

by Anupam Majumdar and Elisabeth Magnor, 7 September 2021

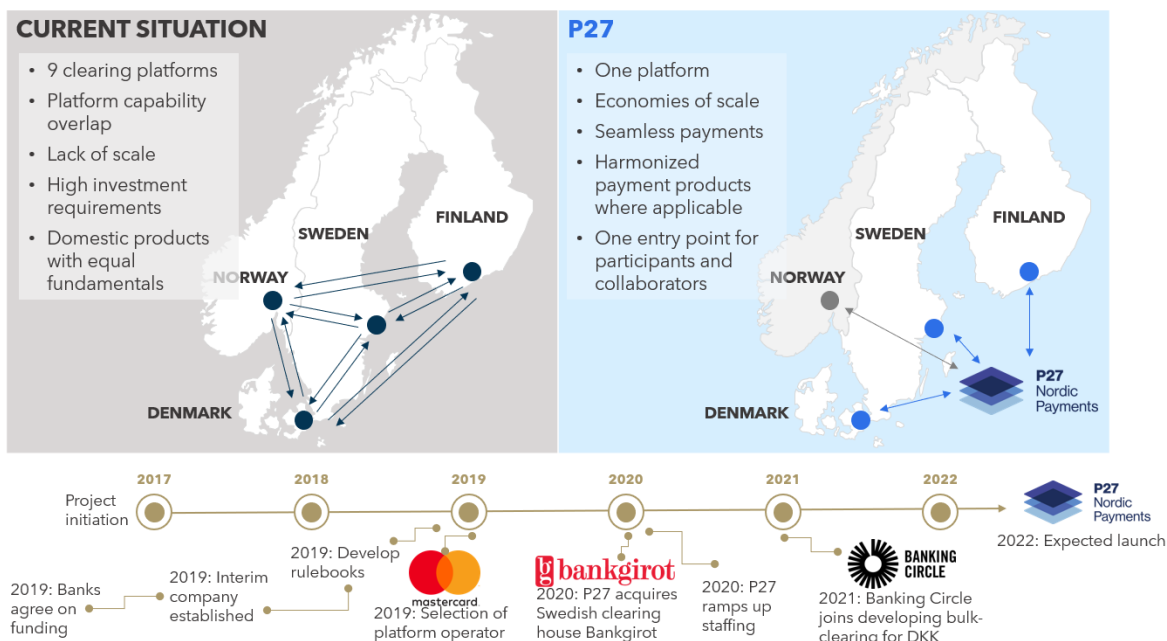
P27 Illustrates the Potential for Modern A2A Rails to Spur Fintech Innovation

Even payments and fintech experts often think of the Nordics as a single market with common consumer behavior, business demographics, and culture. While there are similarities, each Nordic market has a distinct payments infrastructure. The bank systems and networks are fragmented, built on domestic rules which make intra-Nordic cross-border transactions cumbersome. Nonetheless, this is set to change under P27. Named after the 27 million inhabitants in the region, P27 is an inter-bank initiative that will introduce a harmonized inter-bank pan-Nordic cross border account-to-account (A2A) payments infrastructure, making payments more efficient and cost effective for consumers and businesses. In this article, we further explore some of the opportunities for innovation on the back of P27, and why P27 illustrates the global potential for modern A2A rails to drive broad-based fintech innovation.

With A2A instant payments becoming hygiene factor in Europe (and increasingly globally), the true potential of P27 lies in empowering value-added services that banks and fintechs can offer to end users to enhance value propositions riding the P27 rails. The recently announced merger of MobilePay, Vipps and Pivo further illustrates the potential to drive innovation on real-time-payment rails across borders in the Nordics. We expect this combined mobile scheme to rapidly become the preferred means of payment for P2P, e-commerce, and eventually offline commerce.

There are nine interbank ACH clearing houses in the Nordics today, most of which have been operating for decades. P27 aims to replace these legacy clearing platforms with a new infrastructure powered by a modern tech stack, driving real-time, domestic, and cross-border payments in various currencies (see Figure 1). This means consumers and businesses will be able to transact with each other in real time across the region, without having to pay expensive cross border bank fees.

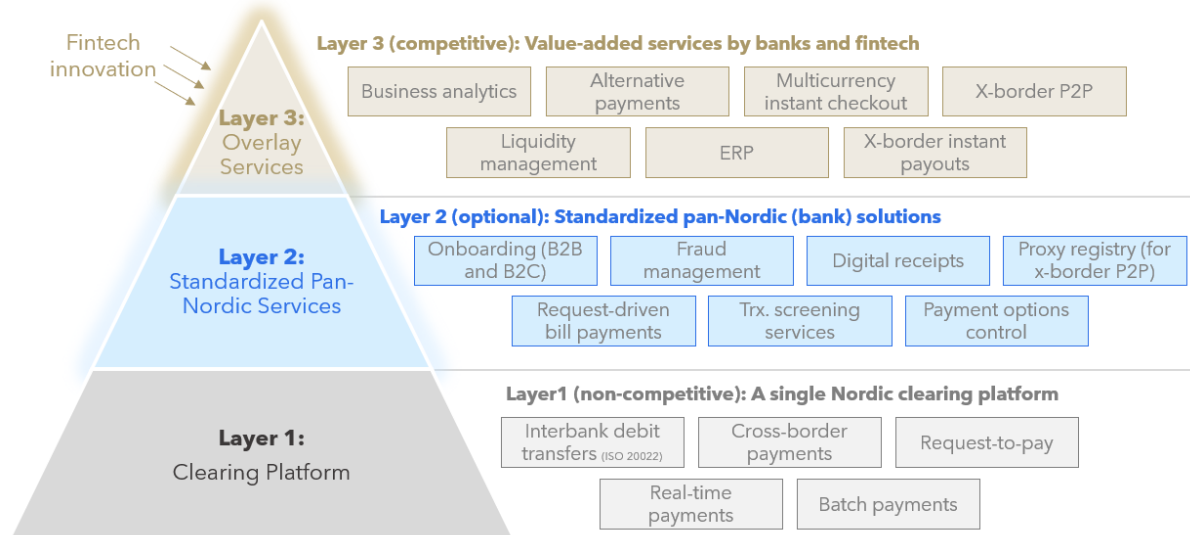
Figure 1: P27 as One Nordic Clearing Platform



Source: Danske Bank, P27, Flagship market observations

The P27 initiative envisions the development of a new payments infrastructure in three layers (see Figure 2). Today, the focus is on implementing the core backbone clearing infrastructure (Layer 1). We observe many fintech opportunities in layer 2 and (particularly) layer 3 services and expect fintechs to drive much of the end-user proposition innovation.

Figure 2: P27 Layers and Use Case Examples



Source: Nordea, P27, Flagship market observations



















P27 illustrates the global potential for modern and well-structured A2A rails to catalyze fintech innovation. Below we discuss a number of these A2A fintech

opportunities, which we also expect to arise in the coming years in the Nordics, as well as other cutting-end A2A markets.

1. Modern A2A infrastructure breaks down barriers to use case innovation

P27 is well positioned to build on deficiencies in existing payment use cases that are underserved by Nordic banks. P27 can enable new use cases for both consumers and businesses (see Figure 3) that widen the proposition in payments, but also adjacent categories such as data aggregation, invoicing, lending, and cash management services. Specialized fintechs should be able to ride the core P27 infrastructure to deliver superior end-user propositions.

Figure 3: A2A Innovation Use Cases

CONSUMER			
USE CASES	SEGMENT	CURRENT PAIN POINTS IN BANK PRODUCTS	FINTECH OPPT'Y
 P2P multi-FX transfers	C2C	<ul style="list-style-type: none"> No A2A x-border instant payments today, largely served by cards or remittance services Currently rely on SWIFT correspondent banking, deemed expensive, slow and inferior UX 	 HIGH
 Online shopping (A2A payments)	C2B	<ul style="list-style-type: none"> A2A broadly unable to match the user experience offered by cards Current mobile payment A2A methods not inter-operable A2A payments offered by banks struggle to achieve good UX (high conversion and security) No clear guidelines on managing fraud and chargeback risks 	 HIGH
 Bill payments with open invoice	C2B	<ul style="list-style-type: none"> Semi-digitized (still paper invoicing, which is costly) and poor UX Lack of flexibility in administering bill payments Legacy product that are difficult to amend 	 HIGH
 In-store shopping-A2A	C2B	<ul style="list-style-type: none"> Not generally used at POS Main substitute are card payments, which are generally more expensive 	 MEDIUM
BUSINESS			
USE CASES	SEGMENT	CURRENT PAIN POINTS IN BANK PRODUCTS	FINTECH OPPT'Y
 Recurring bill payments/request to pay services	B2C	<ul style="list-style-type: none"> Direct Debit sign-up deemed cumbersome Declined payments have limited info., difficult to reconcile Suboptimal customer service, lack of end-to-end transaction visibility Semi-digitized (still paper invoicing, which is costly) and inferior UX Lack of flexibility in administering changes 	 HIGH
 Gig payments (instant)	B2B	<ul style="list-style-type: none"> Payments can take several days until it reaches merchant account Merchants lack the sophisticated to disburse payouts to meet gig economy needs 	 HIGH
 Multi-bank aggregation for cash mgmt.	B2B	<ul style="list-style-type: none"> Lack of transparency into company liquidity and financials Disbursed information in multiple accounts (and potentially in multiple geos) Challenging to get a full overview of financial position in real time 	 HIGH
 Payroll (salary, pension)	B2C	<ul style="list-style-type: none"> Different messaging systems and multiple integrations Complex reconciliation Lack of flexibility in how payments are administered 	 MEDIUM
 B2B mass disbursements (e.g., supplier)	B2B	<ul style="list-style-type: none"> Bespoke integrations if business operates across several markets Cumbersome reconciliation processes and general lack of data Struggle with legacy file formats for payment initiations 	 HIGH

Source: Flagship market observations

- Modern A2A infrastructure allows broader community participation in infrastructure standards and development
 P27 Layer 2 services will likely encourage fintechs to shape the key enablers and middleware required to power front-end propositions. In Figure 4, we illustrate a few areas where we foresee collaboration opportunities between banks and fintech. For instance, fraud and KYC providers could leverage pan-Nordic data to screen users and leverage enterprise data to make smarter decisions across borders. Providers of sign-up, signing-in and digital signature services would reach a large new audience.

Figure 4: Potential Fintech Participation (select examples)



Source: Flagship market observations

- Modern A2A infrastructure empowers model payments, including A2A schemes, in e-commerce and POS-commerce
 Retail payments in the Nordics are still relatively card-centric today. Nordic consumers abandoned cash at POS long-ago and tend to lean on cards for x-border e-commerce. Mobile schemes such as Swish are rapidly gaining share in domestic e-commerce, but encounter limitations for x-border use cases and POS integrations across the region. P27 could strip down remaining barriers to using Nordic mobile schemes across use cases. This will enhance customer

payment options, reduce merchant cost of payment acceptance, and reward innovative merchant providers that embrace the new infrastructure potential.

4. India's UPI illustrates the potential for modern A2A infrastructure to drive broad-based fintech innovation

While being quite different from the Nordics in many ways, India's UPI (Unified Payments Infrastructure) illustrates the potential for open-banking innovation on well-crafted and modern A2A rails. As illustrated in Figure 5, since its introduction five years ago, the UPI rails rapidly displaced cards to become the #1 digital payments rails. Ultimately, the Indian government's infrastructure vision was key to driving this innovation.

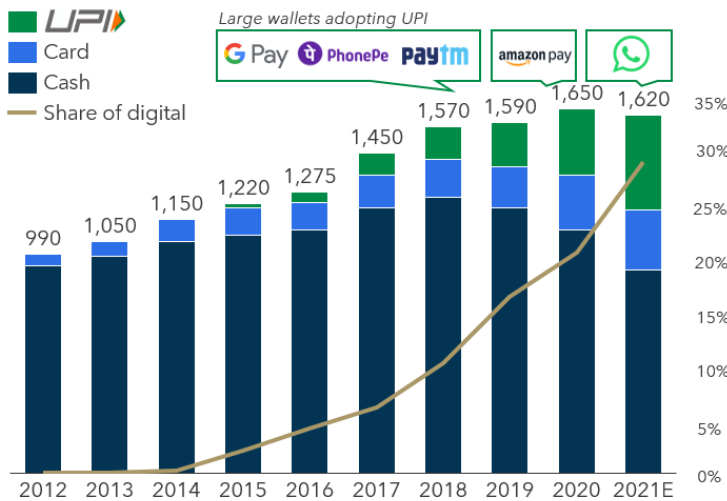
Figure 5: India – Unified Payments Interface



About Unified Payments Interface

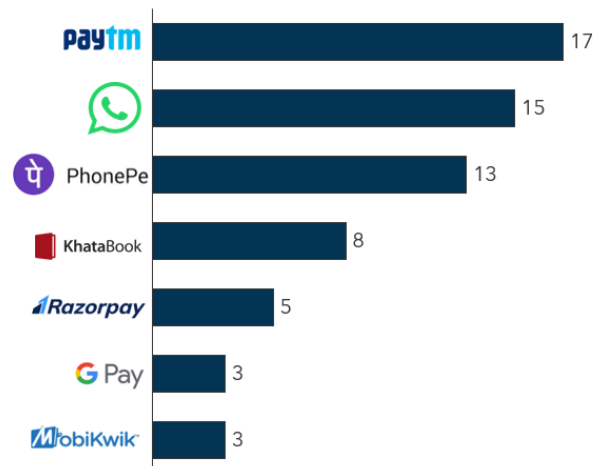
Launch	<ul style="list-style-type: none"> • 2016
Geo	<ul style="list-style-type: none"> • India (but also accepted at merchant locations in Singapore, Bhutan, Malaysia and UAE)
Background	<ul style="list-style-type: none"> • A real-time and instant payment platform, developed by NPCI (governed by the central bank) • Aggregates several bank accounts into a single mobile interface • Backed by 200+ banks • Offered through detailed Open API specifications, can be integrated with smart phones, merchant systems • Primary goal is to drive India towards becoming a digital economy
Prerequisites	<ul style="list-style-type: none"> • Smartphone (alternatively a digital ID number can be used for people who do not own a smartphone, authenticating via biometrics) • Bank account in a UPI member bank
Use Cases	<ul style="list-style-type: none"> • Peer-to-peer payments (send and request) • Business to consumer payments • Authorize payments • Bill payments and bill sharing
Active Users	<ul style="list-style-type: none"> • 100 million each month and growing rapidly • Adopted by
Key Success Factors	<ul style="list-style-type: none"> • Interoperability feature with wallets (PhonePe, Gpay etc.) • Common technical standards • Backed by India's major banks

Volume by Payment Type (in \$ bil., share of digital payments in %)



Source: Flagship market observations

Merchants on Mobile Wallets (in mil., as of Q1, 2021)



We expect P27 to catapult the Nordics to the forefront of open banking in Europe. Three years after the introduction of PSD2 and open banking, the uptake of A2A payment services through open banking rails remains modest. Part of this slowness is due to the fragmented nature of the open banking technical standards, and lack of a unified infrastructure across countries. P27 has the potential to alter these limitations in the Nordics by powering a more standardized infrastructure. This in turn will spur open-banking value proposition development and ultimately usage. We anticipate P27 to drive the Nordics to the front of open-banking innovation and usage in Europe in the coming years.

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