key factor that is still needed to make this a real 'landslide' is finding a way for the banks to be incentivised to support this movement too. **The PSD2 is a visionary piece of legislation, but what we need is less stick and more carrot.** This is where some of the new payment schemes can come in. The SEPA Request-to-Pay (SRTP) scheme and the upcoming SEPA Payment Account Access (SPAA) scheme are introducing potential incentive models that we expect will be the catalyst for change.

At Banking Circle, we're betting that this transition will come sooner rather than later, primarily because they are all instant payment technologies. This is why we are making investments to support all types of schemes and A2A payment instruments whether it's SCT Inst, SRTP, or even FedNow in the US. We want to be among the first to support these payment options and support the growing demand for real-time settlements.

Consumerization is also driving some of the change. We believe that some consumer trends will blow over to the business world. For this, we've made several acquisitions. Take for instance Biller, a platform that facilitates buy-now-pay-later for business-to-business transactions. A service that is providing an alternative payment method to the traditional credit cards or deferred payments for certain industries and business segments. It's seeing massive uptake by small business owners that need a short-term advance on products and services. Our goal is to ensure that all of these business services come together under our group of offerings.

3. Why are real-time payments so disruptive?

I don't exactly know how real-time payments will transform the world around us. I do know that the more seamless payments become, the higher the conversion will be. Right now, as a business you need to discount for the time you don't have money in your pocket. When real-time settlements make their way into the market, some of these costs may go down too.

No need for chargebacks, less so-called friendly fraud, and money is only moved once authorised by the payer. This could increase trust in payment systems, and create more convenience for both businesses and consumers.

With money flowing in real-time, you'd need less financing and escrow services, you could get higher yields on the cash balance and savings. We might have even more liquidity in the market, but I'm not entirely sure about that one, because the money will simply be in different pockets.

I believe that one key factor that is still needed to make this a real 'landslide' is finding a way for the banks to be incentivised to support this movement too. The PSD2 is a visionary piece of legislation, but what we need is less stick and more carrot.

Adopting open banking payments

Over the last few years, Tink found that the attitudes of financial executives towards open banking services had improved significantly, with 55% of executives being positive in 2019 compared to 71% being positive in 2021.

These positive attitudes towards open banking are translating into increased investment in open banking payment methods as well. **All executives indicated that their business has either already invested in open banking (75%) or plan to in the next 12 months.** The vast majority of executives (72%) also indicated that their level of investment has increased as a direct result of the pandemic.

Benefits of payment initiation services (PIS)

When looking at how financial executives are prioritising their open banking use cases, PIS was ranked the most important investment area with 72.1% of financial executives agreeing.

To understand why these executives are optimistic about the prospects of PIS, this year we asked executives to list out what they see as the main benefits for merchants. As shown in Figure 5, the key benefits of open banking-enabled payments in the eyes of executives centre around increased security, the prospect of instant payments, and lower costs.

Benefits for merchants that use PIS

Q. How important do you feel these benefits are for merchants who use payment initiation services?

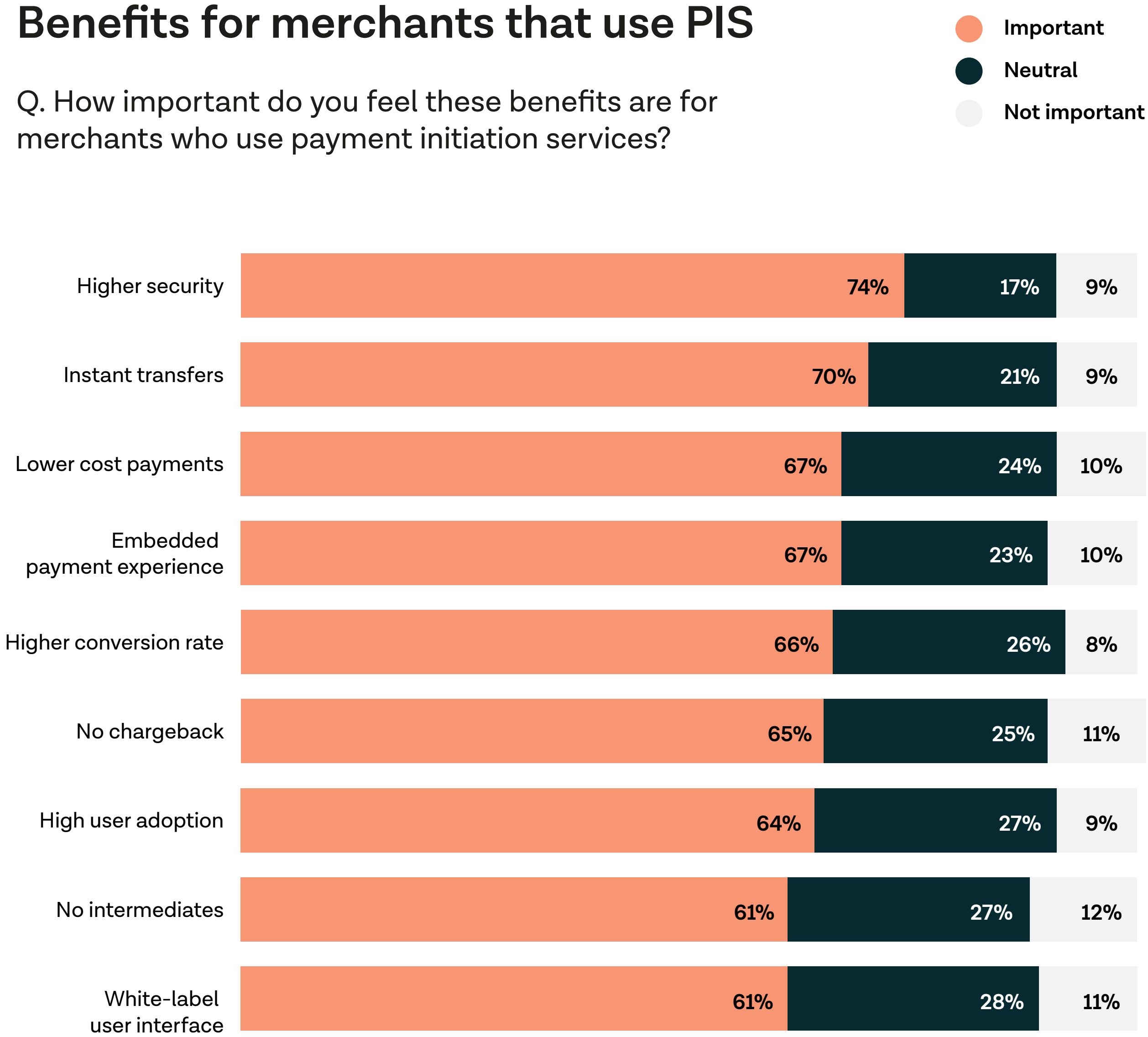


Figure 5
Note: Values may not add to 100% due to rounding
Base: All respondents (n=380)
Source: Tink, 2022

‘7 in 10 feel the benefit of higher security is important to merchants who use PIS’

Benefit #1

Higher security

The highest ranked benefit for merchants that use PIS was higher security, with nearly three-quarters (74%) of respondents saying it's an important advantage. Understandably, fraud is something many financial executives are wary of. As payments move online, fraudsters move with them.

But open banking payment methods such as payments initiation can actually help mitigate fraud. That's why the high security around PIS, with the enforcement of strong customer authentication (SCA) and identification of PISPs, is considered a benefit compared to other payment methods (74%).

When initiating a payment, the PISPs will always need to rely on the ASPSP enforcing SCA in order to ensure the customer is present. SCA has been introduced as part of PSD2 with the aim of improving security across all payment methods. In addition to SCA, PISPs are also required to authenticate and identify themselves towards the ASPSP. This means that multiple authentications take place to initiate a single payment, which helps mitigate fraud and unauthorised transactions. Critically, in open banking payments such as PIS, the SCA occurs as part of the same user journey as the payment request. **This gives open banking payments a significant user experience advantage over other payment methods.**

Benefit #2

Instant transfers

Another benefit identified by executives is the ability for PIS to run on the newest generation of payment rails with instant transfers (70%). This is considered an advantage over other payment methods, as traditional methods operate on legacy payment rails that can take days to settle. This means that merchants won't see the money in their bank accounts when the transaction takes place and need some form of guarantee that the funds will arrive. With PIS being developed on the latest payment infrastructure available to customers, it benefits from instant payment settlement and allows for immediate payment confirmation. This in turn has significant working capital advantages for the merchant.

Benefit #3

Lower cost payments

Finally, the third highest ranking benefit identified for merchants is that PIS holds the promise to lower the costs (67%) of accepting electronic payments compared to other payment methods – while embedding the experience for users. The cost element is important because smaller merchants always have costs for accepting electronic money. The fees charged by service providers and the fees charged by local payment solution providers put pressure on profits. Open banking payments are lower cost because they simplify the payment process by reducing the number of stakeholders involved. In addition, they typically have higher success rates than other payment methods, which improves their cost effectiveness, and lowers costs for merchants by significantly reducing fraud – the cost of which has historically been borne by the entire industry.

> ‘1 in 3 believe real-time payments, the ability to provide cashback or rewards, and secure payment flows are all enablers to the adoption of payment initiation services’

Drivers of adoption

Just like the benefits, financial executives may see that PIS presents drivers that allow it to stand out from the ecosystem of payment options. The survey shows that around a third believe real-time payments (34%), the ability to provide cashback or rewards (31%), and secure payment flows (32%) are all enablers to the adoption of payment initiation services.

Drivers of adoption for PIS

Q. What do you think are the enablers to adoption of payment initiation services? Please select up to three options.

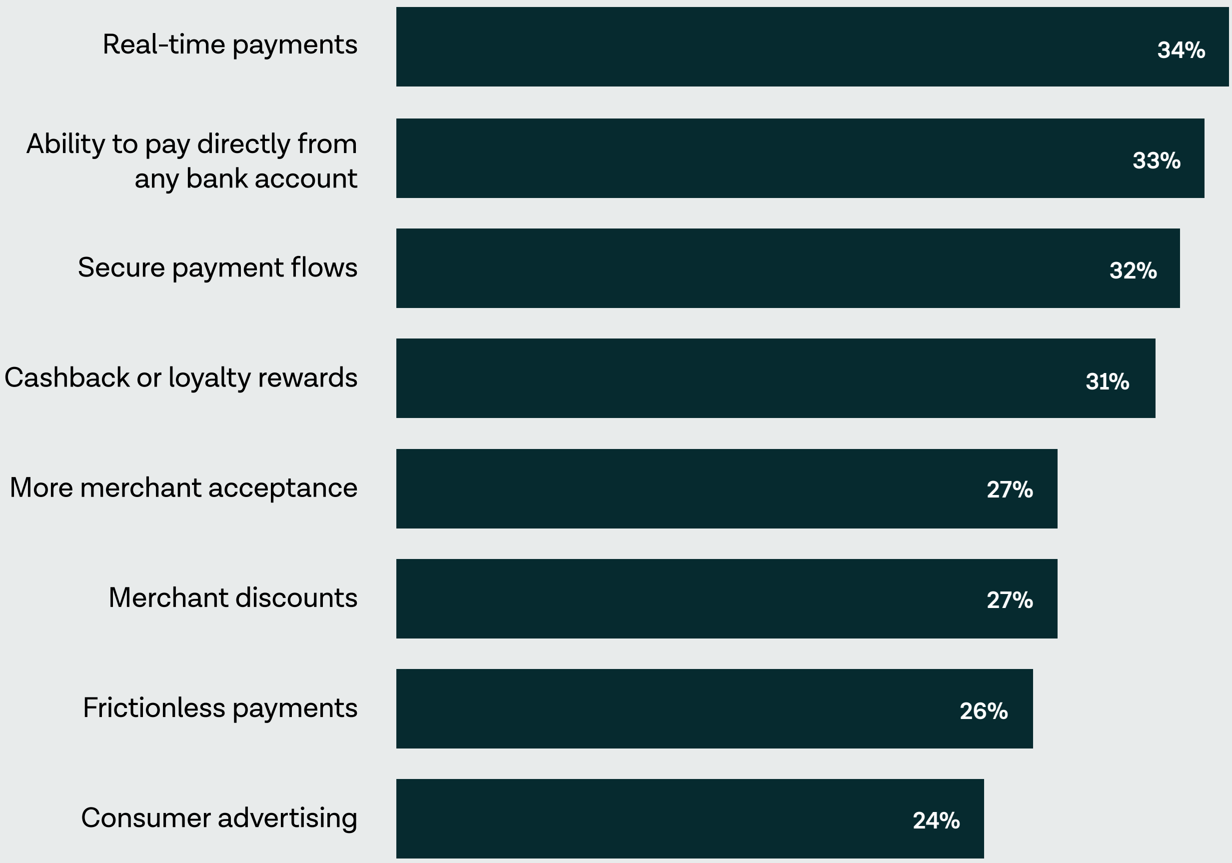


Figure 6
Base: All respondents (n=380)
Source: Tink, 2022

Driver #1

Real-time payments

According to our survey, the key driver for PIS solutions is the ability for merchants to benefit from real-time payment (34%). In the absence of a traditional card scheme, initiating payments on instant payment rails is necessary for the immediate verification that a payment has been successfully executed and received.

Across Europe, there is currently fragmented support for the SEPA Instant Credit Transfer scheme (SCT Inst), which means that a default PIS does not always inform merchants whether or not a payment has been successfully initiated. Tink and a number of other PISPs are innovating around this problem by collecting funds on behalf of the merchant and providing real-time verification of the execution of the payment – even before the funds reach the merchant's bank account.

Driver #2

Ability to pay from any bank account

The ability to pay directly from any bank account holds a lot of promise, such as higher conversion. A third of respondents (33%) selected it as a key driver for PIS adoption.

One of the greatest advantages of accepting PIS is that a customer can make a payment with their existing bank account. There's no need to sign up for any other payment services. The bank that they already use to receive salary, pay for rent and subscribe, and pay by card, can also be used for PIS. This means that as long as the PISP can connect to the bank, the customer should be able to pay from it. In turn, this means that merchants can reach a larger customer audience than they would otherwise be able to using alternative payment methods. In addition, the ability to pay from any bank account improves conversion as it strengthens the customer's trust in the payment method.

Driver #3

Secure payment flows

In the section about PIS benefits, we mentioned how payment initiation services can mitigate fraud and make payments more secure. This is considered a benefit and a key driver by our respondents (32%).

PIS as a secure payment method cannot be understated. The enforcement of SCA means that the customer is always present when the payment is initiated. Merchants therefore do not have to be as concerned about unauthorised or fraudulent payments that are subject to chargebacks or disputes as with traditional payment services. The way PIS is designed also means that neither credentials nor account numbers are shared with the merchant (or anyone else) – which is the case for most other payment methods, and a major source of cost (for example via PCI DSS) and risk for the merchant. Another important benefit of SCA in PIS is that the authentication and payment initiation happen simultaneously, saving customers time and improving conversion.

‘3 in 10 believe the main barrier to the adoption of payment initiation services is the limited adoption of instant payment rails’

Barriers of adoption

As you can’t expect smooth sailing and blue skies in every aspect of implementing new technology, we asked our respondents about the possible barriers to PIS adoption. The survey results show that financial executives are mostly worried about a limited adoption of instant payment rails (30%), low user awareness (28%), and suboptimal UX or user experiences (27%).

Barriers of adoption for PIS

Q. What do you see as the main barriers to the adoption of payment initiation services? Please select up to three options.

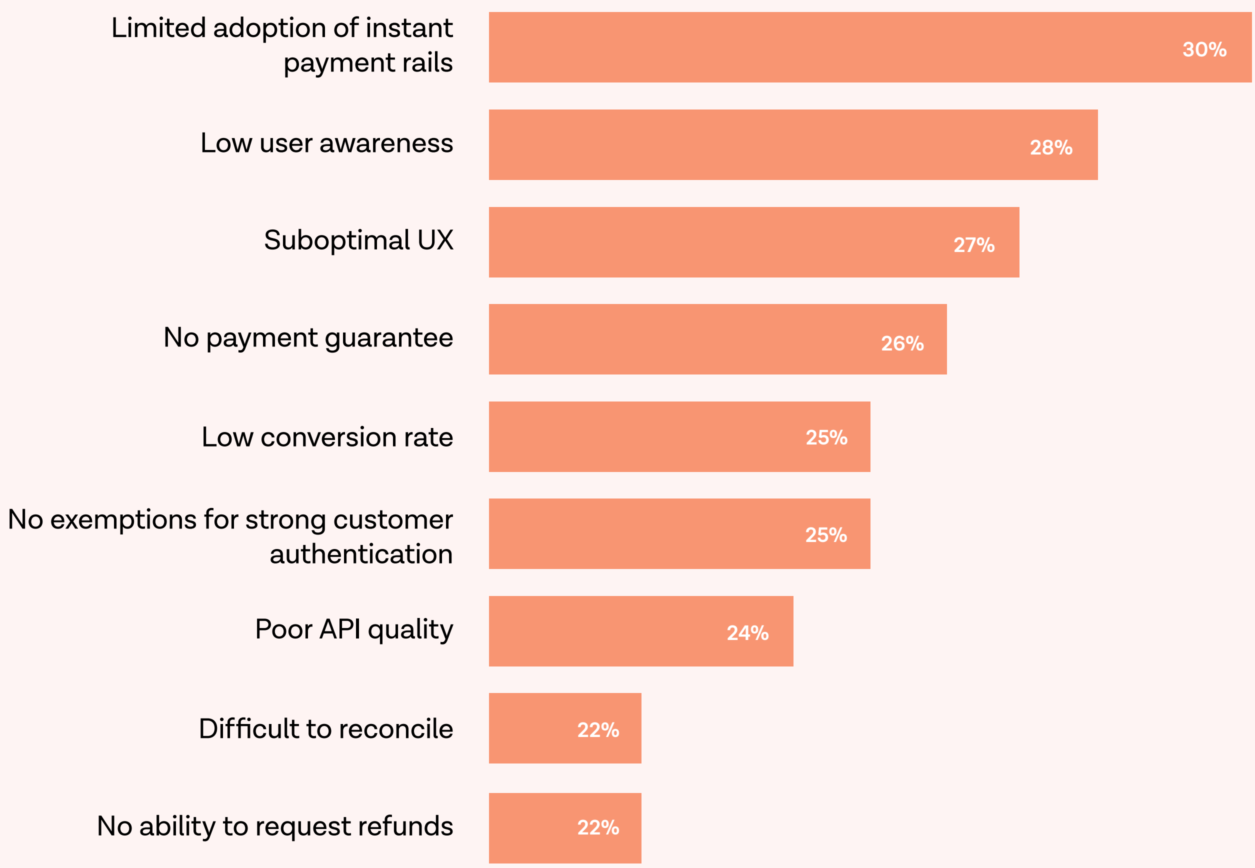


Figure 7
Base: All respondents (n=380)
Source: Tink, 2022

Barrier #1

Limited adoption of instant payment rails

Nearly one-third (30%) of the respondents consider the limited adoption of instant payment rails a key challenge for the adoption of PIS. With instant payments, the merchants can receive and confirm the funds in real time. Completing the payment within seconds of the purchase removes the risk of cancelled payments or insufficient funds at the time of transfer.

Currently, the adoption of such instant payment rails is limited, just as the survey respondents say. But **the payments industry is transitioning towards a new generation of payment rails enabled by instant messaging and clearing of settlements** – ISO 20022. The European Commission has announced that it will propose a law to make all banks responsible for accepting and offering real-time payment rails to both customers and PISPs.

In short, with regulatory support and incentives it looks as though the limited adoption of instant payment rails will soon be a thing of the past. And there are plenty of use cases where instant settlement doesn't matter as much – such as invoice payment, for example.

Barrier #2

Low user awareness

While many customers are already using plenty of open banking payments solutions, our survey shows that low user awareness is considered a concern (28%). As the usage of cards increased, so has the adoption of alternative payment methods such as PayPal, Klarna, and iDeal. While many payment institutions are starting to explore or use payment initiation services for the transfer of funds – either to facilitate payments directly to merchants, or to settle open invoices – the customer is rarely aware of the technology under the hood.

Driving user awareness not only requires value to be created for the customer, the language also needs to be consistent and easy to understand. The market for deferred payments or post-purchase settlements have solved this problem in an easy way: they just started calling it 'buy-now-pay-later'.

To increase user awareness, we as an industry need to show that PIS fully meets the merchants' and the customers' needs. It's not about the payment method, but about fulfilling the need for seamless payment experiences.

Barrier #3

Suboptimal UX

The third barrier to the adoption of PIS that the respondents highlighted is suboptimal UX, or user experience. As we highlighted earlier, there are some use cases that have really seen PIS take off where the suitability matches the expectations well. But some use cases are still finding their feet, and this is in part due to the improvements still required from the PSD2 APIs.

The challenges related to the PSD2 APIs for PIS have been known for a long time. While some third-party providers have managed to innovate around the poor user experiences offered by PSD2 APIs, smaller TPPs have not had the capacity to do so.

But it's getting better. Entering 2022, PSD2 APIs have seen massive improvements, and now deliver better conversion rates and UX than before. And the quality is expected to continue improving. In the meantime, PISPs need to innovate on top of and beyond what the banks provide in order to create the compelling experiences that both customers and merchants expect.

Countries where user awareness is critical

On average, three-quarters of respondents (75%) think user awareness for the adoption of payment initiation services is important.

All countries count a majority of respondents agreeing that user awareness is important for the adoption of PIS, respondents from Finland (90%), Italy (81%) and the UK (80%) voice the strongest opinion. In countries such as France and Portugal we find over one-third of executives being neutral or indicating that user awareness is not important for adoption. Although these markets have not seen as much bank innovation, there is a large ecosystem of fintechs driving a new wave of payment services.

Percentage of respondents that indicate that user awareness is important for adoption of PIS

Q. How important do you think user awareness is for the adoption of payment initiation services?

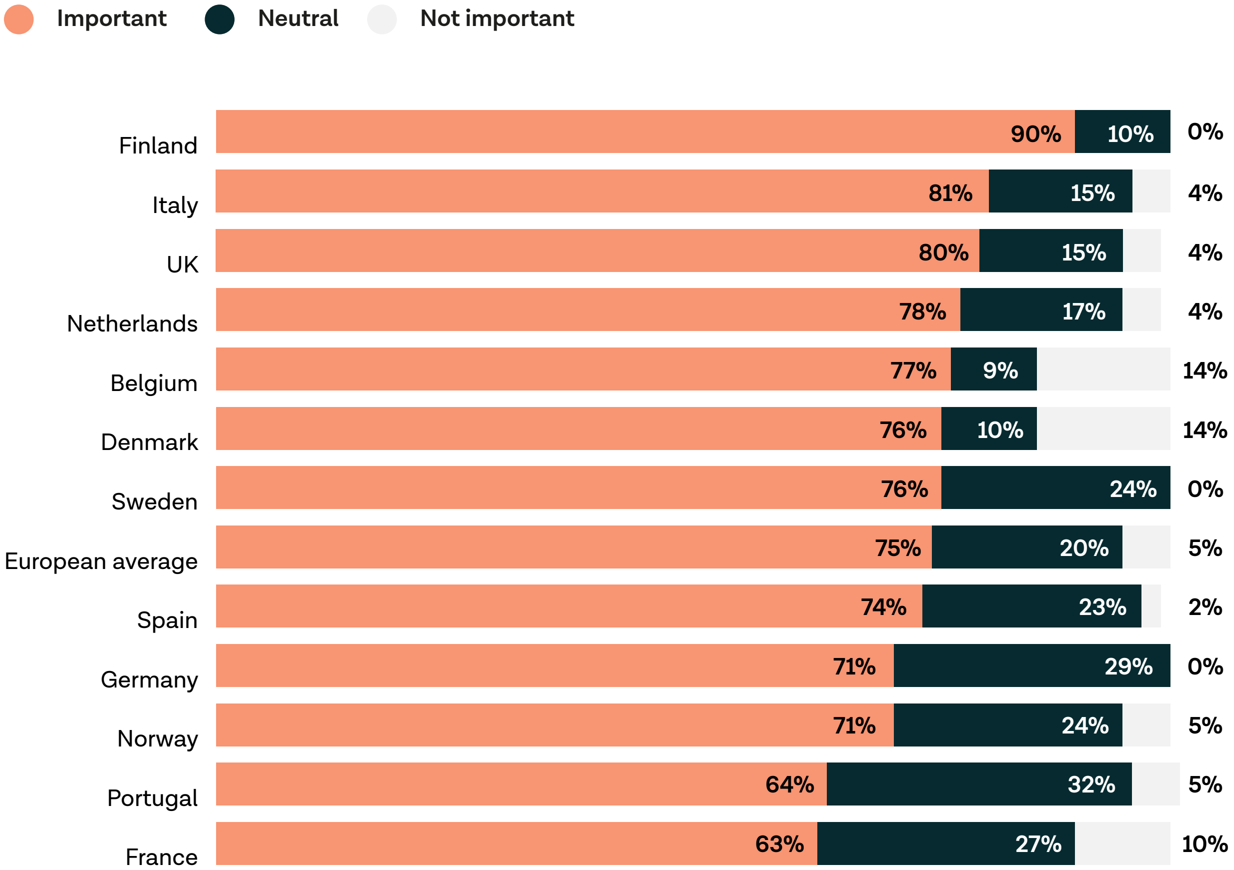


Figure 8
Note: Values may not add to 100% due to rounding
Base: All respondents (n=380)
Source: Tink, 2022

Tesco Bank: payments from a consumer perspective

Chris Henderson,
Head of Payments at Tesco Bank

Who he is

Chris Henderson is Head of Payments at Tesco Bank and helps shape the strategy for payments at Tesco. He's a leader in payments and a member of the UK Finance Payments Board since 2018.

What he's known for

Chris is passionate about improving customer experiences. With 20 years' experience in Financial Services, he isn't afraid of trying new things – as long as they work for the customer.

Why we spoke with him

As a driven payments leader, Chris' centre of focus is on customer payment journeys and how they can be improved. He understands what it takes to launch new payments solutions and ensured Tesco Bank was one of the first to adopt payment initiation services in the UK.

How do you cope with the pace of change in the payments industry?

It may be odd to hear this from the payments guy, but it's not about payments. **To understand how the market is moving, you need to understand the customer: to cut through the noise and stay close to what customers want and need.** It's also important to understand changes in technology and regulation to see where they're heading.

While we all know the payments industry is moving fast, we should also bear in mind that customer behaviours do not change overnight. The transition towards the use of contactless, digital wallets or open banking has been going on for 10 years, as customers need time to adapt to new solutions and develop trust with new ways to pay.

Historically, banks have often tried to build complicated solutions to meet every need of the customer, but by the time the product goes to market things have moved on. At Tesco, we are moving away from delivering everything in one go. Now we want to launch, test, and learn. The aim is to bring us closer and closer to the customer.

How do you see open banking payments evolving?

Open banking payments is all about enabling account-to-account (A2A) transactions. It wasn't even possible a couple of years ago, but now Tesco Bank customers can pay off their credit card debt using open banking.

From a customer point of view, this offers great advantages. Previously, customers would have to leave the Tesco app, go to their bank app, set up a payee, and then manually make a bank transfer. Today, they don't have to leave the app to push a payment. They don't have to remember or find account details, and with the instant payment rails they can see the money arrive in seconds.

Open banking payments offer a convenient and intuitive customer journey, which is why we're seeing growing adoption. But like with every new payment method, it takes time for adoption to grow. This is where we listened to our customers, implemented feedback and made some minor changes. Now we're seeing happy customers using open banking to pay off their credit cards at a much greater scale.

What do you see as some of the pitfalls for open banking payments?

At the end of the day, customers want a choice of how to pay. The transition towards open banking payments will be led by customer needs. It requires a sound value proposition that solves real problems for the customer.

And from the customer's standpoint, a payment experience needs to be secure, fast, and consistent. Many customers also enjoy being rewarded for choosing a certain payment journey. And the reality is that many payment options available today can do this.

How customers choose to pay is also influenced by where they are at the time of purchase and the quality of that experience. Some payment methods were originally designed for the physical environment and have adapted to buying online, but most open banking solutions today are designed for online services and not the physical retail store experience. Designed for online is a plus in many ways, but open banking should also look to have an answer for how retailers might use it in stores, making it easy to integrate into customers' everyday lives.

Therefore, the main pitfall – and opportunity – for open banking payments is to ensure it's as good as or better than other payment methods customers can choose today.

> 'Open banking payments offer a much more convenient and intuitive customer journey, which is why we're seeing growing adoption.'

> 'Nearly 4 in 10 consider P2P transfers the most suitable PIS use case, while 3 in 10 highlighted bill payments, fund transfers for investments or savings, and online commerce payments.'

Exploring PIS use cases

Last year, we quizzed financial executives about which open banking use cases they were investing money in to get a clearer picture of how the industry was changing. While we haven't done quite the same with open banking payments, this year we asked them about which use cases they believed were best suited for PIS.

According to this year's survey, the top three use cases are peer-to-peer (P2P) transfers (38%) and invoice/bill payments (35%), while fund transfers for investments and savings (33%) and online commerce payments (33%) came in joint third place.

Most suitable use cases for payment initiation services

Q. Which payment use cases do you believe have the potential to be best suited for payment initiation services? Please select up to three options.

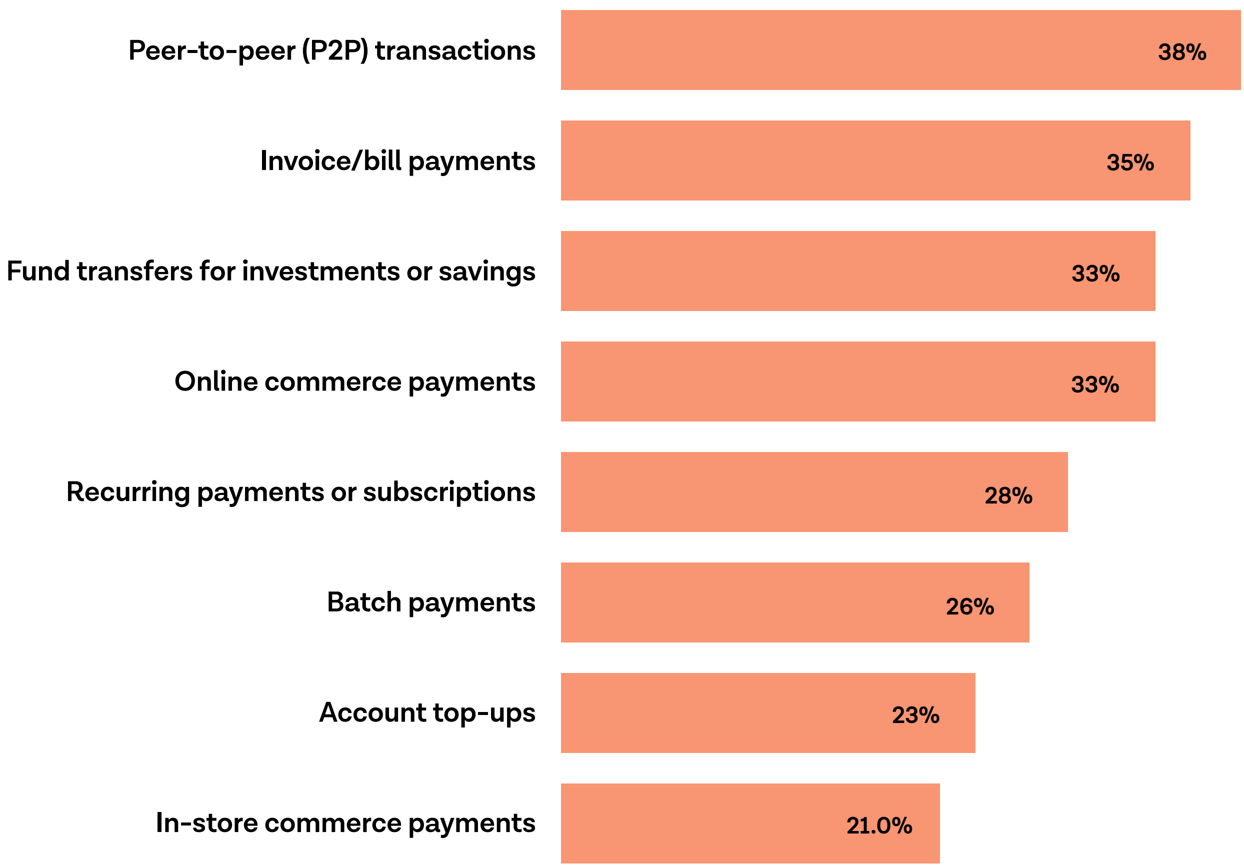


Figure 9
Base: All respondents (n=380)
Source: Tink, 2022

#1 Peer-to-peer transactions

The use case that our respondents considered the most suitable for PIS is peer-to-peer (P2P) transactions (38%). Financial executives recognise an opportunity to leverage PIS technology to facilitate payment requests. This is where the payer instructs the payee to authorise an A2A transaction. From a practical perspective, this means that you use PIS to split the bill after going out for dinner, or send a pay request if someone owes you something. In Sweden and the US, for example, this is already possible using the P2P payment apps Swish and Venmo, respectively.

What's interesting about this use case is that neither the payer or payee would ever want to bear the costs for the transaction. However, the cost still needs to be accounted for by someone. PIS as a low-cost alternative provides an opportunity for money management tools and remittance services that may have previously been financially unsustainable.

#2 Invoice/bill payments

The second use that ranks high is PIS for invoice and bill payments (35%). For many, the payment of invoices can be a huge headache. They often come by traditional post or email with instructions to make a manual transaction from the bank to the beneficiary. This is often inconvenient, frustrating, and time consuming. And even when the invoice does come with payment options, typically the only available option is a single immediate payment which can be tricky when running low on funds.

PIS makes it possible for merchants to take advantage of all of the payment instruments available in the bank account interface. So if customers are able to set up scheduled, recurring, or bulk payments using their online banking interface, they should also be able to do this through the PISP. This means the PIS can be used by customers to defer payments to the end of the month, when salaries have been paid out.

#3 Fund transfers for investments or savings & online commerce payments

Split third, respondents are equally bullish on the prospects of using PIS for fund transfers and online commerce – both selected by 33% of respondents.

Fund transfers is one of the most obvious use cases in the world of open banking (33%). In 2013, Tink pioneered the launch of a personal finance management app with the ability to move funds between current accounts and savings accounts across different banks. Today, PIS is being used by savings and investment banks as an affordable and convenient alternative to receiving deposits from the customer. With traditional payment methods, charging an *ad valorum* fee on the transfer amount means that it can be expensive to facilitate the payment when the value of the deposit is significant.

On the other hand, when most people think of digital payments, they also immediately think of online commerce. And this makes sense because the retail industry is where the largest volume of customer transactions are settled, and where A2A payment solutions have already been nesting themselves. Solutions such as Bancontact in Belgium, iDeal in the Netherlands, and P24 in Poland have been around for years and are very similar to open banking payments. However, most of these established A2A online commerce solutions lack the benefits and adoption drivers that have been identified for PIS. Payments are rarely settled in real time, some require customers to sign up to the service, and they can be prone to fraud. Overall, open banking payments are highly suitable for ecommerce – particularly when it comes to higher-value baskets, where merchants value the significant reduction in risk of fraudulent transactions.

Identifying the user tolerance sweet spot

Looking at the current challenges for PIS, it's important to consider under which conditions customers would be tolerant of using an unfamiliar payment method and a suboptimal UX.

From a hypothetical perspective, tolerance would be higher when the relative perceived risk is low. For example, user tolerance may be low when queuing up at the kiosk to buy an apple or a bottle of water. Customers would want to choose the payment method that they know would always work. The potential risk of embarrassment in front of others may not weigh up to the time it takes to become familiar with a new payment method, such as PIS.

Similarly, when completing a high-value purchase the user tolerance may be low, as the perceived risk of something going wrong does not weigh up against the easy alternative of using a familiar solution.

So, when looking at the different payment use cases for PIS plotted in Figure 10, the top use cases fall within the user tolerance sweet spot (in green): the area where customers would be more willing to use an unfamiliar or suboptimal payment method.

Mapped use cases
(Based on the frequency and value of payments)

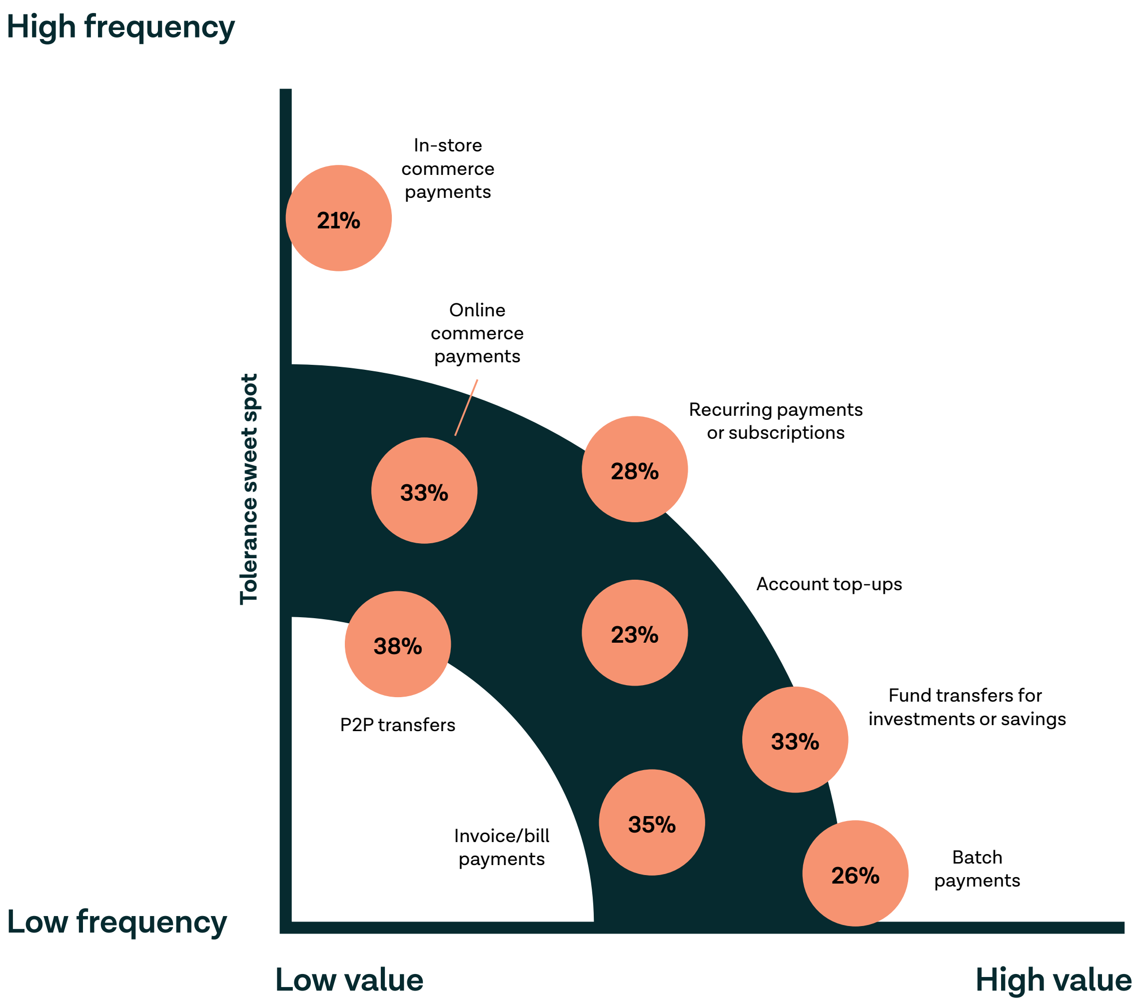


Figure 10
Note: Percentages are drawn from Figure 9, which are based on the share of respondents indicating the use case to be suitable for PIS.
The position of the use cases on the map are based on a general estimation of the frequency and value.
Source: Tink, 2022

Stripe: driving the future of payments on a global scale

Emma Gunby-Burrows,
Head of Engineering at Stripe

Who she is

Emma Gunby-Burrows is Head of Engineering at Stripe's London office. During her 12 years as an engineer she's sought to find the most compelling customer experience.

What she's known for

Emma is a deeply experienced engineering leader, having worked in various roles over several years at Google, been the Director of Engineering at Charlotte Tilbury, and an angel investor with Blossom Capital. Emma joined Stripe in 2020 to head up the companies' London engineering office.

Why we spoke to her

Emma is head of Stripe's London-based Fintech Development Office, which focuses on building out Banking-as-a-Service products for European users, bank partner integrations, and open banking products for Stripe's users.

How do you see payments evolving on a global scale?

As a global organisation, we're seeing the complexities of the payments ecosystem first hand. We have over 120 countries that are able to transact with Stripe in about 135 currencies. And every country is different; the landscape of payment methods for each of those countries varies hugely. Stripe supports over 50 local payment methods, such as iDeal in the Netherlands which makes up 60% of their online transactions.

Besides the complexity, the market is changing rapidly. Buy-now-pay-later, for example, has been a rising trend over the last five years. It's being said that merchants adopting these solutions see an increase of 27% in their conversion rates. **Another emerging payment method is open banking powered payments, and they're rapidly gaining traction. According to OBIE, payments completed using open banking grew 550% in the last year.**

What do you believe is driving this transition?

I believe regulation has a huge part to play, as it's opening up new opportunities to develop really compelling user experiences. Friction in the user experience is another part of it. If you think about things like SCA and interchange rates, particularly across borders, they all drive new market dynamics that push innovation forward.

The interplay between end users, merchants, and regulation is significant – they all come together to create the right environment for innovation. Moreover, the shift towards real-time payment is something that both users and merchants are demanding as the technology and services around us become instantaneous.

Then there are many benefits with instant rails versus batch-based systems, such as the cost of settlement. With a batch-settled system, you may have to wait for hours at a minimum to get the payment reconciled. For businesses with a high average order value, it's important to be able to get that money promptly. So, I believe that's a particular sweet spot for account-to-account payment systems; for businesses to limit the costs of escrow or other types of fees and services.

How is Stripe responding to these developments?

The first part of our strategy is to focus on the local payment methods; taking them back to the core of our platform and making sure we're able to stay on top of the pace of innovation. Even when the payment methods differ greatly from one another.

The second part of Stripe's strategy – and something that we do a lot in the FinTech Development Office – is to think about our non-payments products. They can benefit different segments of users, both B2C and B2B. Traditionally, payments are seen as B2C, but what is the best B2B experience? How does a payment system work with recurring revenue streams, or with billing and invoicing? These are questions that we focus on.

Lastly, it's important for us to use our knowledge of regulation in these different global landscapes. This extensive knowledge enables us to take part in some of the new trends in finance, such as embedded finance and banking-as-a-service, and to develop complementary products like issuing of cards.

What are the biggest challenges of A2A payments and how do we overcome them?

While there are many challenges with regards to regulation and the quality of the APIs, **I believe user awareness is key to finding the right ways to brand the customer experiences.** They need to be recognisable for users to encourage adoption, and to increase the visibility of the brand behind the solution.

Overall, it's important to have a competitive ecosystem that pushes innovation forward. Luckily, governments are pretty good at recognizing that. Good at looking for the right regulatory frameworks to develop open financial ecosystems that benefit everyone involved, from financial institutions to merchants and end customers.

Preparing for open banking payments

What's driving the open banking payments momentum? Two key, interrelated trends that predate the pandemic but have accelerated over the last 12 months: a growing pressure to drive down operational costs, fueling the demand for payment alternatives, and the need to offer differentiated payment experiences as customers turn to digital.

If the potential of payment initiation is no longer in doubt, key obstacles remain before it can gain mass adoption: few instant payment rails, low user awareness and bad user experiences. Solving these challenges will require increased focus and investment in the months to come – and choosing the right partner for this journey is key.

Open banking in a payments context is still in its infancy, while online card payment systems developed over several decades. But **payment initiation is already unlocking easier, simpler, and cheaper payments across Europe** – industry leaders have recognised this and are investing accordingly.

Exactly how the chips will fall, who'll lead and who'll lag behind remains unclear. But what is clear is that open banking powered payments can no longer be ignored.

Those looking to get started on their payment initiation journeys should start by looking for partners that are able to address some of the most important challenges presented in this paper.

How Tink can power your payments

1. Creating consistent user experiences

Tink has learnt that in the markets where users enjoy an intuitive and consistent user experience, the success and retention rates are better than in those where the UX is suboptimal. We have the ability to innovate around APIs, to make sure we offer a consistent and optimal user experience.

Take the Swedish digital mailbox and invoice payment platform Kivra for instance: before our partnership, their invoice payments journey consisted of a whopping 10 screens. With Tink's API, the number of screens is down to only two.

As we've discussed extensively throughout this report, good user experiences are key to driving higher conversion. Great UX also contributes to increased user awareness, which in turn will boost adoption.

2. Leveraging data to find the optimal payment experience

Every use case is different – which means that the most optimal payment experience will be, too. **And in the hunt for the best user experience, data is your friend.**

At Tink, we're constantly testing to learn which payment journey works best for our users. This way, we can use data to enable the best possible user experiences. But A/B testing isn't the only way we can leverage the data from payment experiences. With the transition towards cashless payments, merchants can use the data created through digital payments to improve UX, product offerings, or to create loyalty schemes. With payments data, merchants and financial institutions have the opportunity to access a host of valuable insights into their customers' spending behaviours – unlocking a world of secure, seamless, and tailor-made payment experiences.

3. Driving industry adoption with incentive models for all stakeholders

While PIS is exposed to various challenges and opportunities, there's a lack of incentives for banks to provide high-quality APIs. Although PSD2 provides the groundwork for the basic initiation of payments, Tink collaborates with the industry, as all PISPs should, in order to establish business models that allow all stakeholders to generate value from PIS.

The introduction of, for example, variable recurring payments (VRP) in the UK and the SPAA in the EU would help create this kind of value, which in turn will help drive adoption. Both VRP and SPAA allow banks to generate a return on their investments by commercialising such 'premium APIs'.

4. Continuing to move towards real-time payments

When instant payment rails are available, we can enable our customers to adopt real-time payments – instant transfers can reconcile payments within seconds, eliminating the risk of insufficient funds. When real-time payments aren't available we can help mitigate risk of fraud or non-payment by collecting the funds on behalf of the merchant. This means our customers won't have to worry about slow reconciliation processes ending in non-payment or chargebacks.

Though the end goal may be real-time payments whenever possible, using a third party to settle payments is a good way of minimising risk while the industry irons out the kinks in instant transfers.

Our research shows that while the industry has a ways to go before full-scale adoption, it's clear that open banking payments are best suited for meeting the market need for fast, secure, consistent, and seamless payment journeys.

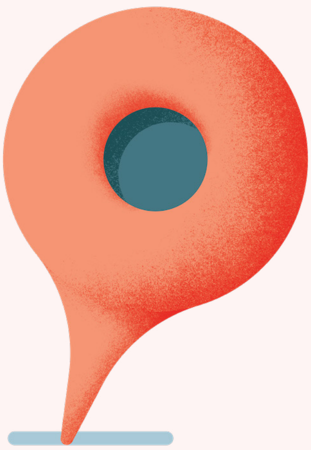
About this research

For the fourth year in a row, we turned to independent market research organisation YouGov to conduct a wide-ranging survey on the attitudes and opinions towards open banking in Europe.

All interviews were conducted by YouGov between 7 February and 31 March 2022, and included 380 prominent financial services executives spread across 12 countries: Belgium (22), Denmark (21), Finland (20), France (48), Germany (45), Italy (48), Netherlands (23), Norway (21), Portugal (22), Spain (43), Sweden (21), the UK (46).

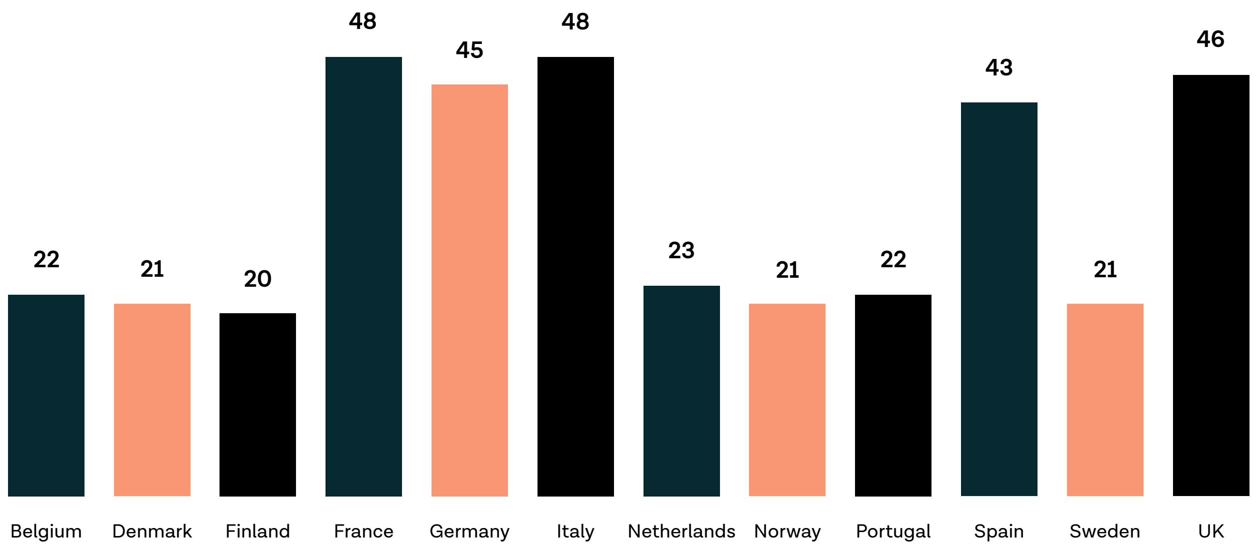
The participants answered questions through telephone interviews and an online questionnaire (all in local languages, to improve the validity of responses).

In order to be selected for the survey, participants needed to be i) senior decision makers or influencers, ii) employed by a regulated financial institution, iii) have confident knowledge of PSD2, and iv) have insight into the open banking investment plans.

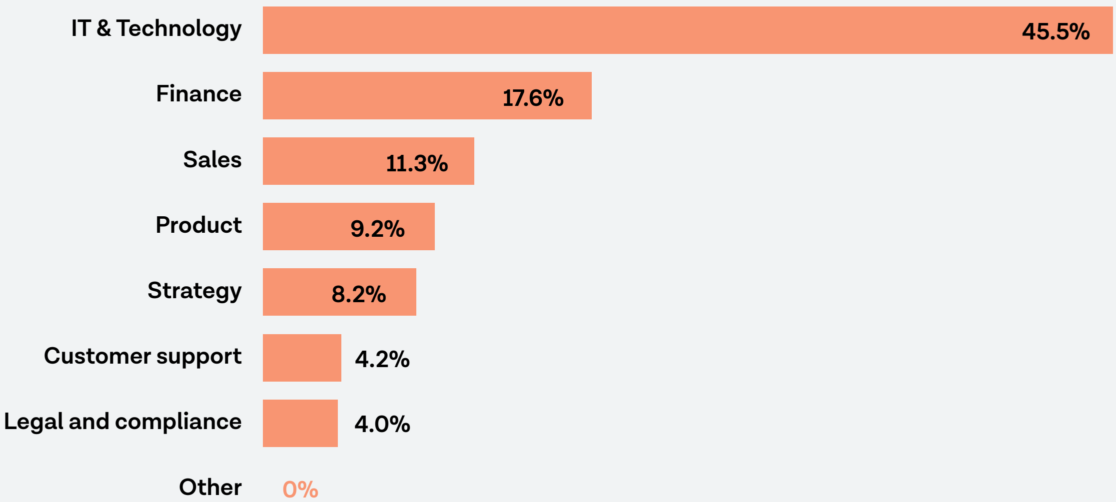


Demographics

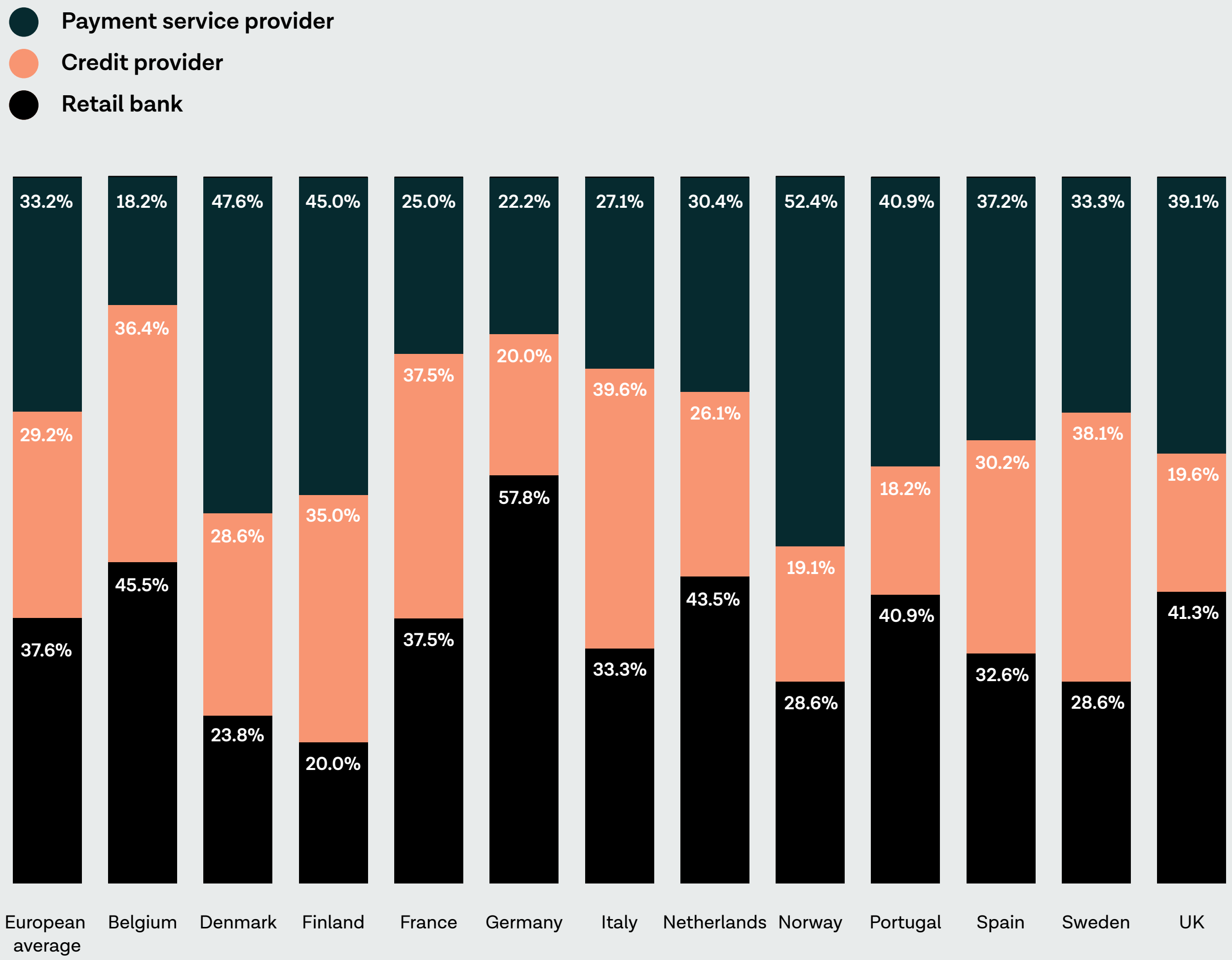
Where are you based in terms of daily operations?



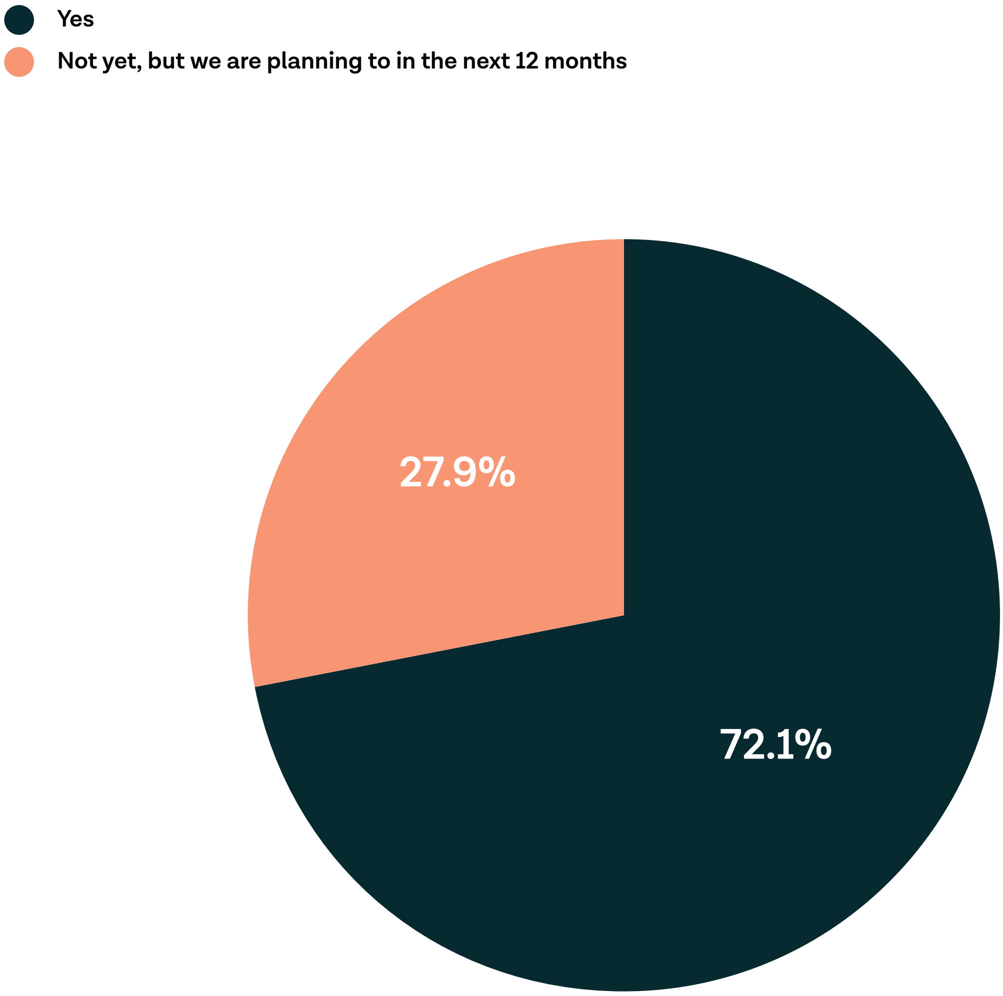
Which of the following best describes your position within your organisation?



What type of financial institution does your organisation represent?



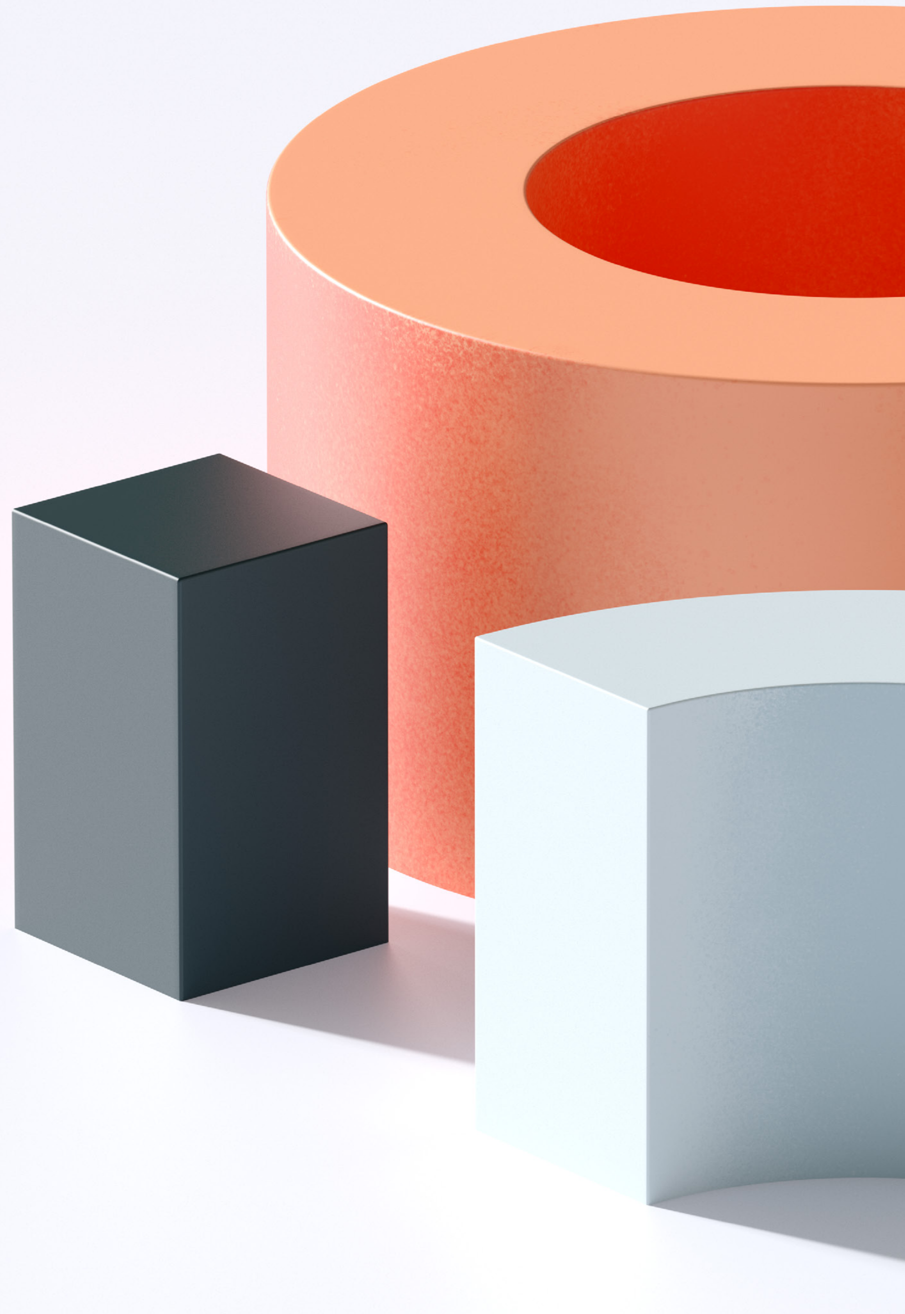
Is your organisation making investments in relation to PSD2 or open banking?



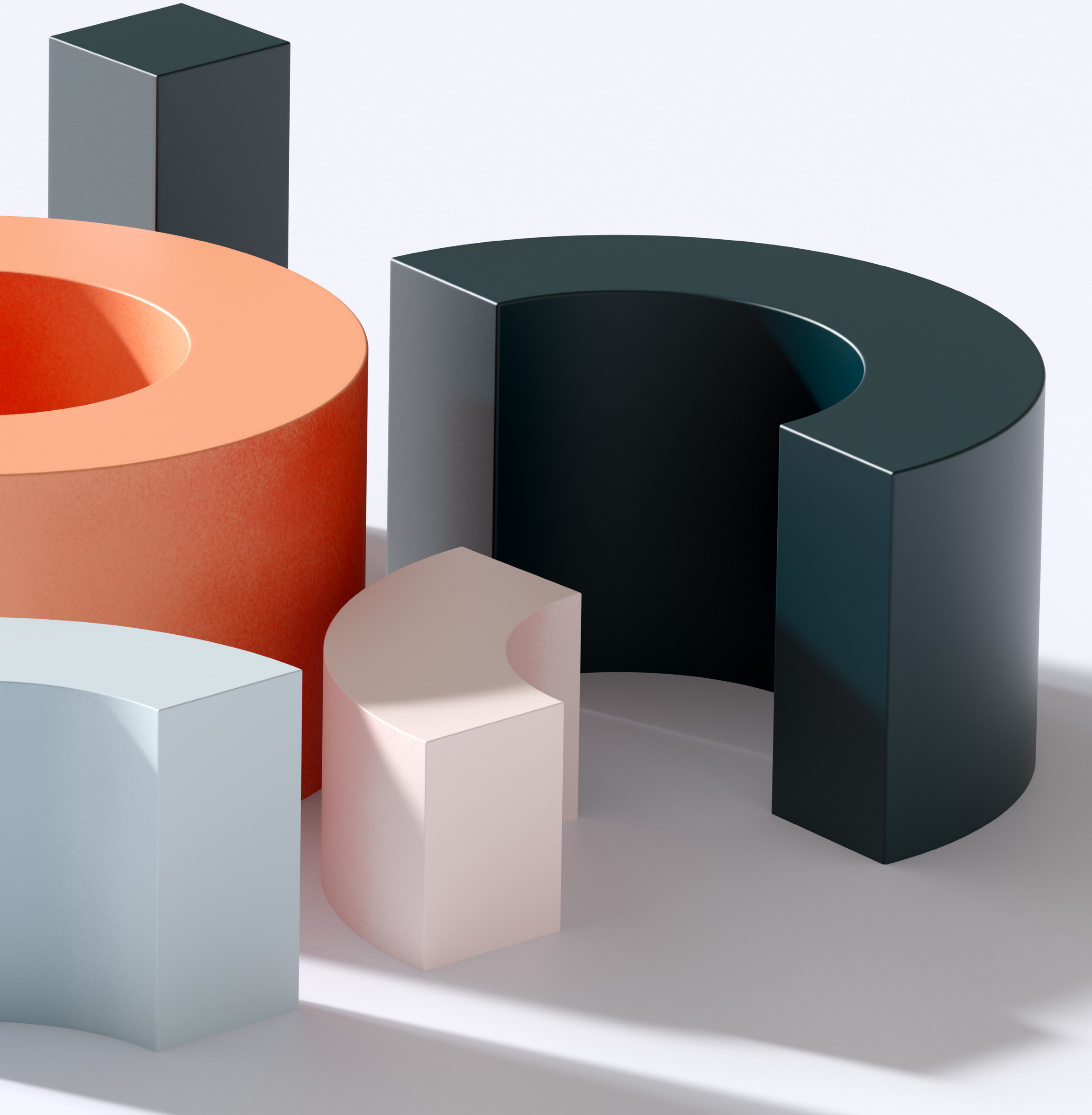
About Tink

Tink is Europe's leading open banking platform that enables banks, fintechs and startups to develop data-driven financial services. Through one API, Tink allows customers to access aggregated financial data, initiate payments, enrich transactions, verify account ownership and build personal finance management tools. Tink connects to more than 3,400 banks that reach over 250 million bank customers across Europe.

Founded in 2012 in Stockholm, Tink became a wholly owned subsidiary of Visa in 2022. Tink's 500 employees serve more than 300 banks and fintechs in 18 European markets, out of offices in 13 countries.



We power the new world of finance



Curious what open banking payments mean for you?

If you feel intrigued about the many possibilities of open banking payments and want to start building, we can help you put your ideas into practice. Get in touch with our team to find out what we can help you achieve:

partnerships@tink.com

Learn more at

tink.com