FinTech Report Payvision

Assessing Opportunities and Obstacles

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Introduction

Payvision is one of the many players in the payment processing solutions market. It was founded in 2002 in Amsterdam. They provide payments services, focussed on international commerce. In 2005 they expanded their business to the USA and currently they are having a total of ten offices in, amongst others, Hongkong, Spain, the Netherlands, Singapore, Canada, and Japan. At the moment they serve clients like Unibet, Mazda, New York Pizza, Zeeman and Kruidvat. As was mentioned by Simon Boonen of ING, big banks like ING have an innovation framework based on either acquiring, partnering, investing, or developing their own fintech solutions in order to keep up with the market on the online domain. In January 2018, Payvision was acquired by ING to deliver a unique combo to payment processing. ING since then has a 75% stake in Payvision and recognized Payvision as a serious competitor of Adyen. A possible threat is that acquiring a firm like Payvision could result in non-aligned risk or cultural appetites. For that reason, recently ING sold part of its stake in Payvision to cut links with Pornhub and the corresponding frauduleus claims which will be elaborated on later in this report.

Payvision offers more than 80 alternative payment methods in more than 150 currencies – all on one platform that is supported by data and analytics. Performance and accounting figures are scarce, but as ING states in their press release the total value of Payvision can be estimated at 360 million euros. According to Growjo, Payvision has 336 Employees and their estimated annual revenue is currently $70.6M. The last few years the profit has been decreasing, whereas competitors like Adyen gained a lot of market share and profit as stated in a recent article published by the Dutch Financial Times (2020). Payvision does not involve new business practices or financial institutions, as innovations in the payment space build upon the existing infrastructure instead of replacing it. Regarding the FinTech spectrum discussed in this course, Payvision belongs to the Payment block under transferring money. For the future prospectus, the question is how Payvision will perform in comparison to some of their bigger and more grown competitors like Adyen and PayPal. Although the future for the payment processing solutions market is a booming market (Business Intelligence, 2020), with the bankruptcy of Wirecard we have seen an example of what

fraud and reputational damage can do to a company and this is something Payvision should be aware of.

Business Model and Technologies

Payvision's business model is based on offering products and services to international commerce vendors. The core service is handling transactions of online customers by providing smoother, safer, and simpler payments methods while reducing fraud risk. Their services make it easier for businesses to enter new markets and lower the barriers of payments problems related to this. The payment inefficiencies they try to solve are related to online payments (supporting payments from different countries) and global acquiring (getting global coverage and lower transaction fees). On top of that Payvision provides automated fraud and risk management, preventing card-not-present scams and costly chargebacks. This is done with a machine learning anti-fraud solution that only accepts the authentic customers. This addresses the inefficiency of traditional rule-based solutions that demand manual reviews, and which are prone to errors (false positives). Payvision's fraud solution uses machine learning techniques that adapt to the shopper profile which allows for accurate predictions of whether the transaction is trustworthy or not. However, as will be discussed later, these new technologies also come at a risk that cannot guarantee that fraud is prevented. This is partly the reason for the, until now, unlucky acquisition of Payvision by ING as their risk appetites are not aligned.

Next to that, when businesses expand worldwide Payvision provides transparent reports of their payment activities providing business guidance of which regions to further grow. Payvision serves cross-border clients accepting any currency and ensuring they do not need to manage multiple platforms, partners, or packages to grow worldwide. Payvision's main sources of profit are thus not only restricted to their main goal of providing payment services, but also including additional services like risk management and providing reporting insights.

As mentioned in the introduction, payment innovations rely on the existing infrastructure and aim to make this easier to use, more efficient and more securing while at the same time decreasing transaction costs. The improvement the company

can make using advanced technology is based on authentication and security. In this way Payvision disintermediates the financial system and captures a piece of the transaction fees.

Payment Workflow of Payvision

To understand the industry Payvision operates in, we must look at their workflow. Visualization of the explanation is found in Figure 2 in the appendix. When a Merchant accepts a payment from a possible fraudulent card holder, it will forward the payment authorization to Payvision. Payvision checks the transaction and uses the open-source PHP library Omnipay, whereas Omnipay is a standard for how payment services companies communicate with each other and it is used by many payment service companies like Adyen, Alipay, Buckaroo, Mollie and Payvision. Using Omnipay Payvision forwards the request to the Issuer (the Issuer being the bank that issued the card) and the Schemes (Mastercard, Visa, etc). Both the Issuer and the Scheme must authenticate the transaction and communicate this back to Payvision using Omnipay. Next Payvision must do its authentication process. When they authenticate it, they must communicate this back to the Merchant.

Assessment of Payment Service Industry

To correctly assess the industry, we use the framework suggested by Dahlberg et al. (Dahlberg et al., 2008, p. 168). This framework is a combination of the *Five Forces Model from Porter* (Porter, 1997) and *Generic Contingency Theory* from Lawrence and Lorsch (Lawrence, et al., 1967), made specific for the Mobile Payment Industry. We assume that we can generalize this model for the whole payment industry. In their framework they identify eight factors impacting a mobile payment service, namely: Changes in Social/Cultural Environment, Changes in Commerce Environment, Changes in Legal and Standardization Environment, Changes in Technological Environment, Traditional Payment Services (barriers to enter), Consumer Power, Merchant Power and New E-payment Services (substitutes), Competition between Payment Services Providers (Figure 2 in the Appendix). We choose to go in depth in three factors that we think are the most important to Payvision.

Changes in Technology and Regulation

The first two factors that we want to discuss are the Changes in Technological Environment and Changes in Legal and Standardization Environment. The rise of the payment industry is mostly due to these two factors. The technical innovations of the last decade like Near-Field Communications (NFC) have enabled the creation of digital payment solutions that due to Payment Service Directive 2 (PSD2) are now legally allowed to process financial transactions. Thus, these changes have allowed for the start of Payvision.

Competition Between Payment Services

The third factor that we want to discuss is the competition. The payment service industry is vastly growing. However, there are already a lot of payment services firms and most of these firms use Omnipay to communicate to the Issuer and Scheme. Thus, the way to distinguish from other firms is on the Merchant side.

They can do this in three different ways: what kind of Merchants they accept, the fees they charge, and what services they offer. The kind of Merchants they accept depends on their risk appetite, Merchants with low volume are usually riskier. And of course, certain types of business attract more fraudulent transactions. This goes hand-in-hand with the fee they charge. More risky Merchants get charged higher fees then Merchants that are low risk and have a high volume (*Hoe ING zich verslikte in blinde fintech-ambities*, 2020). The last way a payment service provider can differentiate from competitors is with what kind of services they offer. Some payment companies offer extensive analysis of the payments to the Merchants, Payvision is mostly focused on offering a large mix of payment methods. Payvision currently has 80 payment methods (iDeal, Apple Pay, Klarna, etc.) in 150+ currencies over 170+ different countries.

Current Position of Payvision in the Industry

One final model we used to assess the role of Payvision in the industry is the Growth Share matrix of the Boston Consulting Group (Mohajan, 2017). This matrix has two axes, the horizontal axis being the relative market share of the company and the vertical axis being the market growth. Currently the market is still vastly growing, in 2020 alone the total value of digital ecommerce payments grew 23 percent worldwide (Statista, 2020). The market share of Payvision is relatively small. According to the Growth Share Matrix this means that they are a Question Mark see figure 3 in the appendix. From here they have two choices: invest or remain. With the right investments it is possible to become a rising star. This is where you want to be when the market is still growing and then later when the market growth stops you can become a cash cow. Which is where you will get the most profit. If they choose to remain, they will become a dog once the market growth stops. As a dog you will not make much profit. Therefore, in our opinion it is more beneficial for ING to start focusing and investing in the synergy between ING and Payvision that way they can increase their market share and eventually become a rising star. Because Payvision supports many payment methods and currencies this might be the ingredient for a successful collaboration.

Risks and Future of Payvision

In the current FinTech landscape we see a lot of Payment Service Providers growing and importance. Where the surge in e-commerce can be explained by the worldwide lockdowns of traditional retailers, the need for faster and more efficient payments are required by their online competitors. The Dutch online retails market has surged by almost 55% in respect to last year. (CBS,2020)

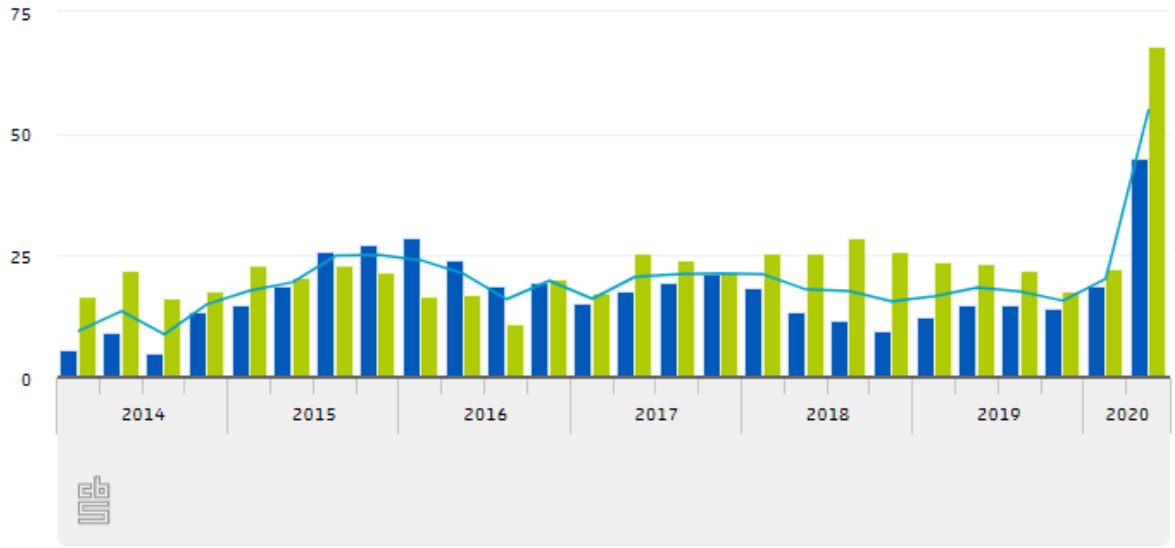

Figure 4: Where the blue trendline indicates the retail, the blue bar web-shops and the green bar Multichannelers. Source: CBS,2020

In the US, the growth has been over 68% at the end of the first quarter (Columbus,2020). To accommodate for this growing demand, the payments solutions need to be efficient and monitored constantly. As these are Payvisions main traits, this brings great opportunities for a mainly web-driven retail market, however this also comes with great responsibility. As payment service providers stand at the start of a financial transaction, they often are called the gatekeeper of the whole financial system. This is where the first type of risk becomes evident, namely that of not identifying money laundering, terrorist financing or other illegal financial transactions.

Researching Payvision on this front has brought out some interesting findings. The firm is currently under supervision of EFM and ESMA due to its dubious transactions. According to the non-profit organisation European Funds Recovery Initiative (EFRI), the payment provider is guilty of conducting over 130 million euros of illegal transactions (Betlem et al., 2020). Although the Machine Learning methods provide guidance in the decision-making process for new clients and payments, there naturally exists a grey area where PSP's may choose to accept a client/transaction due to a certain risk appetite. The profits for the PSP's that allow fur such activities may be very lucrative with transaction fees rising above 15 % (Betlem et al.,2020). This also explains the large number of clients in the gambling and adult entertainment sector. By allowing dubious clients into the financial system the possibility of fraud spreading into different parts of the system increases. By pooling all transactions and then splitting them up in smaller chunks, it is difficult to find illegal transactions whereas the consequences can be dramatic. We can clearly see how FinTech companies such as Payvision clash with the more traditional banking system. As ING acquired the quickly rising FinTech in 2018 it had a clear goal to optimize its payment functionalities for its clients. With the merger it would also merge its existing clients, thereby broadening the ING scope. However, there is a conflict of interest evident, when Payvision seems to mainly consist of dubious clients, the same clients that the bank is supposed to filter. As banks are heavily monitored on the legitimacy of these clients, they prefer to lose them in order to mitigate the risk of money laundering scandals etc., leading to a large loss in value.

As Simon Boonen, Fintech consultant at ING, stated, there is a big challenge when collaborating with small companies as banks are heavily regulated and the small FinTechs are not. Next to that, on an organizational perspective these smaller companies might be lacking. To smooth the collaborative process an innovation framework must be set up, next to a well-defined governance system.

Due to the fact that the e-commerce industry has undergone rapid growth, we can identify additional risks for the FinTechs. As across border payments become more and more popular due to globalization, the PSP's are challenged by the slow speed of international transactions. Another drawback of globalization for PSP's are the financial regulations that are in place across the globe. In order to deal with these a

deep understanding of the legal framework across the globe is necessary. With the expansion across the globe the need for payment related partners arises as well (BankingCircle, 2016). This is something Payvision handled very well, with ING buying a majority interest in 2018. PSD2 Directive also shows the security risks for customers and how these must be mitigated. With the use of strong customer authentication PSD2 aims to guarantee customers a safer transaction. The responsibility lies with the PSP to account for this. As fraud cases surge this step becomes especially important (Palepu, 2020).

Although Payvision has proved to have a dubious customer base it does have the right technology in place to handle and process all these online payments. Having that technology in place can lead to more transactions that can be safely monitored. Given the current merger with ING, Payvision seems to be on the rise again after a thorough clean-up. ING as the incumbent may have placed a risky bet on this FinTech proving the point that the Fintech world and the traditional banking world still have a gap to fill.

Conclusion

The opportunities and obstacles of Payvision can be summarized as followed. Payvision serves as an important role as gatekeeper of the financial system which brings some significant risks along. For Payvision to grow according to the model discussed by McKinsey they first must gain market share. As the current market developments show a big increase in ecommerce payments, this can be achieved by successfully collaborating with ING's customer database and making use of their comprehensive payment methods and currencies. Nonetheless, in order to make the acquisition with ING a success first it must be ensured that all goals are aligned, and conflicts are solved. The acquisition of ING and Payvision is an example of the risk and cultural appetites of FinTechs still differing from traditional banks like ING. For that reason, there still is a gap to fill between Fintech and traditional banking.

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Appendix

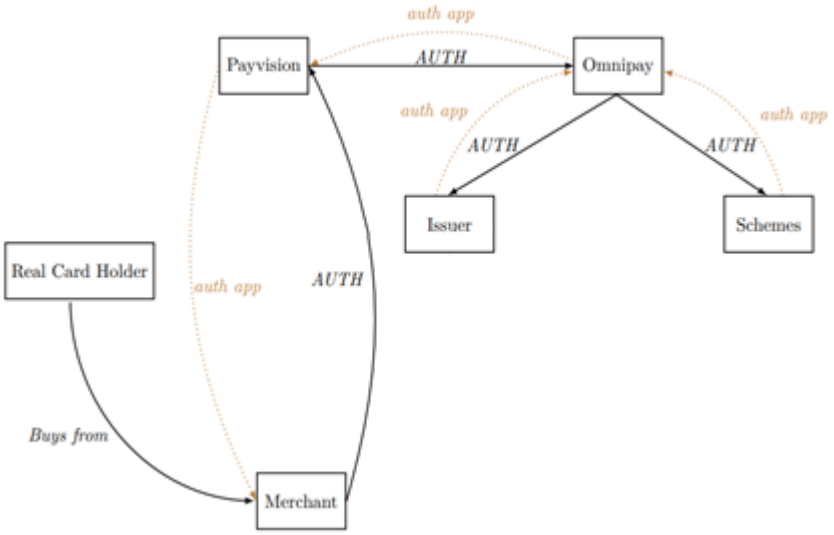

Figure 1: Payment workflow of Payvision. Source: (Bahulikar, 2019)

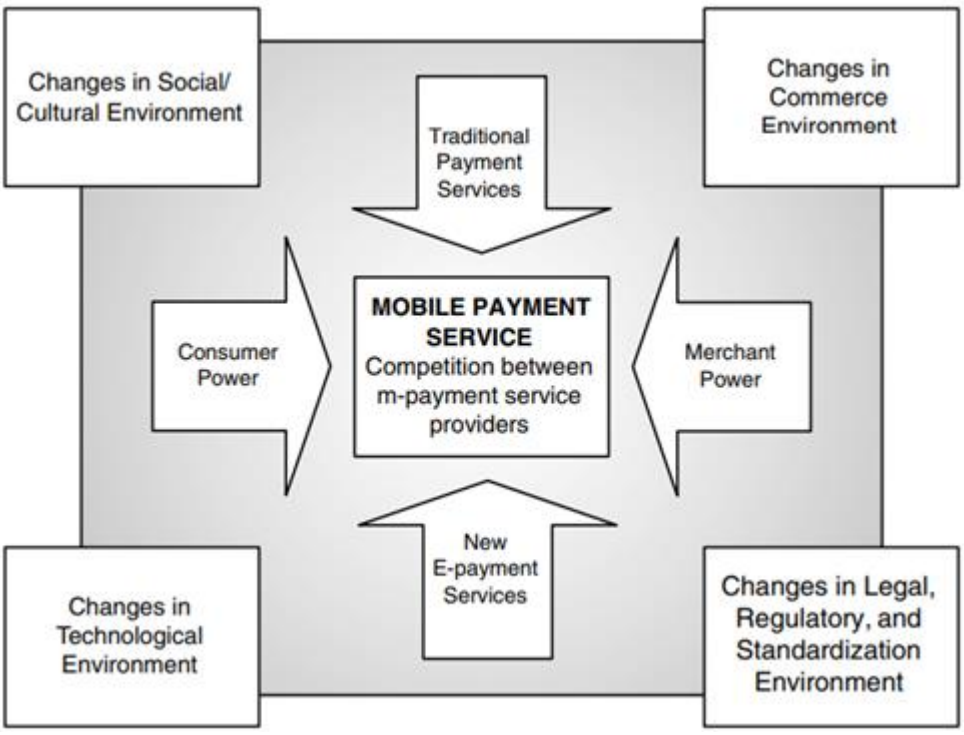

Figure 2: Forces in the Mobile Payment Service Industry. Source: (Dahlberg et al., 2008, p. 166)

Figure 3: Growth Share Matrix. Source: (Mohajan, 2017)