25 OCTOBER 2024

Challenges of In-Store A2A Payments and the Failure of kevin.

Payments software startup, kevin, once seen as Lithuania's next unicorn, has declared bankruptcy, leading the National Central Bank of Lithuania to revoke its PI license after months of financial struggles and employee layoffs. kevin's insolvency underscores the critical importance of developing robust economic models that can effectively support scalability and long-term success in the fintech landscape.

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Figure 1: Product Offering and Business Model

- kevin offers a **brand-agnostic white-label A2A payment solution** that allows customers to pay directly from their bank accounts using existing card terminals, thus bypassing card transaction fees. The platform features customizable interfaces, granting users complete control over payment processes and ensuring direct integration.
- The company uses a **multi-tenant network**, allowing multiple customers to share infrastructure while keeping their data separate and secure.
- Leveraging its A2A payment technology, the platform ensures **real-time processing and instant fund settlement**, benefiting merchants' cash flow.
- The solution employs **tokenization**, replacing sensitive banking information with secure tokens, allowing consumers to link their bank accounts to merchants for one-click payments.

Use Cases

E-Commerce | Point-of-Sale | Mobile

Client Targets

Issuers | Gateways | Acquirers | Merchants

40+ Bank Transfers Integrated

BBVA, Swedbank, MyBank, ČSOB, Bank Pekao, ING, BNP Paribas, Raiffeisen Bank, UniCredit *and others…*

2,700+ merchants in EEA

Vinted, SPAR, pigu.lt, MAXIMA, bitė, linas agro, Bolt *and others…*

Sources: Company website, Flagship Advisory Partners market observations

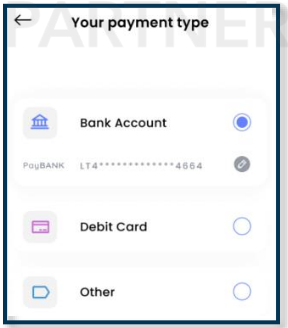
Figure 2: Checkout Flow vs. Other Payment Solutions
(BBVA customer example in Spain, non-exhaustive)

	1	2	3	4	5	6
Pay (Card rails)	Select Apple at checkout[1]	Use mobile to confirm payment (biometric)	Get notification that payment is complete			
Card	Select credit card type at checkout	Enter account credentials	Get re-directed to issuing bank's 3DS page and completes auth. Process (e.g. OTP)	Wait that the issuing bank authorizes the payment	Get notification that payment is complete	
kevin. (Account rails)[2]	Select "Bank Payment" and your bank	Get redirect to your bank portal	Log-in and complete auth. process via SMS	Confirm payment at merchant portal	Authorize payment in mobile banking app	Get notification that payment is complete

Redirect is a key point of friction

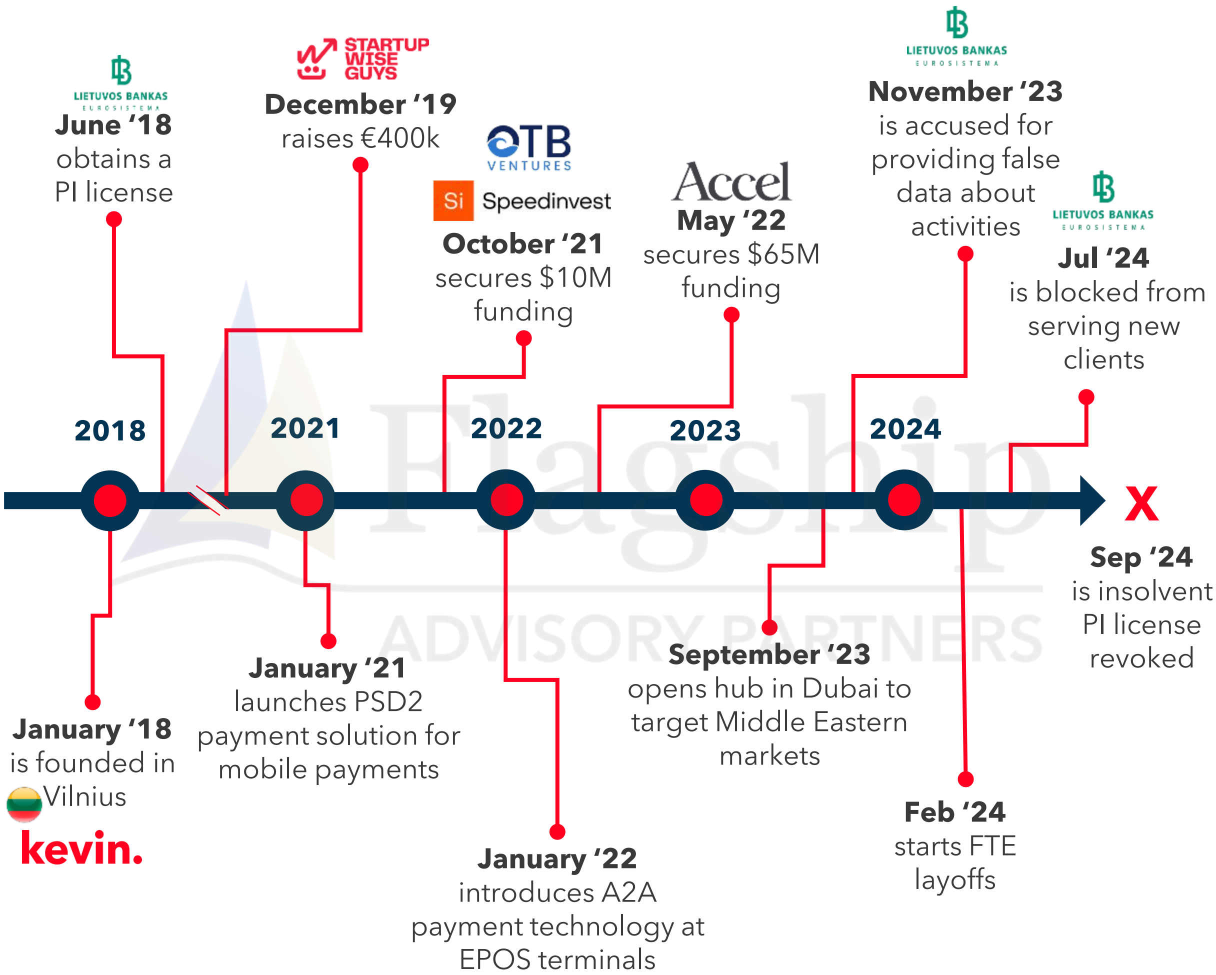
kevin. Account Linking

Customers link their bank account into the merchant's app or website, authenticate it into the bank's mobile app. Once completed, **customers can "jump" from step 1 to step 4 in the checkout flow for the next 90 days** for all payments with that merchant.



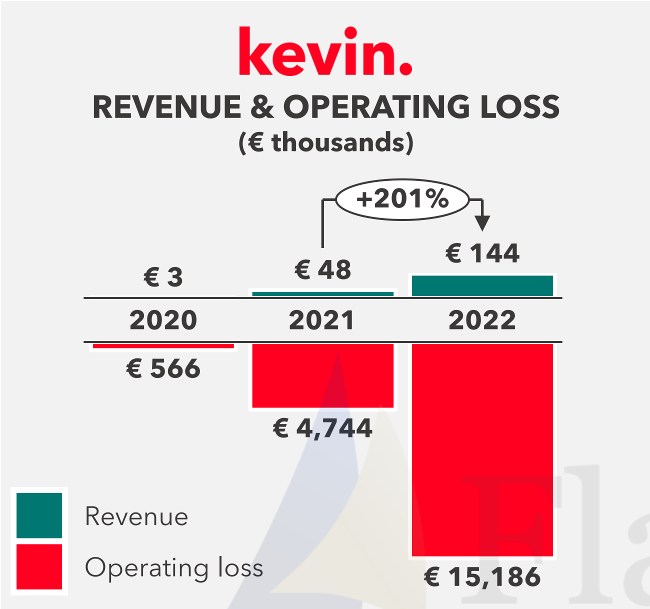
Notes: [1] This step is optional. If merchants have enabled this feature, users can easily check out with Apple Pay directly from the product page, avoiding the need to go to a separate checkout page; [2] Please note that kevin's checkout flow may vary by bank's security procedures, requiring customers to complete different steps for payment authentication
Sources: Company website, Flagship Advisory Partners market observations

Figure 3: Select Key Events
(non-exhaustive list of events)



Sources: Company website, Crunchbase, Flagship Advisory Partners market observations

Figure 4: Financials and Recent Key Developments



- In Sep '23, kevin opened a new office in Dubai to strategically enter the Middle Eastern market. However, **insufficient revenue generated hindered the geo expansion**.
- FTE count dropped from 113 to 22 between Jan '24 and Sep '24, following layoffs. The Lithuanian Labor Inspectorate received **62 employee complaints claiming up to two months of salaries**.
- In Jul '24, the **Central Bank of Lithuania blocked kevin from taking on new clients due to delays in submitting annual reports** and appointed a representative to oversee operations.
- The company started accumulating **social security tax debt** in April '24, **reaching €~440k in liabilities** by the time of kevin's bankruptcy.
- **Despite raising ~ $75 million** in funding over the past years, **kevin struggled to transform venture capital flows into a sustainable business model.**

Note: 2023 Financial Statements have not been published
Sources: Registrų Centras (Lithuanian's company register), Flagship Advisory Partners analysis

Figure 5: Flagship Perspectives and Key Learnings

kevin. KEY CHALLENGES

Checkout Flow

kevin's checkout flow highlights a limitation of the open banking model: multiple steps may deter users who prefer simpler card payments, negatively impacting conversion rates compared to the seamless experience of Apple Pay and Google Pay at POS. Additionally, while its 'Account Linking' feature streamlines e-commerce checkout, it lasts only 90 days and must be repeated for each merchant portal.

Margins & Economics

A2A payment schemes typically have lower margins than card schemes: achieving sufficient margins to compete with Visa and MasterCard is challenging. Merchants may save around 25 basis points on acquirer fees, but issuer-side economics still need validation.

Product Development

The product development cycle was relatively long: building the core product took about 3 years, requiring significant resources and costs.

Geo Expansion

Geographic expansion requires a carefully crafted strategy. While following customer trends can drive progress when aligned with the overall strategic vision, poor execution can waste valuable resources and efforts.

IMPLICATIONS

Adoption and Consumer Engagement

kevin's bankruptcy underscores the revenue model challenges of A2A payment systems, particularly the 'chicken or egg' dilemma in scaling consumer payment methods in physical environments. It illustrates the difficulties in achieving widespread adoption while resolving unmet market needs and ensuring strong merchant and consumer engagement with a straightforward payment experience.

Market Competition

Building an end-to-end payment system and driving adoption is challenging without large partners, especially in a physical POS environment. Success hinges on offering attractive margins and incentives for all players in the payment ecosystem.

A2A Success Factors

A2A holds strong potential in e-commerce, B2B, and sectors like subscriptions, high-risk, and high-value transactions. Key success factors to drive innovation and adoption are government incentives, bank coalitions, "open-access" networks, and simplified UX.

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