2018

Mobile payments in Romania

An overview for bankers

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Introduction

Currently, no mobile payment solution dominates in Romania. There are wallets in the market, but as yet, none have gained dominance with significant traction or market share - perhaps due to lack of trust, distribution power or regulatory barriers.

"The majority of payments are still made in cash."

This report will look at some of the influences which shape Romania's market readiness for mobile payments. It also considers external factors dictating who is in the best position to take the market with a solution, Romanian banker perception and the similarities of the most successful products in regions where mobile payments dominate.

For the purpose of this report, "mobile payments" is defined as a solution which can be used by any person, regardless of which bank they're a regular customer of, in the region. When we speak of mobile payments with reference to bank solutions, we mean a product which is purely bank-owned and operated and is not operating as a partnership with a third party scheme (Apple Pay, Google Pay or similar).

When it comes to payments, Romania still lags behind many of its European neighbours. The majority of payments are still made in cash. Statistics from *2016 found that cash withdrawals grew at almost the same rate of card payments.* Cash is a widely accepted form of currency and many small businesses operate on a cash-based business model.

A lack of demand and knowledge about cashless payment isn't holding Romania back when it comes to cashless payment. A rather *obvious finding in a study from MasterCard found that Romanians cannot pay by card, for example, when it's simply not an option.* The same logic can be applied to greater adoption of a ubiquitous mobile payments solution - if it's not offered and isn't backed and used by the majority of merchants, this form of payments acceptance will obviously not see the growth it might otherwise achieve.

Reports of *bank profit* increases signal higher levels of consumer trust. Electronic payments are also on the up. *The popularity of paying with a mobile device is growing in Romania's urban areas.* MasterPass (MasterCard Mobile), PayPal and AliPay all have some presence in the market.

Updated local policies *(such as a mandate that retailers only use electronic-registers* from May this year) as well as EU driven regulation in the form of the second payment services directive *(PSD2)* and the general data protection regulation *(GDPR)* will help drive Romanian payment acceptance further into the future.

The mobile payment schemes which currently exist in market cannot achieve the growth they would otherwise benefit from when open banking isn't, as yet, standard. *The regulatory technical standards (RTS)* which guide the implementation of PSD2 in the EU dictate that banks have until September 2019 to achieve compliance. Once that time elapses, regulated and licensed third-parties will have direct access to bank accounts of the Romanian public should they choose to make them a payment service provider.

Until the RTS deadline is up, third-party mobile payments providers with person-to-person (P2P), person-to-merchant (P2M), pre-order (and so on) solutions will struggle to gain traction in a market where it's not very easy to go direct

35%*

feel worried that major tech companies will disrupt banking

** Of those surveyed in Romania*

to account. However, once third-parties are allowed access to accounts, a sudden influx of incentive-driven competition will likely see mobile payment adoption increase very rapidly. More on this (and a case study from a region where a similar process has occurred) will follow later in the report.

The banking sector of Romania is highly concentrated and is dominated by foreign-controlled banks. To date, none of the banks based in Romania have issued a mobile payments solution which can be used by customers of any other bank - despite focus on innovative banking technology and the *real threat of automation resulting in staff cuts.*

A recent survey* commissioned by Auka found that Romanian bankers are less worried than the average European banker about the effects of PSD2 on their organisation (35 per cent say they're worried vs. the average of 42 per cent). However, this could be explained by the fact that more bankers than average (37 per cent vs. the average 34 per cent) say they're aware that their bank will need to adapt or change as a result of the new payments directive. Romanian bankers are also more inclined to say their individual roles will need to shift as a result of PSD2 (30 per cent vs. 24 per cent say they think their roles will change).

The banks in the region have been demonstrating a commitment to *creating new solutions* aimed at making customers lives easier using emerging technology. *For example, the second largest bank in Romania, Banca Transilvania, recently announced they're working to make AI-powered financial guidance an integrated part of the digital customer experience.*

Further, younger Romanians are hungry for new technologies and payment methods, *with a recent poll suggesting many would like the option to pay with cryptocurrencies*. Given that right now, *paying with cryptocurrencies would be more cumbersome and take longer than ordinary cash or card payment,* the focus should instead lie in bridging the innovation gap by creating solutions which seek to solve the real payment problems for the majority of the population.

The two themes explored in the remainder of this report can be summarised as follows: most everyday payment problems can be fixed with hardware-less mobile payments which can be used by anyone and in any situation. Further, it is only the banks who have a distinct time advantage in which to launch a new digital channel which makes the most of existing account access prior to others being able to access this data. In order to beat the competition to the mobile payments punch, banks will look to partnerships with fintech vendors who can help them get up to speed by building and launching new digital channels as quickly as possible.

As mentioned at the beginning, there is no clear mobile payments winner in Romania or its closest neighbouring regions yet. Topline analysis, combined with our research below, indicates that Romania is certainly poised for someone - bank or third-party - to create and launch a new mobile payment solution that can achieve rapid uptake by the population. Who will it be, though?

**Commissioned by Auka, conducted by LM Research*

Region overview

Region overview - banker perception in Romania vs. Europe

As mentioned in the above section, Auka ran surveys across Europe* which asked senior decision makers at banks a series of questions about their readiness for PSD2 and about mobile payments. Included in these surveys were also some questions focused on the upcoming changes to data access and storage in the form of GDPR.

We've compared some of the average responses of those surveyed in Romania against responses from bankers in the remainder of the addressed European regions.

The same as the average, at almost a quarter (23%) believe that their bank will be able to withstand competition post-PSD2. Just over three quarters (77%) either don't believe their existing channels will be good enough or they don't know.

Just over two-thirds (35%) believe card-issuing revenues will decrease as a consequence of new regulations while 13 per cent believe they will not have an effect. Whilst on average, seven per cent of surveyed European bankers believed their revenue from cards would actually increase, Romanian bankers had the most optimism when it came to card-based revenue increases. One in ten (10%) indicated they believed this stream of revenue would climb.

55%

More than half of all surveyed bankers (55%) said they had looked into opportunities of monetisation post-PSD2. On average, 12 per cent of all surveyed bankers said they hadn't looked into any monetisation opportunities but in Romania, this is higher, with 16 per cent of surveyed bankers saying they hadn't looked into opportunities to make money from the payments directive.

35%

More than two-thirds (35%) will look to acquire fintechs and consolidate services to provide a compelling new digital service. This is second only to the Czech Republic (where 37% said that they will do so).

19%

Less than one in five (19%) of surveyed Romanian bankers indicated that they had a plan to implement bank-issued mobile payments within the following year. Throughout the rest of the surveyed regions, the average for the same statement was closer to one-quarter (22%).

20%

When asked how their bank plans on becoming PSD2 compliant, a quarter indicated they will engage traditional advisory services (the average for all regions was 20%), while another 15 per cent will look to partner with a fintech (the average for partnering with a fintech was 10%).

65%

As mentioned earlier in the report, 65 per cent of bankers say they're not personally worried about the effects of PSD2 on their bank. This was the highest in the sample; 58 per cent of bankers within the rest of Europe indicated a lack of concern. However, 37 per cent believed their workplace would have to adapt or change significantly in order to stay relevant. This is the second highest acknowledgement of the need for change amongst surveyed regions - Estonia was highest.

30%

Romanian bankers were also most likely to acknowledge their role would change post PSD2. Almost a third (30%) believed their roles would be affected compared to an average of 24 per cent across the board.

When asked at the time of initial survey (September 2017) whether their bank had a plan in place for GDPR, two-thirds (66%) indicated they already did. When asked again in February, this had jumped to 79 per cent preparedness.

With the highest rate in the sample, 29 per cent of Romanian bankers said they believed that outside threats such as GAFA (Google, Amazon, Facebook and Apple) will take the role of the bank within the next five years. On average, 26 per cent responded they believed this would occur. Only 32 per cent believed banking overall would experience a fundamental shift within the next five years. This is lower than the average of 35 per cent. Overall, both the average survey response and the Romanian survey response found that 43 per cent believe banking won't experience a shift in the coming five year.

PSD2

In general, respondents from Romania were less personally worried than the average respondent about the effects of PSD2 but more than average believe their roles and their organisation would have to change. Respondents from the region were also most likely to say they thought third-party competition would take over the role of the bank.

**LM Research*

Why mobile payments?

Under the second payment services directive (PSD2), we're seeing open banking begin to challenge the status quo in Europe. Third-parties (such as the GAFAs that 29% of Romanian bankers surveyed believe to be a threat to their businesses) recognise the value of dissatisfied banking customers and their data. They're clambering to launch mobile payment solutions and gain regional market share. But they can't achieve this yet. Read on.

Similar legislative changes are occurring all over the world. In 2017, India introduced a similar directive and within a few short months *Google had launched a mobile payments solution called TEZ.* Tez allows users to make payments and merchants to take payments in a multitude of situations never before available to them. Four months after its launch, it announced that it was about to surpass the *12 million user* mark.

This year, Google's rolled out their expanded Google Pay (initially in the UK and the US) solution.

The new mobile app will allow users to view and manage payments across all platforms using cards and other payment methods. The goal is that people (all people, not just those customers of affiliated partners) can use the solution to make secure payments to anyone, anywhere. *The model is the exact same* as that followed by Chinese mobile payments giants Alipay and WeChat Pay and the bank owned solutions in Scandinavia - Vipps, Swish and MobilePay.

Strong payment ties are fundamental to the primary bank/customer relationship. Payments are the banks' gatekeeper to its customers. The payments process is an increasingly important source of revenue, data, customer interaction and a driver of loyalty among customers.

Being (or remaining) number one in financial services requires being number one in payments. To be number one in payments, you need to be number one in mobile payments.

This means creating a mobile payments solution that puts the bank customer - merchants and the everyday public - at the centre of the experience.

Fundamentally, *mobile payments done the right way* will liberate people and businesses to pay, get paid and do business digitally in any situation. They are fast, cheap and secure. You don't need cards or card terminals, you only need a phone. The most common and fastest growing digital device in Romania and the globe.

Who will be the mobile payments winner in Romania?

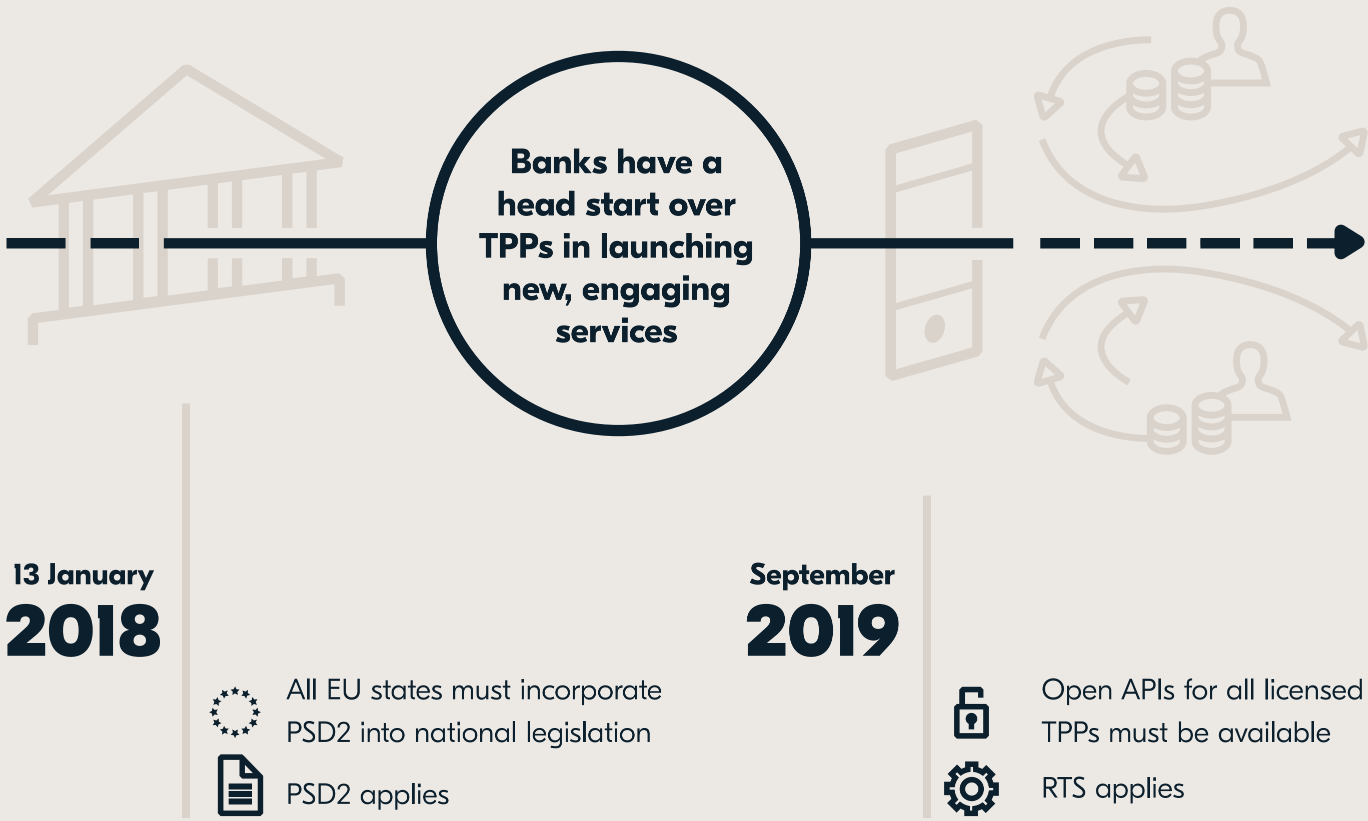
Despite knowing that large tech companies and a host of fintechs would dearly love to launch mobile payment solutions which solve problems for many, they're unable to gain true traction - yet.

We have seen in Norway, for example, that the likes of Apple Pay haven't launched there. The bank-issued solutions are too sticky and well loved for the newcomer to see the market as a viable one. Once able to cut out the middleman and go straight to the customer account, we're likely to see all the payment solutions the tech companies have been trialling come out into the open in a blaze of glory in markets where there's no existing defence.

GAFA are working to create their own mobile payments solutions. Google has TEZ India, as mentioned above, and their new *Google Pay wallet* in the UK and the US. These companies are all following a model which saw Chinese mobile payment giants, Alipay and WeChat Pay, gain so much traction. The value of mobile payments in China had exceeded USD 5.5 tn - 50 times the size of the US's USD 112 bn mobile payments market, by the end of 2016.

Solutions launched by newcomers are a very real threat to banks, make no mistake. The Financial Times recently reported how Alipay and Tencent are essentially starving banks in China of big transactional data and are challenging the dominance of the biggest state-owned bank.

But banks in Europe are somewhat protected - for a limited time only. Let's look at this simply. No third-party (i.e. a company who isn't a bank) can gain a really strong foothold on the Hungarian mobile payments market until banks open their APIs, providing account access. No bank is compelled to open its API to any third-party until the period in which the regulatory technical standards (RTS) which govern the implementation of PSD2, and thus open banking, elapse.



> "...the answer to who will be the mobile payments winner in Romania is pretty simple: it can and should be a bank."

These RTS, which expire September 2019, give banks a distinct window of opportunity when it comes to creating and launching a region-wide mobile payments solution to help fend off third-party disruption.

So, the answer to who will be the mobile payments winner in Romania is pretty simple: it can and should be a bank. Overall, banks have the time advantage, we see *generally that they have more trust of customers when it comes to managing their money* (vs. tech and social media companies) and of course, the comprehensive and formidable payments know-how.

Which bank, right now, remains a mystery. We predict that the bank who succeeds will beat their competition to the punch by launching first. They will invest in marketing the channel across the entire region. They will create a solution that essentially follows the *same formula* of those mobile wallet owners who have managed to use their platforms to attract huge volumes of new customers and grow their revenues significantly.

Partnering with fintechs allows banks to quickly become agile and launch, for example, a real mobile payment solution that can withstand the competition from newcomers, or other banks.

During the next year, European banks will be forced to hand over the keys to third parties, they know what the state of play is. So they must answer the question: do I want to keep the customer relationship, build more customers and potentially come out on top, or do I want to become simply the pipe for payments facilitated through third-party mobile channels?

The only reason for a bank not to come out on top in Romania is a failure to act in the period of time they have to make significant change.

Contact us

We can show you how to take mobile payments to the market and beat the competition.

Get in touch to find out more.

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