3 December 2014

Multichannel banking and overcapacity: cost saving opportunity or competitive threat?

Key takeaways

In this report, we discuss the ongoing shift in retail distribution from physical networks to alternative channels and the resulting overcapacity of branch networks in Europe.

- While we find that there are significant cost savings potentially associated with branch network reduction, we equally acknowledge the potential threat from asset margin erosion due to product commoditization and the potential for new powerful competitors entering the banking scene.
- In particular Scope believes that the shift to multichannel in bank product distribution is accelerating, driven by mobile banking adoption. The reason for this is in our view a steeper adoption curve of smartphone and mobile broadband compared to internet penetration in the past decade. Specifically, we note that peer-to-peer mobile payments solutions are developing at a very fast pace, with few exceptions. In early adopting countries, the data seem to point to the possibility of near-full penetration within five years.
- Online banking, on the other hand, still shows wide variations in the adoption rates in European countries, with countries in Northern Europe having reached almost full penetration while Southern European customers are still lagging behind. However, we expect this gap to narrow in coming years driven by better availability of internet access as well as by demographic trends.
- The spread of mobile banking, together with a gradual catch-up in online penetration in Southern Europe, will likely lead to a progressive convergence of distribution models across countries in Europe. While the convergence in distribution models may take longer due to the explicit and implicit costs of shrinking physical networks (including reputational and social costs), we believe the efficiency gains available to Southern European banks should be very material, although partly offset by the required investments to develop an effective multi-channel offering.
- On the other hand, we also believe that the inevitable shift to alternative channels will remove a crucial differentiating factor and barrier to entry into retail banking: proximity. In the past, branch proximity has been an important driver for customer acquisition and retention. Going forward, customers may increasingly pick their banking providers based on other considerations, including the quality and breadth of online and mobile services.
- For more standardized products, margins will likely shrink as customers become increasingly price-driven, while new powerful competitors may enter the competitive arena. This may mean that over the longer term the main beneficiaries of this shift will be the bank customers, and not necessarily the banks.

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Rating implications

As we show in this report, the ongoing change in the way customers use banking services has the potential to severely impact banks' business models. From a credit risk perspective, this shift may not pose an immediate threat, and in fact may be a positive factor supporting the profitability of European banks in the coming years. However the financial, reputational and social costs of downsizing may well end up being an unwelcome element of cost rigidity in a rapidly changing environment, exposing the incumbents' flanks to the competition of leaner players, including the ones coming from other industries. In this context, Scope will monitor significant developments in the adoption of the new technologies by bank customers as well as the banks' response to shifts in customer behavior. We will generally look favorably at investments into IT infrastructures that allow significant cost savings in terms of customer acquisition and product distribution, and that could have an impact on our long term ratings to the extent that they improve banks financial performance. On the other hand, we will also observe the competitive behavior of new players in the markets where the rated banks operate, and ratings could be negatively impacted if new competition leads to significant market share losses or margin erosion.

The shift from physical distribution to multichannel banking: from promise to reality

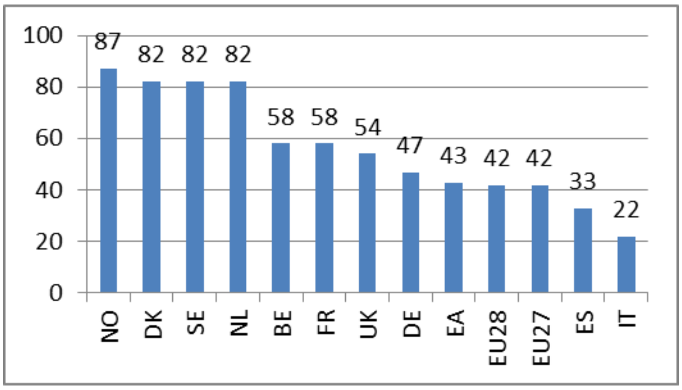
In Scope's view, one of the lasting effects of the present crisis is a shift in bank management focus from growth to profitability. This refocussing reflects the acknowledgment that, given the lower available risk-adjusted industry returns and the higher capital consumption associated with the banking business, not all growth is necessarily value creating and in fact segments of the banking industry may be value destroying. With the regulatory drive towards lower leverage and limited revenue growth potential in a near-zero interest rate environment, European retail banks have few levers left to boost their profitability. For banks in Southern Europe, a decline in the cost of risk is one such lever, but this depends much on the macro environment rather than being in the hands of bank management teams.

One lever available to management is the rethinking of distribution strategy and the associated efficiency improvements that are possible. In most European countries (but not only), bank customers have been increasingly embracing alternative distribution channels, including online, mobile and tablet banking, and reducing the use of bank branches to fulfil their everyday banking needs.

Online Banking: Southern Europe to bridge the gap in adoption rate

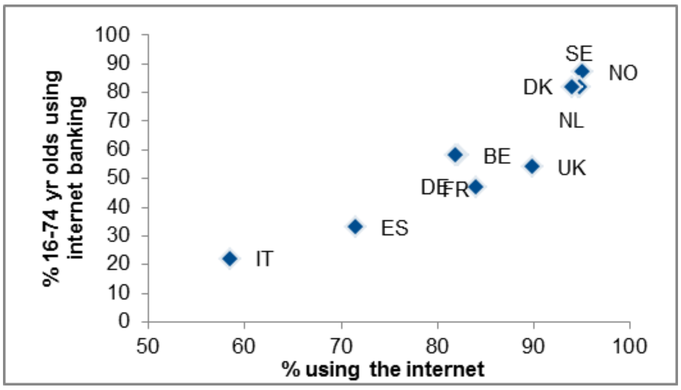
The shift from in-branch transactions to online banking is ongoing. The advantages of online banking to customers, ranging from around-the-clock access to banking service and information to reduced queuing time for basic transactions, are undisputable, in Scope's view. However, the data on internet banking usage still shows significant dispersion amongst countries (see Chart 1.a), with over 80% of bank customers in Nordic countries and Netherlands actively using the internet for banking, while less than a third of the bank customer population does so in Italy and Spain. In France, Germany, Belgium as well as the UK adoption rates sit around 50%, while the average for the EU is 43%. While other soft factors may partly explain the differences (cultural differences, degree of trust in institutions, black market activities driving a preference for cash), we note the correlation between the usage and availability of internet access in general and the take-up of internet banking by bank customers (see Chart 1.b). In other words, we believe that while other factors may play a role, the main driver of take-up of internet banking is in fact the use of the internet itself.

Chart 1.a: Online banking adoption rates in selected European countries (%), 2013



Source: Scope Ratings, Eurostat

Chart 1.b: Internet penetration is the main driver for online banking adoption

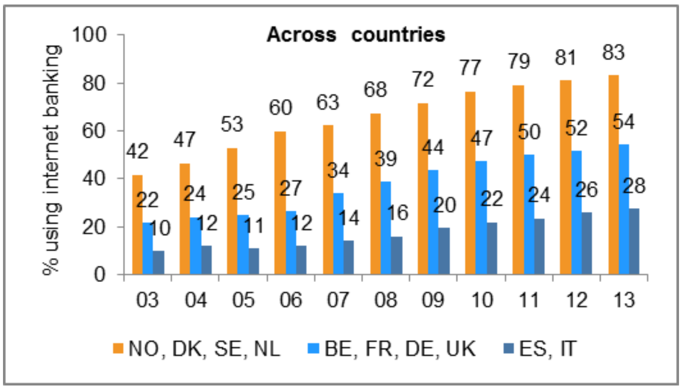


Source: Scope Ratings, Eurostat

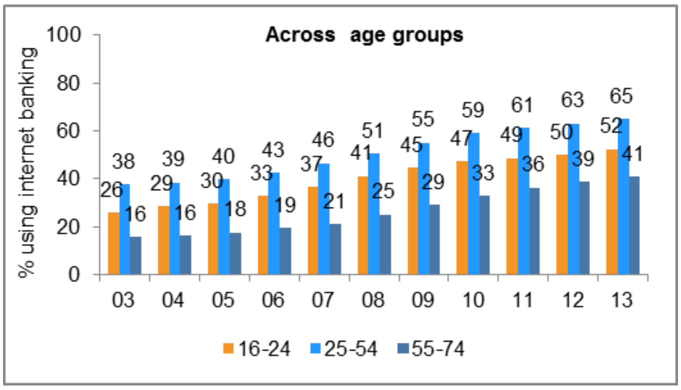
Within the different countries, and consistently across the countries analyzed, age seems to be a key differentiating factor for adoption rates, with older people more reluctant to use online banking services (see Chart 2). We believe this factor is largely a legacy of the "non-digital" generation and that the adoption rates will converge (towards full adoption) over time. In other words, we do not expect current online banking users to stop using it as they age.

Hence, we would expect the take-up of online banking to continue to increase across the board, driven by the demographic convergence of adoption rates but also by increased and better access to the internet. At the same time, we expect adoption rates across countries to also converge, with laggards, including Italy and Spain, bridging most of the gap compared to Nordic countries. This is not something that could happen at some unidentified point in the future: In the past decade, the percentage of bank customers using internet banking in Italy and Spain almost trebled (from 10% to 28%). If the current pace is maintained, the adoption rate will be above 80% within 10 years.

Chart 2: Online banking usage is on the rise



Source: Scope Ratings, Eurostat



Source: Scope Ratings, Eurostat

Mobile Banking - "the next big thing"

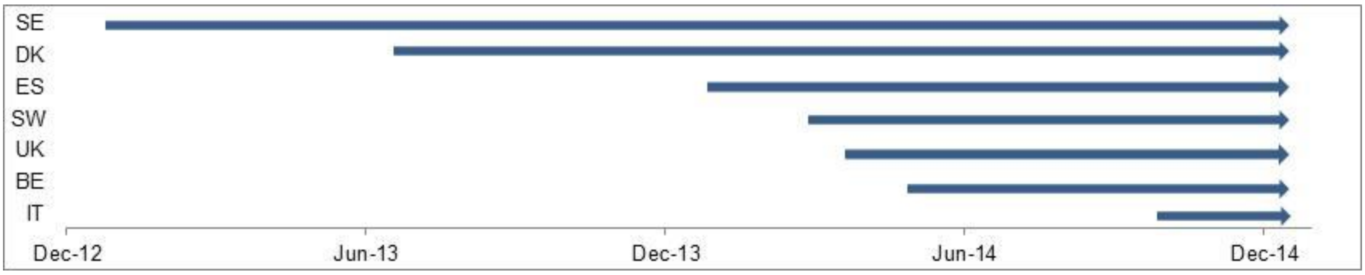
Mobile banking is relatively new as it developed in conjunction with the increasing spread of smartphones, which has really taken off in the past few years. The first banking apps typically offered very basic service to current account holders, with limited transactional capabilities. More recently, the mobile banking offering has grown more complex, with many apps offering customers the possibility not only to check balances, but also to make transfers, payments investments, and more. Amongst the latest developments, we highlight the emergence of near field communication (NFC)-based payments and of peer-to-peer (P2P) mobile payments.

For NFC payments the user needs an NFC enabled smartphone with which to interact with the vendors' payment system, in the same way as a contactless credit card or an Oyster card works for underground travel in London, for example.

P2P Mobile-based payment systems, which are now being launched across Europe, seem to offer a very convenient alternative to both cash and online banking, especially for small peer-to-peer transactions. While mobile apps are quite common in the European Union, peer-to-peer mobile-based payment applications are a more recent development. To our knowledge, P2P solutions are widely available to bank customers in Sweden (SWISH) and Denmark (MobilePay and SWIPP), and have only been launched this year in the UK, Switzerland, Italy, Spain and Belgium (See Appendix 1 for an overview of the Mobile P2P scene in Europe).

The **SWISH** system was introduced in Sweden in December 2012 and is backed by the major Swedish banks. About six months later, in May 2013, Danske Bank (rated A-, stable outlook) launched its own domestic version of P2P Mobile payment solution in Denmark – **MobilePay** – which can be used by any Danish bank customer, provided they have a Visa/MasterCard credit card or a debit card and can also be used for payments in shops and online. In the UK, **PayM**, a system wide solution for P2P payments, was launched in April 2014. After registering their mobile number with their bank, customers can use their existing banking app to send payments to any mobile number which is registered and which has already opted in for the service.

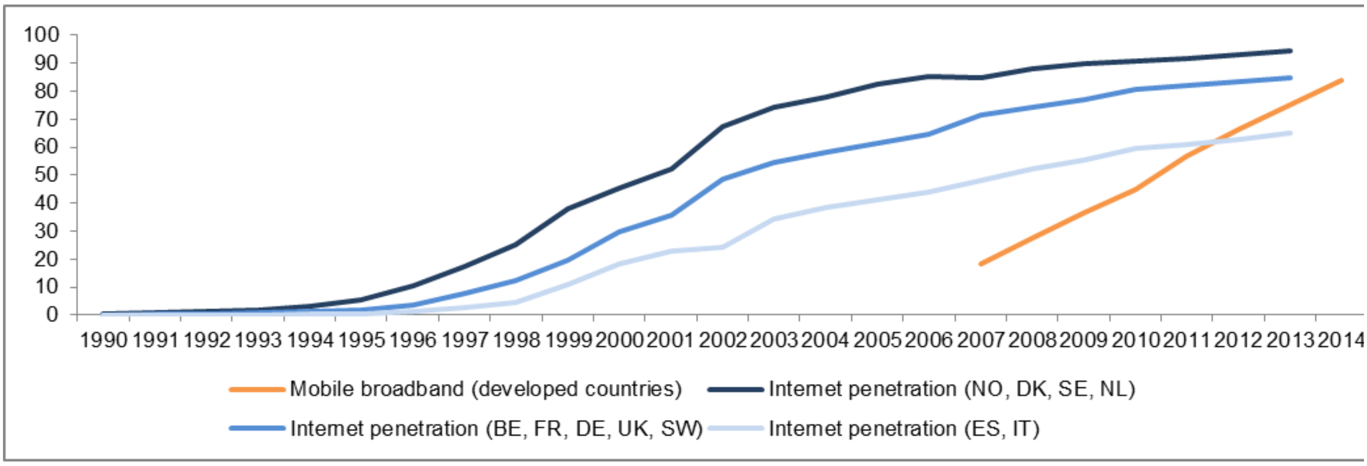
Chart 3: Peer-to-peer Mobile banking adoption timeline



Source: Scope Ratings, Company data, European Payments Council, UK Payments Council, SIA

While the coming of age of internet banking in Europe took more than a decade, since the first seminal attempts in the 90s, we note that mobile banking is developing a lot faster, possibly reaching near-full penetration within five years. This expectation is based on the observation that the key technological enablers for the take-off of mobile banking (smartphones and mobile broadband) have had a much steeper adoption curve compared to the initial development of the internet (see below).

Chart 4: Mobile banking will benefit from a much steeper adoption curve

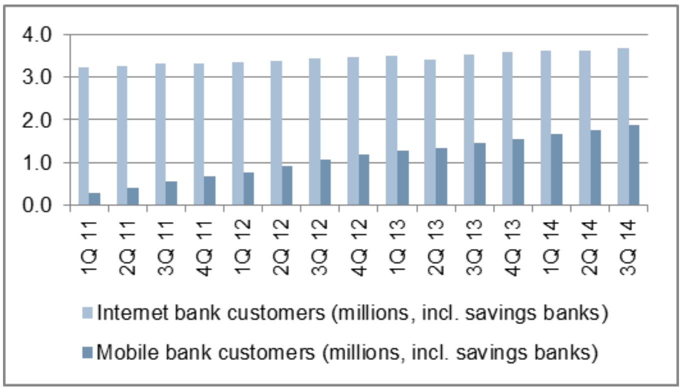


Source: Scope Ratings, Eurostat, International Telecommunication Union

Early indications on the penetration of mobile banking seem to confirm this. While comparable aggregate statistics of take-up are not yet available, several Nordic banks have been individually reporting a very fast take-up among their customers.

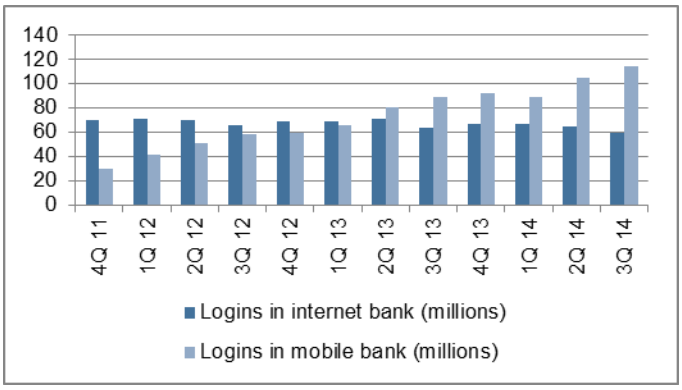
For example, we have looked at data on banking channel usage at the retail division of Swedbank (rated A-, stable outlook). As shown in Charts 5.a and 5.b, mobile banking is quickly catching up with internet banking. Since the beginning of 2011, mobile bank users have grown six fold, while logins into mobile banking have already outgrown internet banking logins and are still growing by 30% on an annual basis. Given Swedbank's leading position in Sweden and this country's strong leadership in the adoption of new banking technologies, we believe these developments are representative of the trends that could materialize elsewhere in Europe over the coming years.

Chart 5.a: Swedbank: number of mobile bank customers is quickly increasing



Source: Scope Ratings, Swedbank

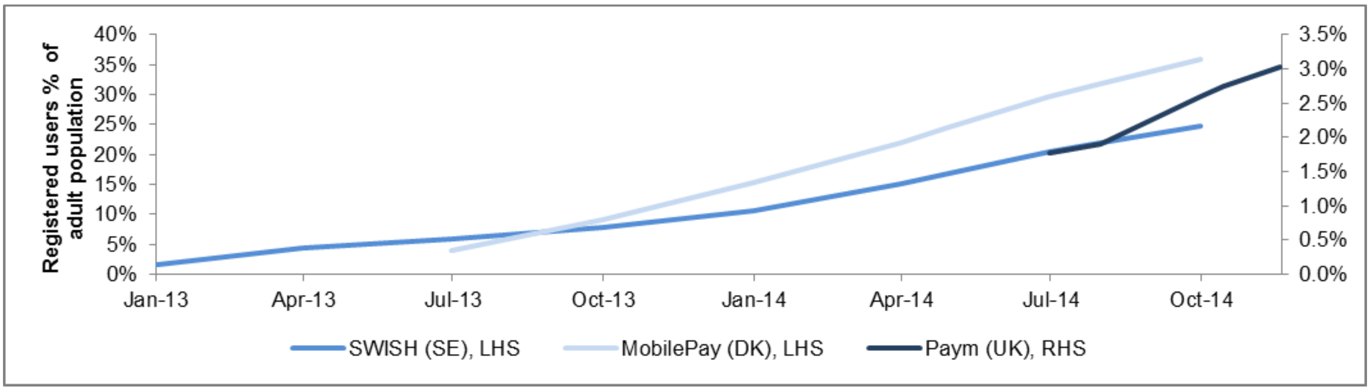
Chart 5.b: Swedbank: number of mobile bank login has already overtaken Internet banking



Source: Scope Ratings, Swedbank

Data from Danske Bank shows a similar catch-up speed in Denmark, with the number of mobile banking customers growing 28% y-o-y and now representing more than half of the total e-Banking of Danske. Similarly, data on MobilePay adoption (the Danish version of Mobile peer-to-peer payments) shows that since its launch in May 2013 already two million people (on a population of 5.5 million in 2013) have downloaded the app. In the UK, PayM was launched in April 2014 and reached one million registered users by July.

Chart 6: Early data on adoption shows fast take-up of peer-to-peer mobile banking in Sweden, Denmark and the UK.



Source: Scope Ratings, Swedbank, Danske Bank, UK Payments Council

To sum up, Scope believes that the adoption of mobile banking solutions will be much faster compared with the adoption of internet banking. Mobile P2P banking is one example, but we believe that other products, like NFC payments, e-wallets, peer-to-peer lending, online trading will similarly benefit by the rapid spread of mobile computing capacity and internet access.

From physical networks to multichannel: cost saving opportunity or competitive threat?

As the utilization of alternative distribution channels increases, it is in our view natural for physical branch networks to change their function. Indeed, while territorial coverage and proximity have historically been key competitive factors for European retail banks, multichannel distribution is gradually, but inevitably, modifying this reality. Over time, not only a majority of basic transactions will be conducted through direct channels, but even for more complex ones we expect an increased portion of the process to be dealt with remotely, hence limiting the need for physical interaction with the branch. As an example, as recently as October 2014 Lloyds (rated A, stable outlook) held a strategic update presentation in which it identified the digital transformation of the bank as an ongoing business priority and hinted at the possibility to meeting customer needs for mortgages digitally, as well as transforming end-to-end customer journeys for buying a home or setting up a business account by increasing the portion of the process dealt with online, with the aim of improving the customers' experience and at the same time reduce operating costs.

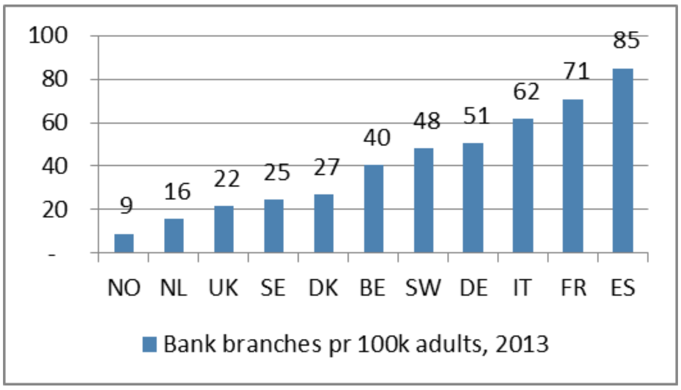
Table 1: Lloyds' strategic update shows that banks expect digital channels usage to go beyond checking balances and making simple payments

% met through digital channels	2014	2017e	
Simple Needs	40	50-70	e.g. customer account servicing, international payments
Complex Needs	c. 2	10-15	e.g. Mortgages
Deepening	54	60-70	e.g. ISA top-ups, mortgage transfers, commercial payments
Servicing	85	c.90	

Source: Scope Ratings, Lloyds Strategic presentation October 2014

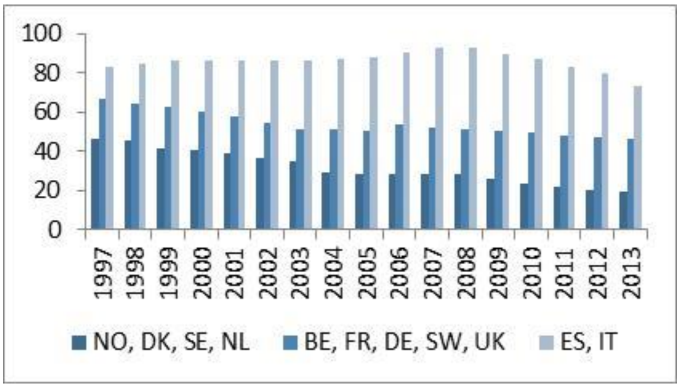
Against such a backdrop, it would not be unreasonable to expect branch networks to shrink to reflect the lower need for physical interaction with customers. Indeed, since the late 90s there has already been a significant reduction in the number of European bank branches, but this was concentrated in the countries where internet penetration allowed a more rapid shift to direct channels, while it was more muted in Southern Europe. More recently, and in particular since 2008, a decline in bank branches in Italy and especially in Spain was driven primarily by the sector consolidation that followed the financial crisis. At present, the difference in branch density in the various European countries remains remarkable, as shown in Chart 7a.

Chart 7.a: Branches/population, 2013



Source: Scope Ratings, IMF, ECB
Note. 2012 data for UK.

Chart 7.b: Branches/population, historical trends



Source: Scope Ratings, IMF, ECB

However, we would expect that as penetration of online banking in Southern countries deepens and mobile banking reduces the need for physical interaction, banks in Southern Europe would continue to work towards a leaner distribution network as a key lever for restoring profitability in the wake of the financial crisis. Scope believes that as multichannel banking continues to make inroads also in peripheral Europe, significant cost savings could be achieved by banks by reducing their reliance on physical distribution networks.

Scope believes there is significant room for efficiency gains in distribution in Southern Europe...

In order to gain insight into the different revenue and cost structures, we have compared the data from our rated banks in Italy and Spain (the laggards in the shift to multi-channel) to data from banks in Sweden, Denmark and Norway (which have embraced the shift to multichannel banking earlier on).

In order to obtain more meaningful comparisons, we have tried to isolate – to the extent possible – the data for the retail and commercial franchises of the banks, using publicly available divisional information: for Intesa (rated BBB+, positive outlook), we use Banca dei Territori data, the Italian retail division; for Unicredit (BBB, positive outlook) we use the Italian commercial bank data; for BBVA (A, stable outlook) and Santander (A, stable outlook), we use data for their respective Spanish units, excluding real estate run-off portfolios. In Sweden, we refer the retail division of Nordea (A+, stable outlook) and to the Swedish Banking division of Swedbank. For Danske Bank and DNB (A+, stable outlook), we use the personal and business banking units, excluding large corporates. All data refers to 2013 and has been translated in Euros.

The data, summarized in Table 2, shows material differences amongst the banks, which may partly be related with the different way the banks report their retail and commercial banking segments. However, the data clearly shows clustering of most metrics within the two groups.

Table 2: Comparative analysis of the domestic retail divisions shows significant opportunities for efficiency gains at Santander, BBVA, Unicredit and Intesa

EUR mn	Italy		Spain		Denmark	Norway	Sweden	
	Intesa	Unicredit	BBVA	Santander	Danske	DNB	Nordea	Swedbank
Revenues	11,134	8,687	6,095	7,020	3,866	3,011	5,815	2,454
Costs	5,282	4,773	3,014	3,769	2,370	1,484	3,155	1,099
Customer Loans	209,626	182,448	173,047	159,752	192,771	104,152	224,000	105,897
Branches	4,611	4,171	3,230	4,067	354	148	824	305
Employees	48,446	38,753	28,770	27,406	10,703	4,004	17,323	5,004
Revenue/branch (EUR '000)	2,415	2,083	1,887	1,726	10,921	20,347	7,057	8,047
Cost/branch (EUR '000)	1,146	1,144	933	927	6,694	10,025	3,829	3,604
PPI/branch (EUR '000)	1,269	938	954	799	4,227	10,323	3,228	4,443
Loan/branch (EUR '000)	45,462	43,742	53,575	39,280	544,551	703,728	271,845	347,204
Employee/branch	11	9	9	7	30	27	21	16
Revenue/employee (EUR '000)	230	224	212	256	361	752	336	490
Cost/employee (EUR '000)	109	123	105	138	221	371	182	220
PPI/employee (EUR'000)	121	101	107	119	140	382	154	271
Loan/employee (EUR '000)	4,327	4,708	6,015	5,829	18,011	26,012	12,931	21,163

Source: Companies, Scope Ratings

To demonstrate the potential for restructuring the distribution networks in Italy and Spain, we have aggregated the data on the above banks' domestic personal and commercial banking divisions into two groups. We then compared the resulting metrics for our artificial "Southern bank" with the corresponding "Northern bank". Our fictional "Southern bank", which combines the domestic retail businesses of BBVA, Santander, Unicredit and Intesa, comprises a total of over 16,000 branches in Italy and Spain at the end of 2013, as well as over 143,000 banking employees. Our synthetic "Northern Bank" is made up out of the domestic retail networks of Nordea, Swedbank, DNB and Danske. In terms of branches, it comprises circa 1,630 outlets and would employ about 37,000 people.

Our bottom up analysis shows that there are significant efficiency improvements available to Southern European banks as customers increasingly take-up multichannel banking and in particular, significant productivity upside from redesigning the physical distribution networks (as shown in Table 3).

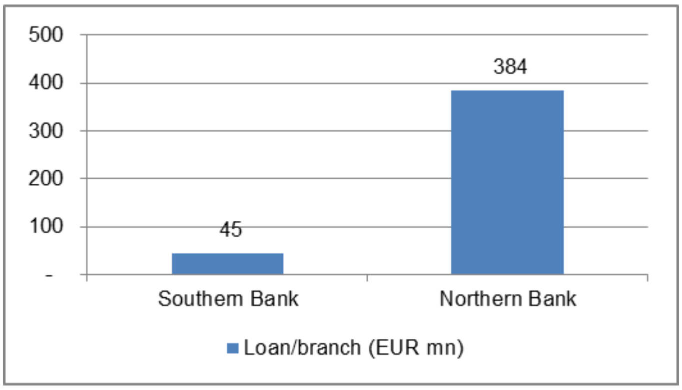
Table 3: There is a significant productivity gap between Southern and Northern European bank branches

	Southern Bank	Northern Bank
Revenues (EUR mn)	32,936	15,147
Costs (EUR mn)	16,838	8,107
Customer Loans (EUR mn)	724,873	626,820
Branches	16,079	1,631
Employees	143,375	37,034
Revenue/branch (EUR mn)	2.0	9.3
Cost/branch (EUR mn)	1.0	5.0
PPI/branch (EUR mn)	1.0	4.3
Loan/branch (EUR mn)	45	384
Employee/branch	9	23
Revenue/employee (EUR '000)	230	409
Cost/employee (EUR '000)	117	219
PPI/employee (EUR'000)	112	190
Customer loans/employee (EUR '000)	5,056	16,926

Source: Companies, Scope Ratings

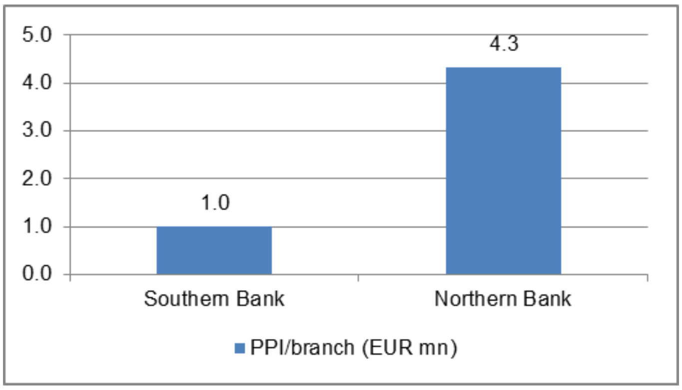
To start with, we note that the average branch size in Southern Europe is smaller, typically less than 10 employees, while the average bank outlet in the Nordic countries has more than 20 employees. Even adjusting for the difference in average branch size, the difference in the asset volumes managed by each branch in the Nordic region compared to Southern Europe is startling. According to our analysis, the average branch in Italy and Spain has a loan portfolio of c. EUR 45mn, which compares with EUR 385mn on average in the Nordic countries. Part of this difference can be traced to the different asset mix of Nordic banks (i.e. higher incidence of lower margin products, such as mortgages) but material differences persist when looking at revenue per branch and pre-provision income per branch as well as when looking at the same metrics adjusted by the average branch size.

Chart 8.a: Nordic branches manage almost nine times as many assets as branches in Southern Europe…



Source: Scope Ratings, company data

Chart 8.b: …and produce more than four times the pre-provision income, on average



Source: Scope Ratings, company data

As shown in Chart 8b, the average pre-provision income per branch in the Nordic region is over EUR 4mn, while in Southern Europe this is EUR 1mn. Significant differences are also observed in revenue per employee, pre-provision income per employee and loan per employee metrics for the two groups.

In our view these differences in the productivity levels of Nordic branches and employees are, at least partly, due to the higher adoption rate of new technologies by customers, which allows significant cost savings by removing the need for physical interaction.

The recent financial crisis which has especially affected Southern European countries has already resulted in a significant refocus on cost efficiency, which is reflected by a decline in branch numbers in Italy and Spain. Going forward, this trend is set to continue, and several banks have already communicated to the markets their intention to increase investments into online and mobile channels while at the same time de-emphasizing physical distribution.

Last March, Unicredit, presenting the 2013-2018 Strategic Plan, announced the intent to cut the number of branches by 17% in the period and, contextually, reduce the number of employees by 8,500 by 2018, of which 5,700 in Italy. According to the presentation, the commercial banking networks in Italy, Austria and Germany will see c.12% of the current workforce leaving by 2018. Intesa as well aims to reduce its retail network by closing 800 branches by 2017 and redeploying 4,500 staff on different initiatives, according to their latest business plan. Both banks have cited the shift to multichannel banking as an important driver for the lower need for physical distribution.

…but reducing distribution costs may not be as straightforward in reality as it is on paper

While the opportunity is there, we are aware that successfully executing a shift in the way banking services are offered is not as easy as it may look on paper.

To start with, developing a competitive multi-channel offer requires a significant investment, from IT to marketing to analytics. To give an idea of the numbers, we can refer again to the recent business plans presented by Intesa and Unicredit, which include, over the plan horizons, IT investments to transform bank retail distribution. In the case of Unicredit, EUR 1bn of “innovation” investments will support amongst other things the integration of physical and digital networks, the development of “Big Data” analytics, the enabling of remote sales channels and process digitalization. In the case of Intesa, the bank has included in the business plan EUR 2bn of investments in ICT to boost the adoption of multichannel by customers (Intesa targets an increase from 4.4mn multichannel customers in 2013 to 7.9mn in 2017).

Additionally, most of the cost benefits from shrinking retail networks come from the potential to reduce headcount. While for a large bank it is possible to partly re-allocate some employees to different functions within the bank, the reality is that many of the old banking jobs are simply becoming obsolete. In theory, banks could simply reduce the excess workforce. In practice, reducing headcount can have significant costs, both in financial terms as well as in terms of reputation and social costs. Banks typically face harsh criticism when announcing layoffs, and in some countries are effectively constrained by employment protection laws that limit their flexibility to adjust headcount when needed. For this reason, most banks tend to rely on natural attrition (i.e. not replacing retiring or leaving employees) to reduce their personnel costs, a solution that may further slow down the positive effects of digitalization on their operating efficiency. In vulnerable countries, where the financial crisis has already blemished banks’ reputation and unemployment rates are high, the reputational cost of layoffs is even higher.

The shift to digital multichannel banking should also raise competitive pressures

"They all want to eat our lunch" – Jamie Dimon, CEO of J.P. Morgan,

So far, we have focused on the potential for higher efficiency in retail distribution as bank customers increasingly move to alternative channels. However, we would go beyond that and argue that the digitalization of banking carries a significant potential threat to established banks. Historically, branch proximity (and the personal relationship with the local banker) has been an important differentiating competitive factor for lenders. Going forward, the digitalization of banking services will likely lead to a commoditization of the product and hence to more price-based competition. As internet and mobile banking penetration increases, the customer can quickly access and compare information on a broad range of products but also from a wide range of providers, comparing the online offers and picking the cheapest services. This means the old relationship banking for retail clients and most likely also for small companies may change to a pure banking service provider driven by price (and quality of the virtual channel). While this is a positive development for bank customers, it will likely put further pressure on bank margins, especially on more standardized products like mortgages, current account and savings.

Additionally, as mass-market banking moves from physical to digital, there will be fewer constraints to cross-border competition and even to the emergence of new players from different industries wanting to venture into banking services. Indeed, Scope believes that the investment needed to acquire or develop a critical mass in distribution has acted in the past as a powerful barrier to entry to new competitors. The traditional costs associated with the banking business – opening branches, employing highly paid and well trained staff, setting up back office and control teams across products and regions, gathering statistical data for the assessment of credit risk - are all decreasing through the adoption of multichannel banking. Moreover, while the cost of developing an integrated IT infrastructure ex-novo may be declining, existing players are somewhat burdened with legacy system as well as legacy employees which may not be promptly "skill able" to the needs of modernized banking.

As an example, existing technology companies with deep access to a new generation of customers operating mainly through smartphones seem to have shown an interest into entering the banking world. While not directly operating as banks yet, these companies are taking plenty of adjacent space. Companies with significant brand equity and Big Data capabilities, like Apple, eBay and Google, have already developed and launched payments solutions (Apple Pay, Paypal and Wallet respectively) and other powerful players may be entering the space soon. In other areas, peer-to-peer lending companies (e.g. Zopa or Funding Circle in the UK) offer an alternative to the traditional banks for small loans. By cutting out the bank's heavier cost structure, these companies allow savers to get more remuneration for their money, and borrowers to access cheaper credit, in what is a pure intermediation model. While these attempts are not yet sizeable enough to represent a material threat to the banks' bread and butter business of collecting retail funds and lending them on, they show that the model can actually be attractive for customers, and could become a more immediate threat if a big technology player were to enter the space and deploy more significant resources to such a business.

Banks seem to be generally aware of the threat, and are reacting by investing directly in new technologies, co-investing with technology and communication firms, buying stakes in banking tech start-ups through their private equity investment arms or entering commercial partnerships with the new competitors.

Appendix: a survey of the latest trends in mobile banking in Europe: P2P and NFC payments

Given the relative novelty of P2P payment system, we have decided to include a quick overview of the technologies we have come across while researching for this report. What follows is not an exhaustive list, and Scope expects the competitive arena of P2P payments to continue to evolve over the coming months and years.

According to our analysis, most of the P2P payment technologies have been rolled out in the past two years, with the Swedish system SWISH being the first one in December 2012.

SWISH was introduced in Sweden December 2012. It is backed by the major Swedish banks, including Handelsbanken, Nordea, SEB, Swedbank, Lansforsakringar Bank as well as a number of other Swedish banks and foreign banks, among which Danske Bank.

Bank customers can register for the service with their bank and pair their account number with their mobile number. Then, through the SWISH app, they are able to instantly pay other individuals (and, since the summer of 2014, businesses) simply through their mobile number.

About six months later, in May 2013, Danske Bank launched its own domestic version of P2P Mobile payment solution in Denmark - **MobilePay**. It can be used not only by customers of Danske Bank but by customers of other Danish banks, provided they have a Visa/MasterCard credit card or a Dankort (debit card). Through the app, customers can pay any mobile number up to a daily limit of DKK 1500, while there is no limit to payments in shops or online. Payments go through the debit card system. **Swipp** is the rival solution of the rest of Danish banks; it can be used by customers of all Danish banks except for Danske (and a few very small banks). Users link their mobile number to their bank account and can send and receive payments from within their bank's app. There is a daily limit of DKK 10,000. There is no registration data, since all customers of the banks in question are automatically signed up and can use the service without any further action.

At the beginning of 2014, BBVA launched **Wizzo** in Spain, a P2P mobile payment app with several additional functionalities, including the possibility to withdraw cash at an ATM machine without a card or the possibility for contactless payments (upon receipt of a Wizzo sticker). The service is open to non-BBVA customers. Competitors Santander and Caixabank partnered with Telefonica to launch **Yaap** in April, an umbrella brand for a shopping app as well as a P2P money transfer app, which allows customers to transfer money trough telephone numbers but also via Facebook or Twitter contacts, provided recipients are registered with Yaap.

In the UK, **PayM**, a system wide solution for P2P payments, was launched in April 2014. After registering their mobile number with their bank, customers can use their existing banking app to send payments to any mobile number which is registered (up to a daily limit of GBP250). PayM is available to customers of Bank of Scotland, Barclays, Cumberland B/S, Danske Bank, First Direct, Halifax, HSBC, Lloyds Bank, Santander, TSB, Clydesdale Bank and Yorkshire Bank and several other banks are expected to join the system in 2015.

Bancontact, the solution that was introduced in Belgium in May 2014, is slightly different. It is based on the payee generating a QR code (a sort of "Mobile invoice" of up to EUR 250) which then gets scanned by the payer's phone. While probably less intuitive than using a mobile number, Bancontact is SEPA compliant and can be also used to pay at restaurant and shops. It is backed by the major banks operating in Belgium including KBC, ING België, Belfius, BNP Paribas Fortis, CBC Banque and Deutsche Bank. A similar system, called **QR Zahlung,** exists in Switzerland, and is accessible to Credit Suisse customers.

A P2P Mobile solution, **Jiffy**, was launched in Italy in October 2014. Users can register their mobile number at a participating bank, which then links it to the customer's IBAN code. Within their banking app users can then send payments to their contact, provided they have activated the service. Jiffy was developed by SIA – "Societa' Interbancaria per l'automazione", today controlled by the "Fondo Strategico Italiano" but also backed by the major banks in the country, including Intesa and Unicredit. After a successful test in Bergamo, UBI Banca has rolled the system into their existing mobile banking app. The service is also SEPA-compliant.

To our knowledge, there is no established P2P payment platform in Germany or France although several solutions exist that may affirm themselves in the coming years (Lydia in France, backed by Credit Mutuel Arkea; FidorPay, Kesh, Avuba, Cringle amongst others in Germany).

Near Field Communication (NFC) technology has so far failed to really take off in earnest (the first NFC enabled mobile phone was launched in 2006) but in our view the jury is still out. By holding an NFC-enabled smartphone close to a designated reader, a number of two ways interactions are possible, allowing a range of functions that bring in our view significant convenience to the user. These could include payments through any registered debit or credit card; loyalty cards; transportation tickets, office passes etc. or even opening an electronically locked door – all through one’s mobile. Due to system fragmentation, the technology has so far failed to reach critical mass. However, the increasing spread of other forms of mobile payments, including P2P, may turn into a tailwind for NFC adoption as well.

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