

THE ALTERNATIVE PAYMENTS LANDSCAPE IN UNITED KINGDOM



by **docomo** digital



A (United) Kingdom of challenges and opportunity

It's difficult to say when the UK's love affair with contactless payments began, but 2014 is a likely starting point: that was when Travel for London (TfL) began allowing commuters to pay for train and bus journeys with their contactless debit or credit cards.¹ Eventually TfL would expand its network to allow tap-and-go payments from digital wallets like Apple Pay and Google Pay, signalling that British consumers were widely embracing the mobile payments future.²

The UK is probably Europe's most mobile-forward market, with domestic take-up of mobile and online payments outpacing counterparts in the region. Compared to shoppers in the US and parts of Europe, UK citizens have been quick to adopt digital payments: a 2020 Statista report noted that over 81% of UK citizens were using some form of digital payment, with millions of new digital wallet users being added every year.³ The UK's position as one of the world's most important financial hubs has also helped drive the expansion of the country's fintech infrastructure, with both new challengers and incumbents jostling for a place in a crowded marketplace.

However, there is plenty of potential for digital wallet operators in the UK, especially considering that the digital payments segment alone is projected to reach \$271 billion in value in 2021, driven by a strong e-commerce industry (\$238.5 billion in value pre-COVID-19),⁴ an established "tap-and-go" culture, and high smartphone penetration rate (85.6% in 2019).⁵ Mobile payments are fueling online shopping, and are the most popular device for accessing the internet.⁶

¹ CNBC. Contactless cards are just catching on in the US — years after the rest of the world. Available online at: <https://www.cnbc.com/2019/04/12/contactless-cards-and-apple-pay-are-just-catching-on-in-the-us.html>

² Transport for London. Contactless and mobile pay as you go. Available online at: <https://tfl.gov.uk/fares/how-to-pay-and-where-to-buy-tickets-and-oyster/pay-as-you-go/contactless-and-mobile-pay-as-you-go>

³ Capital on Tap. The Rise of Digital Wallets. Available online at: <https://www.capitalontap.com/en/blog/posts/the-rise-of-digital-wallets/>

⁴ J.P.Morgan. 2020 E-commerce Payments Trends Report: UK. Available online at: <https://www.jpmorgan.com/merchant-services/insights/reports/uk-2020>

⁵ Statista. Forecast of the smartphone user penetration rate in the UK 2018-2024. Available online at: <https://www.statista.com/statistics/553707/predicted-smartphone-user-penetration-rate-in-the-united-kingdom-uk/>

⁶ Ibid.

OEM-backed wallets dominate the UK

Though debit and credit cards are still the most popular payment methods, digital wallets are catching up. In fact, Worldpay's FIS 2020 Global Payments Report reveals that digital wallets made up more than a third of all e-commerce spending in 2019.⁷ Digital wallets are also expanding rapidly – with a CAGR of 23%.⁸

Britons have a wealth of options available to them, but by far, the biggest player in the UK's digital wallets industry is PayPal, the American fintech with a well-known reputation for expanding its market reach through local tie-ups and integrations.⁹ In 2019, JP Morgan said PayPal accounted for up to 20% of all digital wallet payments in the UK,¹⁰ while a 2020 YouGov survey found that at 61% PayPal was the second most popular online payment method behind debit cards, dwarfing the progress of the likes of Apple Pay and Google Pay.¹¹ PayPal dominance is attributed to the perception that the service offers much stronger security than its rivals,¹² owing to the company's long history of enabling cross-border payments. Cross-border commerce comprises 18.6% of the UK's overall e-commerce market, and PayPal likely offers an easy and affordable payment method for international purchases.¹³ PayPal will probably remain the market leader as its host of services expands to include cheap P2P transfers and "buy now, pay later" schemes popularised by fintechs Klarna and Clearpay.¹⁴

After PayPal, OEM-backed wallets Apple Pay and Google Pay are the second and third most popular digital wallet options. These phone-based options have become increasingly visible mainstays in the UK market, driven by the UK's growing base of smartphone users, the continued relevance of bank cards, and retailers' embrace of contactless payments.

When it comes to OEM-backed wallets, preference comes second to availability, with most UK users deferring to whichever option is available on their phones. However, other wallets are also offered by wearables companies like Garmin and Fitbit. Apple Pay and Google Pay were the first to enter the UK market between 2015 and 2016, while Samsung Pay arrived on British shores in 2017 to leverage the growing popularity of its handsets.¹⁵

Across nearly all digital payment platforms, cards will continue to remain relevant because most digital wallets in the UK rely on plastic to enable payments, unlike other countries where QR-code payments are more popular.¹⁶ With OEM wallets, users can store their debit and credit card information in their digital wallets to make NFC payments, but they have also built a network of partnership and tie-ups which allow customers to rack up points on retailers' loyalty programmes, or pay for public transportation. Challenger banks like Revolut and Monzo also rely on issuing cards or integrating with Apple Pay or Google Pay in order to enable mobile payments.¹⁷

⁷ Worldpay from FIS. Global Payments Report 2020. Available online at: <https://worldpay.globalpaymentsreport.com/#/en/home>

⁸ TechRadar. Nearly a third of UK consumers are now using digital and mobile wallets to pay for goods online. Available online at: <https://www.techradar.com/news/nearly-a-third-of-uk-consumers-are-now-using-digital-and-mobile-wallets-to-pay-for-goods-online>

⁹ J.P.Morgan. 2019 Global Payments Trends Report - United Kingdom Country Insights. Available online at: <https://www.jpmorgan.com/merchant-services/insights/reports/united-kingdom>

¹⁰ Ibid.

¹¹ YouGov. Which methods and companies dominate online payments? Available online at: <https://yougov.co.uk/topics/finance/articles-reports/2020/09/02/which-methods-and-companies-dominate-online-paymen>

¹² J.P.Morgan. 2019 Global Payments Trends Report - United Kingdom Country Insights. Available online at: <https://www.jpmorgan.com/merchant-services/insights/reports/united-kingdom>

¹³ J.P.Morgan. 2020 E-commerce Payments Trends Report: UK. Available online at: <https://www.jpmorgan.com/merchant-services/insights/reports/uk-2020>

¹⁴ iNews. PayPal launches Klarna rival 'Pay in 3' option in challenge to Buy Now Pay Later providers. Available online at: <https://inews.co.uk/news/business/paypal-klarna-rival-buy-now-pay-later-providers-online-banking-714567>

¹⁵ ITPro. The complete guide to Samsung Pay in the UK. Available online at: <https://www.itpro.co.uk/strategy/28356/the-complete-guide-to-samsung-pay-in-the-uk>

¹⁶ Finextra. Will QR codes find their niche in Europe? Available online at: <https://www.finextra.com/blogposting/17172/will-qr-codes-find-their-niche-in-europe>

¹⁷ Which.co.uk. Challenger and mobile banks. Available online at: <https://www.which.co.uk/money/banking/bank-accounts/challenger-and-mobile-banks-aj0mj7w688r5>

Britain’s incumbents stake their territory

Though they are far less common, QR-code payments are poised to grow in relevance in the UK, especially thanks to the influence of Chinese tourists on the British economy,¹⁸ and take up of the technology by restaurants and bars during the COVID-19 pandemic.¹⁹ Though barcodes and QR-codes have largely remained in the realm of loyalty programmes from retailers like Tesco and Morrisons, some fintechs are beginning to explore their potential.

One such company is Yoyo Wallet, whose open API has become well-known among retailers and banks looking to combine QR-code payment options with loyalty programmes. Most recently, Yoyo integrated with challenger bank, Starling,²⁰ as well as South African mobile software company, wiGroup, to expand its global reach.²¹ In 2019, Yoyo announced a partnership with Mastercard’s Pay by Bank app, which itself has become a popular wallet integration among banks.²²

Though they were slow to adapt in the beginning, incumbent banks in the UK have begun to make concerted efforts to bring digital payment solutions to their customers. Pay by Bank, for instance, has enabled more banks to offer wallet-like payment solutions through integrations with existing apps and leveraging the UK’s Faster Payments service,²³ so customers essentially pay retailers directly out of their bank accounts.²⁴

Barclays has been on the cutting edge of digital wallets with its Pingit app, which was launched to compete with Apple Pay. Pingit allows customers to top up the app with cash directly from their Barclays account, and organise their finances into “jars” to be spent with either a connected debit card or wearable. The app also enables P2P payments to friends and family both on and off the app, via phone numbers and messaging services, which is a common tech in Southeast Asia and East Asia, but rare in the UK.²⁵ Wearables play a massive part in the Pingit system, partly thanks to the app’s integration with Barclays’s BPay service back in 2019,²⁶ which was one of the first wearable payment devices to be allowed on TfL’s system.²⁷

Britain’s telecommunications industry has had some success with introducing its own digital wallets and payment methods. The domestic telco industry has four main telcos—Vodafone, Three, EE and O2—of which only Vodafone presently maintains a digital wallet since O2 discontinued its digital wallet version in 2014, citing difficult market conditions.²⁸ The Vodafone Wallet enables its subscribers to make payments via NFC technology, and manage various payments via different sources of funds such as cards or virtual accounts.²⁹

Digital wallets aside, British telcos currently also enable its consumers to make in-app purchases and subscriptions through direct carrier billing (DCB), or “charge to bill” services as they are known in the UK. The method is not new to the country, but it’s a segment that has generally grown at a slower rate compared to counterparts in Asia.³⁰ In the UK, DCB only accounted for 17.4% of digital content annual spend, with the lion’s share going to credit cards.³¹ Furthermore, the UK has a well-established card culture, and generally widespread access to financial services, which has limited the uptake of DCB payments.

Nevertheless, there are signs that things are changing. According to Telemedia Research, the DCB segment could account for 73% of telcos’ value added service by 2023, driven by growing consumption of OTT and digital content, as well as in-app purchases from online stores like iTunes and Google Play.³² Some quarters have suggested the highly-regulated gambling industry could find opportunities to capitalise on DCB too, especially since card spending on gaming is banned.³³ DCB is also gaining ground in the areas of ticketing for transportation and live events such as the Young Frankenstein musical comedy on the West End where users were able to make purchases directly from their phone.³⁴

Telcos may face limits on DCB growth as regulators cap the amount that can be charged to phone bills but there are expectations that the EU’s second Payment Services Directive (PSD2) will make DCB payments more appealing by upping security requirements and exerting downward pressure on charges.³⁵

Despite Brexit, opportunities abound

The potential impacts of Brexit loom over the entire British financial industry.³⁶ For digital wallets, the Brexit scenario could curtail expansion into other European territories because of unaligned compliance requirements, which has prompted some to open bases on the continent. While it is unclear precisely what will happen once EU regulations like the GDPR privacy rules no longer apply to fintechs in the UK, there are some who suggest that the country’s exit could prompt innovation in a space with less regulation and more opportunity for experimentation.³⁷ UK regulators will not be required to comply with occasionally byzantine EU regulations and could more effectively drive policy change.³⁸

Furthermore, unlike the EU, the UK has a single authority charged with driving fintech innovation in the Financial Conduct Authority (FCA), whose close ties with the government will likely ensure official policy is more strategically aligned with the industry’s needs. The FCA is also well known as one of the world’s more progressive regulators in the fintech space, launching one of the first sandbox initiatives in 2016 that has since become a global template.³⁹

Another policy that could drive the emergence of digital wallets in the country is the New Payments Architecture (NPA), the forthcoming framework that will replace the UK’s current Faster Payments and Bacs interbank payment system.⁴⁰ At the core of the NPA will be a single clearing and settlement system that will enable faster, more secure payments across retailers, regardless of which platform is being used. Theoretically, the NPA will also take the place of the EU’s European Payments Initiative, an instant payments infrastructure.

The NPA will also leverage the UK’s ongoing Open Banking initiative, launched in 2018 as part of a policy agenda to introduce a safe way for consumers to share financial information.⁴¹ The Open Banking initiative, similar to the EU

regulations on the same topic, require financial institutions to share customers’ bank data with fintechs and other regulated third party operators, effectively undoing the monopoly held by incumbents on financial products. For digital wallet providers, the Open Banking initiative will likely drive more opportunity to grow market share, and help them become more competitive in the UK’s mature market.

A sampling of popular e-wallets across markets and their fees

Apple Pay does not charge merchants any additional fees in the UK to accept payments through Apple Pay.⁴²

Google Pay does not charge merchants any fees for accepting payments through Google Pay.⁴³

PayPal charges a transaction fee of 2.9% + a fixed fee that depends on the currency the payment is made in. If a payment is made using QR code for GBP10 (\$13.9) and below, there is a charge of 2% + a fixed fee depending on the currency in which the payment is made. For international transactions, the merchant has to pay a fee for receiving domestic commercial and QR Code transactions and the additional percentage-based fee for international commercial transactions, which varies based on where a customer resides.⁴⁴

Top e-wallets: **Apple Pay, Google Pay and PayPal**⁴⁵

¹⁸ Finextra. Will QR codes find their niche in Europe? Available online at: <https://finextra.com/blogposting/17172/will-qr-codes-find-their-niche-in-europe>

¹⁹ BBC News. How Covid turbocharged the QR revolution. Available online at: <https://bbc.com/news/business-55579480>

²⁰ TechCrunch. Mobile payment and loyalty platform Yoyo Wallet integrates with Starling Bank. Available online at: <https://techcrunch.com/2017/11/23/mobile-payment-and-loyalty-platform-yoyo-wallet-integrates-with-starling-bank/>

²¹ Finextra. Yoyo to create global loyalty brand following merger with South Africa’s wiGroup. Available online at: <https://finextra.com/pressarticle/84505/yoyo-to-create-global-loyalty-brand-following-merger-with-south-africas-wigroup>

²² Yoyo. Yoyo partners with Mastercard to bring Pay by Bank app to the High Street. Available online at: <https://blog.yoyowallet.com/mastercard-yoyo-pay-bank-app-high-street/>

²³ Pymnts. Mastercard Partners With Four Retailers For Pay By Bank App. Available online at: <https://pymnts.com/news/payment-methods/2019/mastercard-partners-with-four-retailers-for-pay-by-bank-app/>

²⁴ Finextra. Mastercard signs four retailers to Pay by Bank app. Available online at: <https://finextra.com/pressarticle/80297/mastercard-signs-four-retailers-to-pay-by-bank-app>

²⁵ Pingit. Send money without a worry. Available online at: <https://pingit.com/pay-someone/>

²⁶ Pymnts. Barclays Combining Pingit, BPay To Compete With Apple. Available online at: <https://pymnts.com/news/banking/2019/barclays-apps-pingit-bpay/>

²⁷ Computer Weekly. Barclaycard’s bPay band aims to avoid TfL ‘cardclash’. Available online at: <https://computerweekly.com/news/2240230809/Barclaycards-bPay-band-aims-to-avoid-TfL-cardclash>

²⁸ Finextra. O2 shuts down mobile wallet. Available online at: <https://finextra.com/newsarticle/25592/o2-shuts-down-mobile-wallet>

²⁹ Vodafone. Vodafone Wallet Terms. Available online at: <http://vodafone.co.uk/about-this-site/terms-and-conditions/vodafone-wallet>

³⁰ Telemedia Online. Why does DCB struggle in the UK? Available online at: <https://www.telemediaonline.co.uk/editorial-why-does-dcb-struggle-in-the-uk/>

³¹ MaxBill. Is carrier billing relevant to gaming operators? Available online at: <https://maxbill.com/blog/is-carrier-billing-relevant-to-gaming-operators/>

³² Telemedia Online. DCB to dominate VAS market payments and see \$5bn growth by 2023, telemedia study reveals. Available online at: <https://telemediaonline.co.uk/dcb-to-dominate-vas-market-payments-and-see-5bn-growth-by-2023-telemedia-study-reveals/>

³³ SLA-Digital. Ban on UK Credit Card Gambling – An Opportunity for Direct Carrier Billing? Available online at: <https://sla-digital.com/2020/03/12/ban-on-uk-credit-card-gambling-an-opportunity-for-direct-carrier-billing/>

³⁴ Telemedia Online. Carrier billing comes of age. Available online at: <https://telemediaonline.co.uk/carrier-billing-comes-of-age/>

³⁵ LexisNexis. Mobile payments—essentials. Available online at: <https://lexisnexis.co.uk/legal/guidance/mobile-payments-essentials>

³⁶ Wired. Uncertainty and opportunity: what Brexit means for fintech. Available online at: <https://wired.co.uk/article/uncertainty-brexit-fintech>

³⁷ S&P Global Market Intelligence. After Brexit, freedom to set own rules in fintech, crypto could benefit UK. Available online at: <https://spglobal.com/>

marketintelligence/en/news-insights/latest-news-headlines/after-brexit-freedom-to-set-own-rules-in-fintech-crypto-could-benefit-uk-62016052

³⁸ Prodigy Finance. Fintech without borders IS possible: Brexit is an opportunity. Available online at: <https://prodigyfinance.com/resources/blog/fintech-without-borders-brexit>

³⁹ Ibid.

⁴⁰ Pay.UK. New Payments Architecture programme. Available online at: <https://wearepay.uk/programmes/new-payments-architecture-programme/>

⁴¹ Financial Times. Open banking: the quiet digital revolution one year on. Available online at: <https://ft.com/content/a5f0af78-133e-11e9-a581-4ff78404524e>

⁴² Apple. About Apple Pay for merchants. Available online at: <https://support.apple.com/en-gb/HT204274>

⁴³ GPay. Check out a better checkout. Available online at: https://pay.google.com/intl/en_uk/about/business/checkout/

⁴⁴ PayPal. PayPal Merchant Fees. Available online at: <https://paypal.com/uk/webapps/mpp/merchant-fees#additional-percentage-basedfee>

⁴⁵ TechRadar. Nearly a third of UK consumers are now using digital and mobile wallets to pay for goods online. Available online at: <https://techradar.com/news/nearly-a-third-of-uk-consumers-are-now-using-digital-and-mobile-wallets-to-pay-for-goods-online>

ABOUT US

DOCOMO Digital is the international payments business of NTT DOCOMO. We partner with carriers, merchants, OTT services, app stores and payment providers in both developed and emerging markets around the world. We solve for the challenges of customer acquisition and retention, regulation, and complexity for our partners with alternative payment methods such as direct carrier billing and digital wallets. With teams based in 15 countries, we enable our partners to grow their digital services revenues while enhancing the customer experience for their users. Our robust managed services platform and coverage across carriers and the most locally relevant payment methods enable faster time-to-market, especially for streaming, gaming, e-commerce, and productivity application providers.

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