

EUROPEANS AND THE SUBSCRIPTION MODEL VIEWED FROM A PAYMENT PERSPECTIVE

WHITE PAPER



innOPAY

Management Summary

To get insight into the current state of subscription based commerce and the adoption of SEPA Direct Debit (SDD) based subscription payments in Europe, SlimPay has conducted a representative study among consumers¹ in seven European countries: Belgium, France, Germany, Italy, Netherlands, Spain and the United Kingdom. The results of the study reflect the current consumer perspective on, and awareness of, subscriptions in general and the payment methods involved in subscriptions in particular.

In this whitepaper the most relevant findings of the study are presented in a compact and accessible way. In order to guarantee an objective view on the data and the conclusions, SlimPay engaged Inopay, a Dutch based consultancy firm specialised in payments, digital identity and e-business, to co-write the whitepaper with SlimPay and confirm the study's findings. Subscription based commerce seems to have penetrated the daily life of European consumers. However, the study indicates that European consumers are not always aware of the amount of subscriptions that they have in place. The nature of the payment method could be a major influen-

cing factor in this regard, since there is little contact between the merchant and consumer after the consumer has given permission to withdraw funds from their account. This leads to no friction in the act of payment once the collection of the consumer approval has been obtained. At the same time consumers indicate

that given the nature of subscriptions, peace of mind, is the most important advantage of this payment method. Consumers no longer encounter distress around due dates. In addition, avoidance of delayed payments or fees and the ability of spreading the expenses in order to budget are considered important benefits of subscriptions.

When asked, one in five of the consumers that currently are not using subscriptions or not aware of their usage, indicate that they would be willing to pay for more products and services through a subscription model.

The interest towards subscription payments is especially visible in modern service offerings. Modern

service offerings are services such as media subscriptions (e.g. on-demand TV, music streaming, eBooks), transport subscriptions (e.g. public transport, toll, car rental), shopping/retail subscriptions (e.g. food, clothing) and recurring daily purchases (e.g. contact lenses, animal food). In relation to that,

many relatively new companies adopt a recurring payment offering in their business model rather than a one-off payment, for example Uber, Netflix, HelloFresh and Spotify.

Since consumers especially value the convenience of subscriptions, the involved payment methods are to be simple to use and to maintain by consumers. One way to achieve this is by storing payment credentials online or in a mobile application. Direct debits, card based payments and wallet based payments require the payment details to be stored on file, to initiate transactions later on.

Subscription based commerce seems to have penetrated the daily life of European consumers. However, the study indicates that European consumers are not always aware of the amount of subscriptions that they have in place.

The study shows that more than 40% of consumers have at least once saved their payment credentials online to avoid having to re-enter their details for future purchases. From the consumers that never saved their credentials before, 1 in 4 are willing to do so in the future. This could mean that saving payment credentials is a matter of principle for a significant part of the res-

1 B2B subscription payments are out of the scope of this white paper

pondents and consumers should be persuaded to record credentials for the payment instrument. As was maybe to be expected, the willingness to save payment credentials in the future seems to vary per region.

In **Spain** 47% of the consumers indicated to be open towards saving payment credentials, while only 12% are interested in doing so in France. Likewise, the preference for a method of subscription-based payments differs heavily among countries.

In **France** and **Belgium** about 50% of the consumers that saved or, in the future, would be willing to save their payment credentials, would choose to save their credit card credentials.

In **Germany** the majority indicated using an e-wallet to do so and in the **Netherlands** most respondents saved their credentials for direct debit. This is inline with the distribution of payments for each of these countries. The study emphasised the importance of a convenient user experience, however, consumers indicated to value security over ease of use.

Again, valuing security seems to be cultural determined and differs amongst countries.

In France more than 90% of the consumers believe that online payments should be as secure as possible regardless of the longer and more complex check-out, while only 75% of the German consumers share this point of view. From merchant figures we see that abandon rates seem to rise with more complex check-out flows as a result of added security measures.

Given this contradiction, the holy grail of online payments methods still seems to be a secure online payment method with an easy check-out process. Subscription based payments might just offer the solution.

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Introduction

The advent of digital commerce permitted by online technology has led to the emergence of new ways of consuming goods and services. Traditional businesses have been pushed towards reinventing how they sell their products. This phenomenon is fostered by the rise of numerous global start-ups, which provide consumers with new options for buying and consuming online.

One key trend that has been observed for several years now on a global scale is the fundamental shift from ownership to access and use goods and services. New words such as « streaming », « on-demand », « collaborative », « as-a-service » have appeared to qualify this new consumption model. Some refer to it as the **subscription-based economy**. Whether it be modern service offerings such as media (TV, video, music, books, software, contact lenses, razors) or traditional service offerings such as transport (public transport, toll, car rental), shopping/retail (food, clothing) or utilities and telecommunications, subscription-based models are spreading across numerous sectors. This rise of subscription-based commerce provides benefits to merchants and consumers.

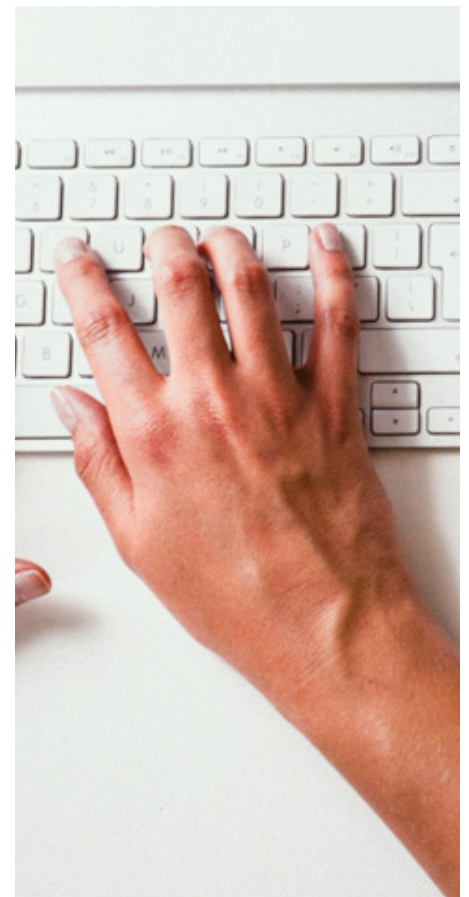
From the merchant's perspective, a recurring model can create a longer relationship with a customer than a one-time commercial touchpoint, and thus optimise the customer **lifetime value**. On the consumer side, subscribing to a service or to goods delivery reduces the interaction with a merchant, **diminishes the number of « visible » transactions** and may result in a positive peace-of-mind effect through a frictionless customer journey...

Payment is only one step of this customer journey, but it may be considered as the most important one, because it is the one providing value. Therefore, from a payment perspective, the subscription-based commerce is challenging: **amongst the various payment methods (card, e-wallets, credit transfers, direct debits) that are available for digital commerce, which are best adapted to this revamped customer relationship implicating low touchpoints, increased duration and sustainability without friction?**

In addition to the structural advantages of each payment method, the cultural/local factor has a strong impact. European countries show major differences in terms of payment preferences.

The objective of this study is to understand to what extent the subscription model has penetrated the daily life of European consumers and if there is room for its growth.

An in-depth analysis of the payments methods associated with subscriptions and the appetite of European consumers for frictionless, secure and simple checkout processes will be presented.



The top banner image features the European Union flag on the left, with its blue field and twelve yellow stars. To the right is a modern building with a glass facade reflecting the sky. The title '2. The subscription model in Europe' is overlaid in white text on the right side of the banner.

2. The subscription model in Europe

As the increasingly digitised economy allows for new strategies to serve customers, nowadays product and services that were previously non-subscription based are offered in this fashion as well. Consumers indicated that subscription based payment methods endow them with a certain ease of use. Whenever customers conduct transactions for the same product or service on a continuous basis, subscriptions are a suitable manner to eliminate the time and effort that is needed for the transaction and consumers no longer encounter distress around due dates.



2.1 SUBSCRIPTION MODEL PENETRATION IN EUROPE

As is further detailed in chapter 3, ECB data on the relative importance of payment services¹ shows significant differences between EU countries. However, the ECB doesn't report on payments related to subscriptions directly, however some insights regarding subscriptions can be obtained from the ECB report. Direct debit payments are so called pull-payments (the merchant initiates the transfer of funds from consumer to merchant) and since direct debit payments are traditionally predominantly used for recurring payments, it is very likely that² a significant part of the usage of the direct debit payment method can be attributed to subscription based payments, showing the presence of an EU subscription based commerce³.

² §7.2 in <http://sdw.ecb.europa.eu/reports-do?node=1000004051>

³ No specific split between recurring and one-off payments is available from the ECB data

SEPA Direct Debit (SEPA scheme in EUR)

With SDD currently available in each SEPA country within the Eurozone an additional method for collecting recurring payments became available to both (online) merchants and consumers. With regulation 260/2012 a final date was set for implementation of the SEPA payment instruments and an end-date was set for legacy country specific credit transfer and direct debit schemes. As a result, since 1 August 2014 it is no longer possible to collect Euro-denominated payments through legacy direct debit schemes. These were replaced by a set of SDD schemes (CORE for general consumer to business payments and B2B for business to business payments with limited refund rights) providing pan-European reach and relatively low transaction fees. Note that in some EU countries (Greece, Belgium and Italy), in order to allow for easy transition, SDD is complemented by Additional Optional Services (AOSs) that support features from the legacy systems.



BACS Direct Debit (UK scheme in GBP)

In the UK, for the processing of GBP direct debits, a UK specific direct debit scheme is used. BACS is in operation since the 1990s.

In addition to direct debit payments, European customers have access to other means of recurring payments for subscriptions. Credit cards such as Visa and MasterCard, debit cards like V-Pay and Maestro, as well as e-wallet services such as PayPal can be easily used for recurring payments. The ECB data is not detailed enough to relate these payment methods to subscriptions directly. Recurring card payments cannot be separated from one-off payments and point of sale payments cannot be separated from online payments. Point of sale and one-off payments are likely to represent the majority of the transactions with this payment method. Moreover, e-wallet based payments are mainly based on either card or direct Debit payments. Both observations suggest that subscription based commerce is larger than is visible through figures on direct debit payments and that the current data underrepresents the full extent of subscription based commerce.

Subscription based payments

Subscription based payments provide a “request once, use many” way of working that provides benefits to both the merchant and the consumer. The consumer benefits from the ease of use of receiving goods and services without incurring the added effort of paying bills on a periodically (e.g. monthly) basis. Regardless of the exact terms of the contract, the consumer has full control over the payments and is able to cancel the payments at any point in time (this doesn’t mean he is not obliged to pay).

Merchants benefit from the fact that payments are automated. They control their recurring cash flow and are therefore able to predict (part of) their earnings.

Subscription based payments are used to pay for two types of goods or services - those that require periodically (e.g. monthly or annual) payments as well as “pay as you go” models, where individual small to micro, incidental costs are paid for on an aggregated basis periodically.

Subscription based payments generally are set-up and used in the following way:

1. Consumer and merchant set-up a subscription contract. This can be explicitly on paper or through an electronic document that is digitally signed or implicitly by accepting contract conditions while configuring the payment method

2. Consumer and merchant configure the recurring payment method:

- This involves agreeing on frequency and (maximum) amounts

- For SDD/BACS based payments this would involve the consumer signing an (e-)mandate

- For card and wallet based payments this would involve the consumer authorising recurring payments

3. Within the agreed conditions the merchant (or its payment service provider on its behalf) periodically initiates a payment that is then withdrawn from the consumer’s account and credited to the merchant’s account

4. If the consumer doesn’t agree with the collection, the consumer can reverse or refund the payment for a certain period:

- For SDD based payments refund is possible for a period of 8 weeks

- For BACS based payments refund is possible for an unlimited period of time

- For cards and e-wallet based payments, this is solution specific

When assessing how many individual subscription services are used by a single consumer, the numbers point towards the fact that the overwhelming majority of EU citizens are not aware of subscribing to more than 5 services. Spain and France are leading countries with 30%-35% of individuals using between 6 and 11 subscription services and the average between all respondents being 19%. When compared to the high levels of customers that only have between 1 and 5 subscriptions (59% of all respondents) the overall message that can be derived from the survey data is that although subscription services have a broad distribution (a lot of consumers use them), they currently do not have created awareness amongst the users.

2.1

There are three remarks to be made when evaluating this message from the survey data:

- Seeing on the one hand that usually the greatest barrier for growth is the lack of consumer awareness and on the other hand that a broad distribution of subscription usage exists, the potential for more subscription-based payments seems to be there.
- Subscriptions are often household based with a 2014 average household size of 2.3 members⁴. With ECB figures showing a pan-EU average of a little over 52 direct debit transactions per capita in 2014⁵ this results in almost 120 direct debit transactions per household. With the majority of subscriptions having a monthly or annual frequency, it seems reasonable to assume that in fact there are more subscriptions than people are aware of.
- The lack of awareness amongst European countries could very well be a result from the “request once, use many” nature of the payment method.

In the survey that was conducted, only 85% of European consumers surveyed currently make use of subscription. Half of the active market stated to have currently between 3 and 10 subscriptions debited from their bank account. Looking at a country level, especially Spanish and French respondents indicated having many subscription payments in place. Compared to other European countries, a relatively greater percentage of the Spanish and French respondents denoted to have between 6 and 10 subscriptions, namely 34% and 31% respectively,

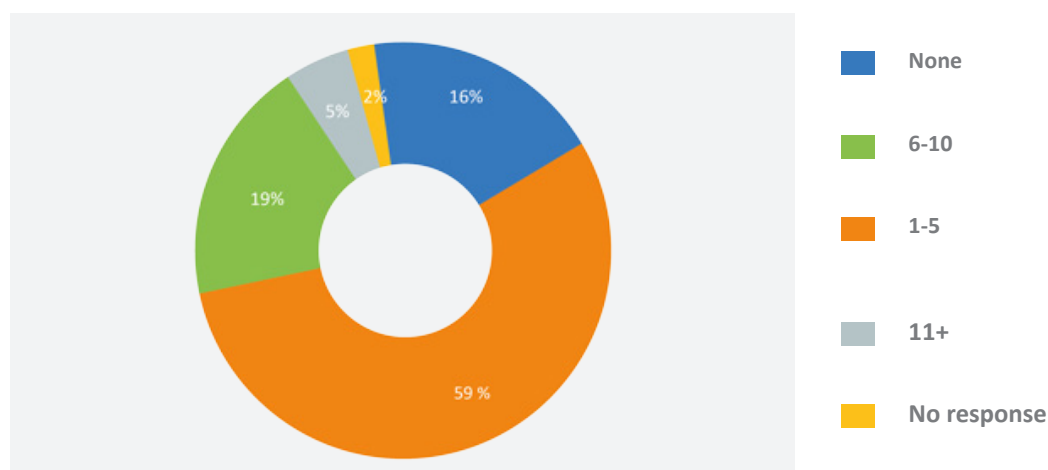
where this fraction in the other countries differs between 5% and 23%. Furthermore, 8% of the Spanish respondents and 7% of the French respondents denoted to have more than 11 subscriptions. In Germany and Italy on the other hand, the lowest subscription penetration is observed amongst the respondents.

With 32% of German respondents and 25% of the Italian respondents not having any subscriptions and 46% of the German respondents and 70% of the Italian respondents having between 1 and 5 subscriptions.

⁴ http://ec.europa.eu/eurostat/statistics-explained/index.php/Household_composition_statistics

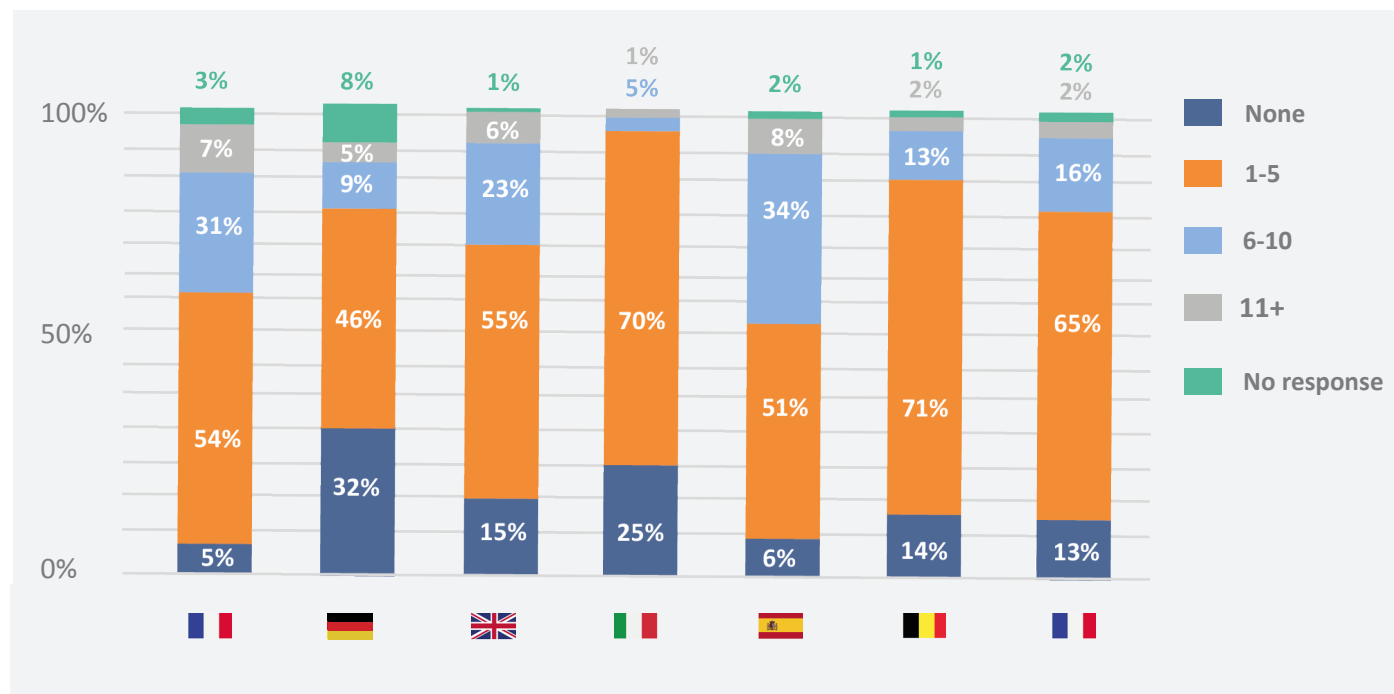
⁵ §7.4 in <http://sdw.ecb.europa.eu/reports.do?node=1000004051>

Number of monthly subscriptions per person (global)



2.1

Number of montly subscriptions per person (per country)



Note that friction in using payment methods obviously raises consumer awareness. The relatively high awareness of subscriptions in France and Spain may derive from the fact that setting up a direct debit based recurring payment is a far more formal process than in other countries such as the Netherlands or Germany. The fact that consumers are not always aware of the subscriptions that they have and pay for, may well reside in the fact that subscriptions can run for years and are generally speaking a very low-maintenance means of paying for goods and services. After configuring them, the merchant is able to withdraw funds from their consumers' accounts without the consumers having to sign-off or authenti-

cate each separate payment. As a result, there is not much that draws the attention of the consumer to the payment and therefore the subscription.

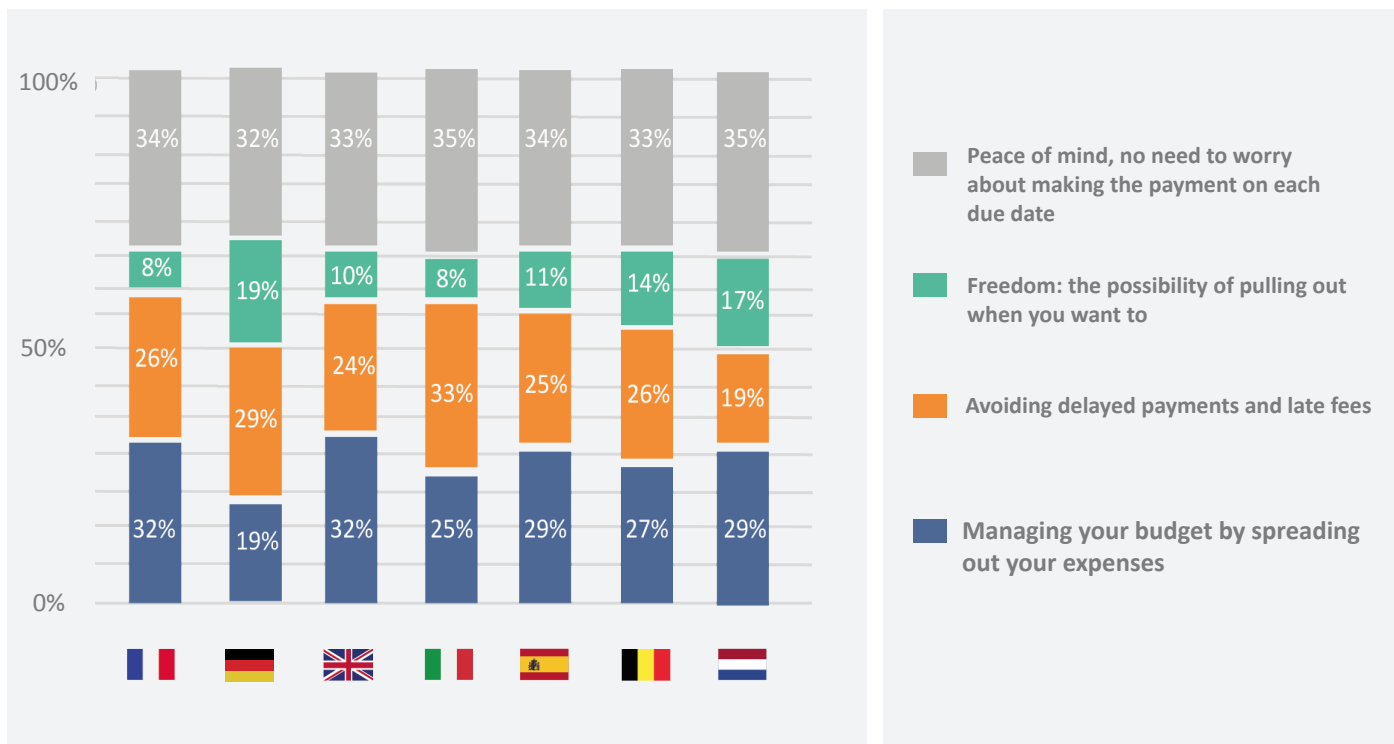
On the upside, this lack of awareness of the payment contributes to the frictionless-ness of the payment and accentuates the convenience factor for both the customer and the merchant. On the downside it is possible that this lack of awareness makes the consumers forget about the subscription. However, with the rise of mobile banking and improved user experiences, the consumer does have more of their personal account activity data made available to them in a more effective and user-friendly way. Since we see more and more

mobile notifications for subscriptions being used, we anticipate an improved general awareness of subscriptions in the coming years.

In the survey consumers indicate that given the nature of subscriptions, peace of mind is the most important advantage of the recurring payment methods. Consumers no longer encounter distress around due dates. Interestingly this is a shared view amongst all countries, with a range between 32-35% of the respondents.

In addition, avoidance of delayed payments or fees and the ability to spread the expenses for optimal budgeting are also considered important benefits of subscriptions.

Advantages of subscription model

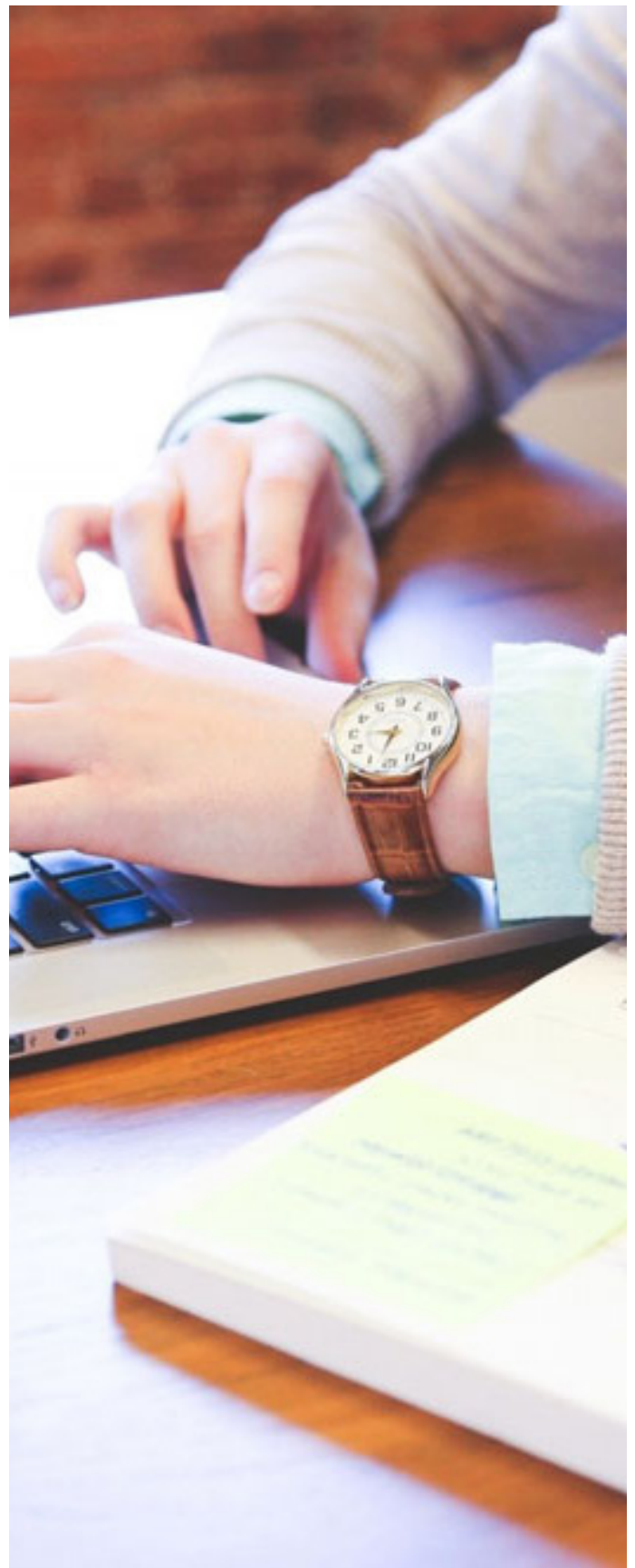


2.2 GEARING UP TOWARDS SUBSCRIPTION BASED ECONOMY

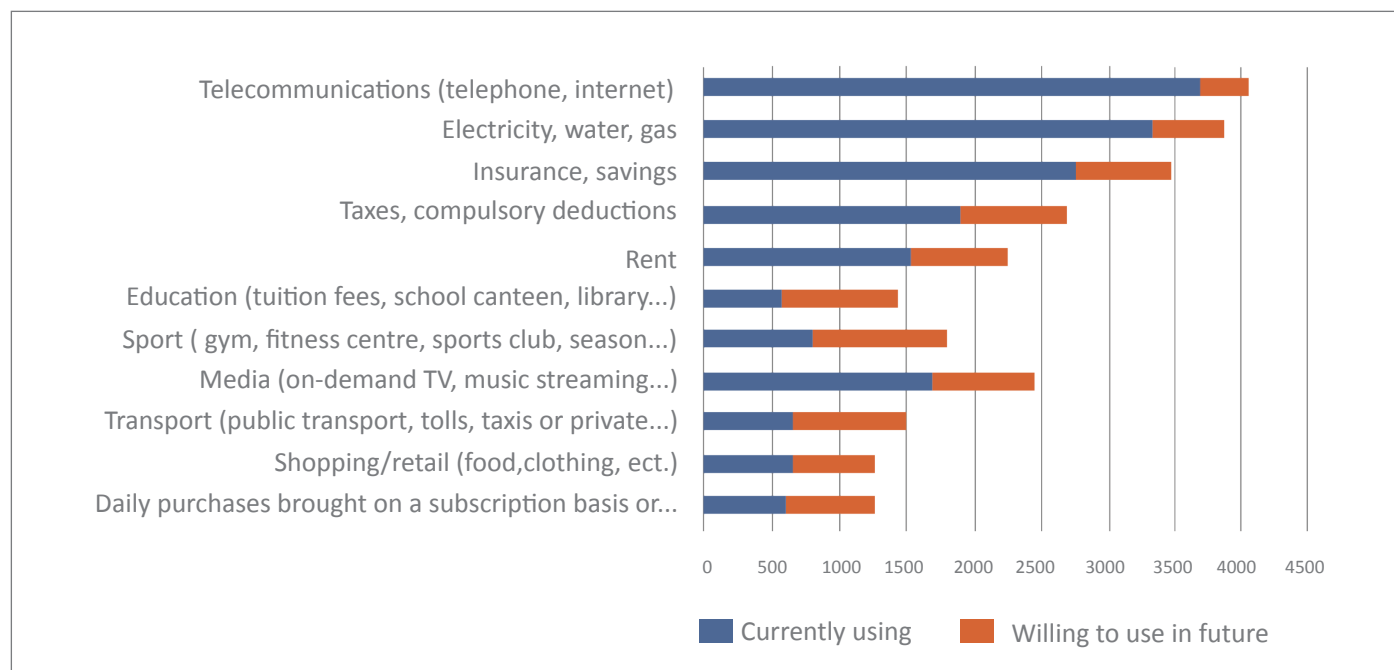
The development of subscription-based commerce is under way. In general, there is a strong trend towards consumers preferring to have access to a good or service rather than taking actual ownership. The reasons behind this shift in consumer demand are a combination of convenience, affordability and predictability of expenses. Access to goods is very visible in the sharing economy with initiatives like Car2go. In addition, we also see a change in things that consumers used to consider a good that now have become a service. Examples are video and music streaming, rather than owning DVDs and CDs and software subscriptions, rather than one-off purchases of CDs.

In addition to this trend that shows a lot of potential for subscription-based models, consumers' responses to the survey also paint a promising picture.

To date the majority of respondents have been using some type of subscription service. With an EU-average of 15% of respondents not yet active in subscription based commerce and the largest part of participating respondents only having an average amount of 4 subscriptions, there is still an uncaptured market present. Of the non-active respondents, 1 in 5 indicate they would be willing to pay for more products and services through a subscription model. Growth is especially likely to happen in product and services for daily purchases. From the survey one observes that 30% of respondents are open to buying daily purchases based on a subscription service.



Usage of subscriptions per expenditure (global)



The most popular services that EU citizens use on a subscription basis are telecommunications, utilities and insurance.

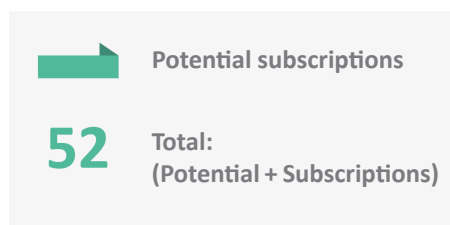
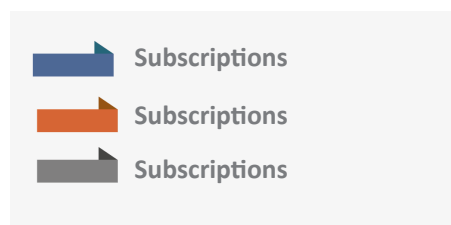
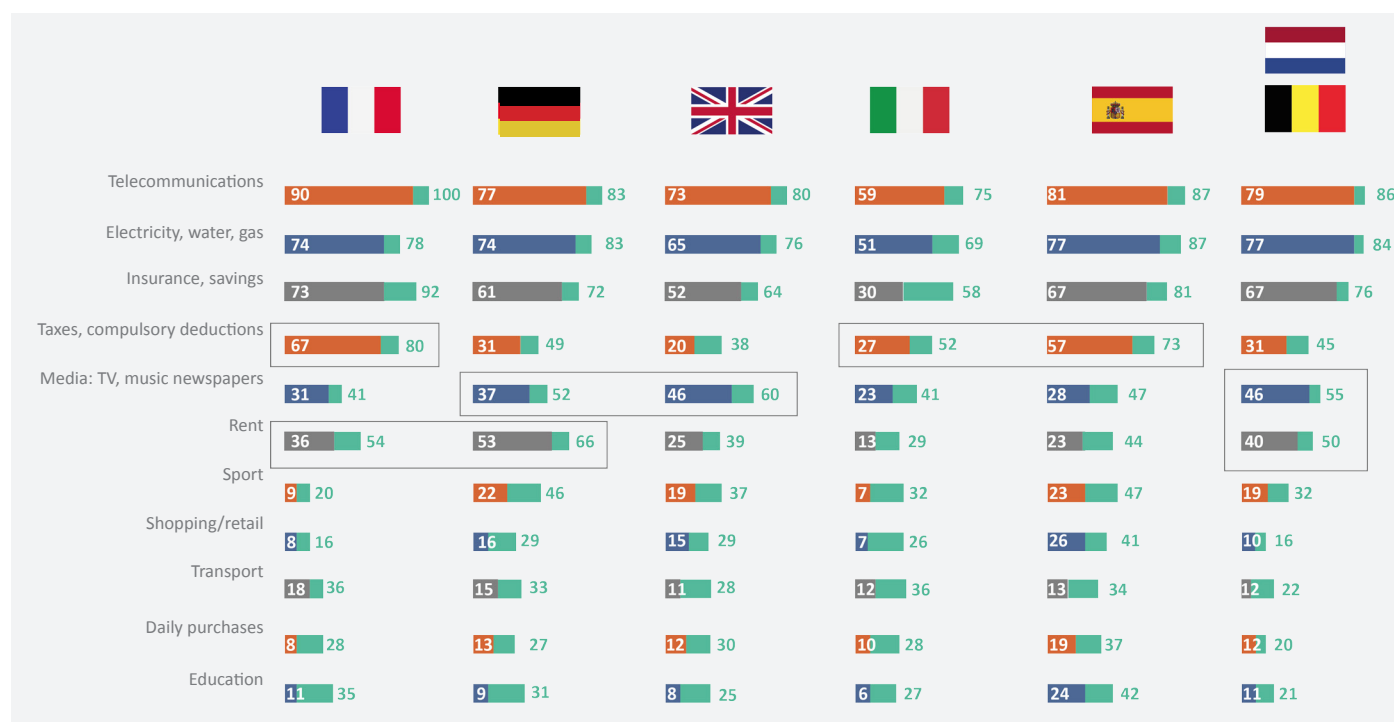
In France, Spain, Benelux and Germany an average of 75% of respondents make use of subscriptions for telecommunications, utilities and insurance, while a further 9% of respondents in these countries are willing to make use of subscriptions. The majority of respondents in the UK (63%) make use of subscriptions for these types of expenditures, while an additional 10% are also interested in using subscriptions to pay for these services. The levels of subscription usage are the lowest in Italy at 47% but it also has the highest level of additional potential subscription users at 20%.

Respondents from Spain are potentially most open to paying with subscriptions (37%). Respondents in the Benelux show the smallest potential (20%) while the European average is 28%. The European average represents potential growth of an additional 16% for the use of subscriptions to pay for daily purchases.

An area that boasts potential is subscription services for daily purchases. From the survey one observes that on average 30% of the respondents are open for buying daily purchases based on a subscription service but on average only 12% are currently making use of subscriptions for daily purchases. Particularly in France, the willingness to use subscription services for daily purchases lies 3 times higher than the current use.

2.2

For which types of purchases or categories of expenditure have you chosen/would you be willing to take out a subscription, monthly installment or “PAYG” payment withdrawn from your bank account (instead of paying the full amount at once?)



The survey data from the aforementioned countries in this research indicates high levels of subscription usage for telecommunications, utilities and insurance as well as a growing interest towards modern subscription services such as daily purchases. One can therefore speak of a developing trend towards a different way of consuming and thus paying.

In the previous section a comparison between potential subscription growth rates of utilities and daily purchases has been made. Observed is the high, but relatively satiated market demand for subscription services in utilities and on the other hand the low usage, but high potential of daily purchases subscription. The trend being that respondents have a preference for using subscriptions to pay for more modern services of which streaming or on-demand media or the home-deliver of food and curated fashion also make part of. The comparatively high levels of respondents willing to use subscriptions in the future shows that this trend is showing no signs of abating.

Magazines and newspapers originally pioneered the use of subscription models for the payment of their services, but it is nowadays enjoying widespread adoption in numerous business contexts such as music sales, pay-tv, fitness clubs, and shaver subscriptions. Another telling example is the sale of software on a subscription basis; also referred to as software as a service (SaaS) with Salesforce.com and Box being two notable examples. The success of subscription based business models such as Netflix and Spotify in Europe bear testimony to the rising popularity of subscription based services on the continent. The growth in subscription based business models can be largely attributed to on the one side a changing customer

demand and on the other side a merchant's demand to service customers better. Irrespective of the point of view, subscription based commerce is arguably the area of commerce where the payment method is the most tightly coupled and integrated with the product itself. This allows for seamless user experiences, and is found to be central to modern service offerings.

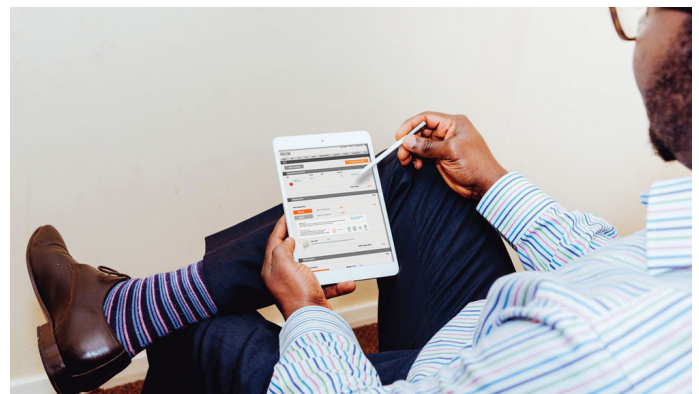
There are several markets in which subscription based business models have been gaining in market share. The market for grocery shopping has seen HelloFresh entering. Razors can nowadays be bought through Boldking, and Netflix provides a large share of Europeans with on-demand TV. There are two trends powering the growing popularity of modern subscription service offerings. First, payment methods for subscriptions are becoming highly effective, and secondly the growth of new types of subscription based models in general.

Digital service offerings allow for a wider variety of subscription-based business models nowadays and as it is now easier to serve a customer from distance it is trivial to say that new (start-up) players are trying to take advantage of these digital possibilities. Subscription model advantages include a way of 'binding' or securing the customer for future revenue, resulting in higher valuations of the company based on these predictable revenue flows. It is predicted that more pre-existing European companies will see the advantages of subscription based commerce and adapt their process to it. Based on these arguments modern services offerings can anticipate a sharp growth in the amount of individual subscriptions in the near future.

Traditionally subscriptions like rent, insurances, utilities, television, Internet, and newspapers are part of general household spending. Although not all subscriptions are paid through effective payment methods (e.g. utility bills can still be paid in cash in many countries) companies strive to optimise their collection process by motivating their customers to move to "request once, use many" payment methods of which the direct debit is a ubiquitous and cost effective example. In addition to traditional subscriptions,

businesses in today's e-commerce world are actively pursuing business models based on recurring revenue streams. Customers can therefore expect more and more products and service on a subscription basis. There is also a substantial amount of subscription services available that are targeting lower price range markets. Most often, modern subscription services' monthly fees fall into these lower price ranges.

Traditionally, widespread adoption of subscription based business models are to be found in the telecommunications, insurance, rent, and utilities like gas, water, and electricity. Mainly telecommunications and electricity/water/gas with 77% and 70% current usage are incorporated in the daily life of the respondents. Including insurance, savings, taxes, compulsory deductions and rent, the traditional expenditures have a 55% usage rate on average. The modern types of expenditures show a significant lower adoption rate by the respondents, namely 17%. Media expenditures, such as on-demand TV and music streaming, raises the average significantly, since 35% of the respondents indicated to have a subscription in place for that specific type of expenditure. Looking at the willingness to use a subscription payment in the future, respondents tend to be more interested in this payment means for the modern type of expenditures, with an average of 17%. Sport in particular seems to be a good fit for subscription payments. The more traditional types of expenditures have a willingness average of only 13%.



3. Subscription based Payments

The EU has been in a political and economic union since 2007 and since 2012 this union was reinforced with the entering into force of SEPA regulations, however it is still obvious that there are marked differences in the ways each country prefers to conduct economic activity such as payments. ECB data on the relative importance of payment services¹ shows significant differences between EU countries. In general² we see the majority of payments being made through SEPA Credit Transfer (SCT), SEPA Direct Debit (SDD) or some sort of card (credit or debit). Although under SEPA it was likely that differences in payment preferences would decline, country specific preferences still exist and are likely to prevail in the (near) future.

In 2014 SCT importance ranges from 14,41% in Portugal to 61,17% in Bulgaria, with a euro area average importance of 26,16%. In the same year SDD importance ranges from 0,12% in Finland to 48,17% in Germany, with a euro area average importance of 25,71%. Cards importance in 2014 ranges from 18,54% in Germany to 73,20% in Denmark, with a euro average importance of 39,58%.

3.

Relative importance of payment services 2014 (source: ECB)						
	Credit transfers	Direct Debits	Card payments	Cheques	E-money payments	Other payment services
Belgium	39,76	15,41	43,89	0,08	0,83	0,04
Bulgaria	61,17	1,76	20,73	0,01	0,25	16,08
Czech Republic	47,32	11,76	40,06	0,05	0,73	0,08
Denmark	16,70	10,00	73,20	0,10	-	-
Germany	32,92	48,17	18,54	0,16	0,21	-
Estonia	34,54	0,59	64,99	-	-	-
Ireland	22,85	12,14	59,24	5,49	0,11	0,17
Greece	55,59	4,78	34,69	3,61	1,22	0,11
Spain	14,47	33,32	43,97	1,22	-	7,02
France	18,02	18,68	49,78	13,10	0,28	0,14
Croatia	44,51	3,07	33,41	0,02	0,67	-
Italy	28,11	12,69	42,44	4,83	6,08	5,85
Cyprus	18,61	33,00	34,42	12,81	1,14	-
Latvia	41,45	1,32	57,15	-	0,02	-
Lithuania	48,73	3,89	47,35	0,03	-	-
Luxembourg	3,38	0,87	5,94	0,02	89,79	-
Hungary	54,64	6,59	35,94	-	-	2,83
Malta	21,92	3,72	49,12	24,72	0,47	0,06
Netherlands	31,66	18,03	49,10	-	1,21	-
Austria	34,14	29,23	36,18	0,06	0,25	0,13
Poland	51,04	0,61	48,34	-	-	-
Portugal	14,41	11,50	67,27	3,89	2,23	0,70
Romania	45,60	2,13	51,77	0,45	0,02	-
Slovenia	45,74	11,79	42,38	0,02	0,08	-
Slovakia	51,35	4,79	43,80	-	0,01	0,05
Finland	39,38	0,12	60,48	0,01	0,01	-
Sweden	24,54	8,28	67,18	-	-	-
United Kingdom	18,53	17,27	61,18	3,03	-	-
Euro area total	26,16	25,71	39,58	4,37	3,05	1,12

Source ECB.³

¹ §7.2 in <http://sdw.ecb.europa.eu/reports.do?node=1000004051>

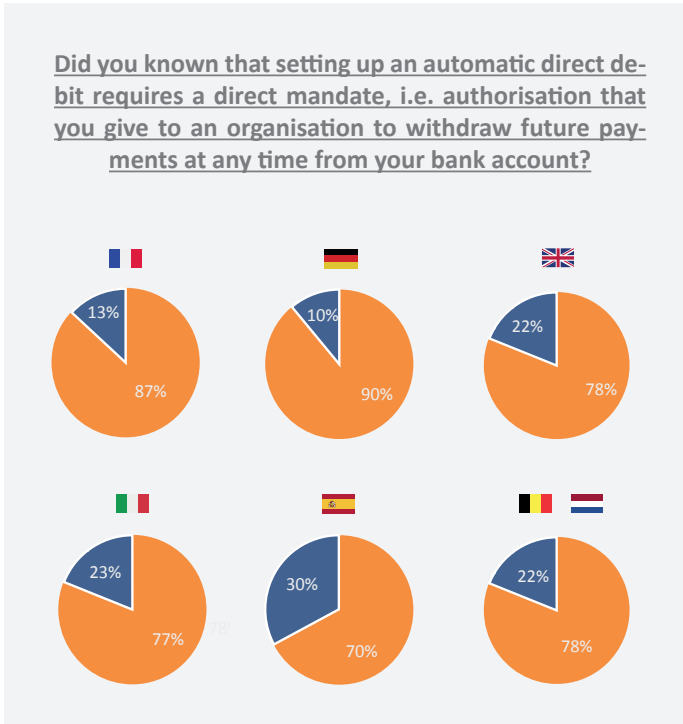
² Excluding Luxembourg because of a very dominant domestic e-money solution

³ §7.2 in <http://sdw.ecb.europa.eu/reports.do?node=1000004051> (year: 2014)

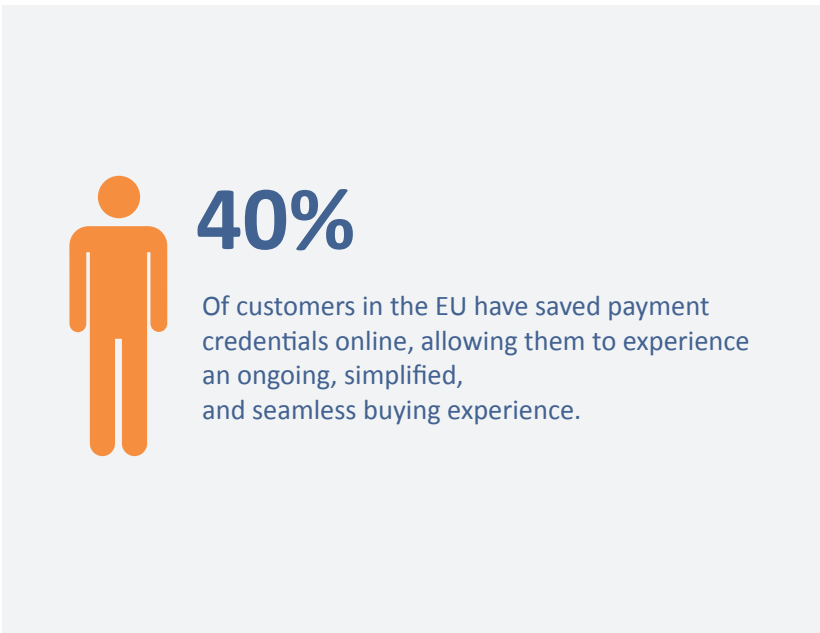
3.1 SAVING PAYMENTS DETAILS: A RAISING TREND IN RECURRING PURCHASE

The ease of use resulting from receiving frequently bought products on a subscription level, demands for payment methods that allow for recurrence, that are simple to use and to maintain by consumers. In order to take advantage of recurrent payments, consumers need to store payment credentials online, or in a mobile app. Direct debit, card based payments and wallet technologies require merchants to store payment details on file, necessary for instructing transactions in a later stage. So, currently customers can only access the ease of use offered by recurrent payments by means of having the willingness to let third parties store their payments data.

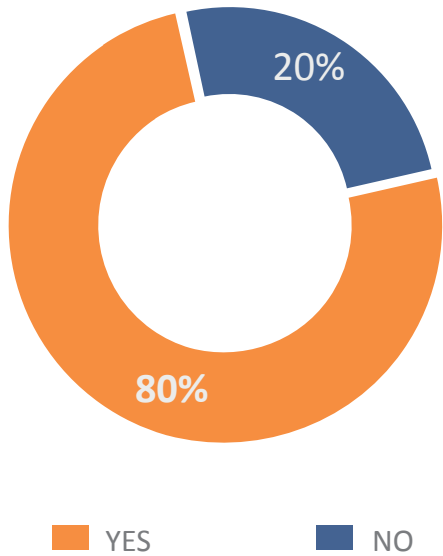
In all the surveyed countries an average of 20% of the respondents were unaware of the fact that setting-up a direct debit requires the provision of a mandate.



30% of Spanish respondents, despite their abovementioned enthusiasm for subscriptions, were unaware of mandatory mandate provision. 10% of Germany, on the other side of the spectrum, were unaware of mandatory mandate provision. Given this limited knowledge and the importance of not negatively influencing conversion when buying subscription goods or services it is essential for the enrolment interface of the direct debit method to guide the customer through the process in a user-friendly manner.



Awareness of SDD MANDATE (global)



3.1

Already more than 40% of customers in the EU have saved payment credentials online, allowing them to experience an on-going, simplified, and seamless buying experience. The United Kingdom and Italy are frontrunners with 54% and 51% of respondents indicating to have stored payment information. The Netherlands can be found on the other side of the spectrum with 28% of respondents having stored payment information. One could argue that their widely adopted payment scheme iDEAL is responsible for this as it requires, nor allows consumers to leave payment information on a merchant's website. Consumer benefits from direct debit are an ongoing and seamless buying experience. These consumer benefits are in turn positive for merchants, as the improved payment experience leads to higher levels of customer retention.

1/4



One interesting finding is that 1 in 4 people that are currently not saving credentials online are willing to do so in the future.

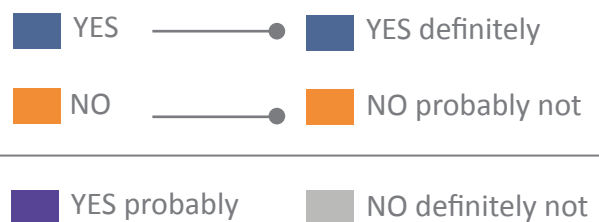
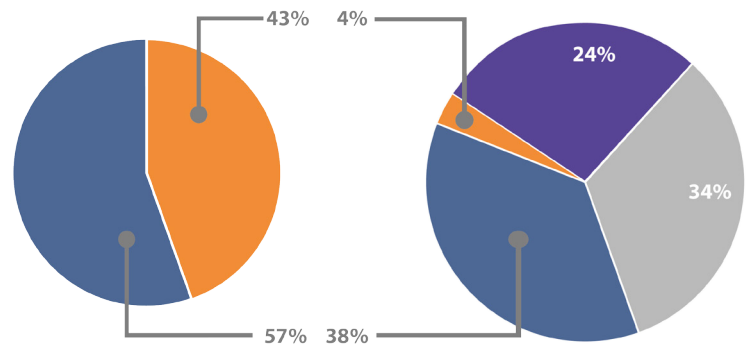
When asked whether respondents would store payment credentials in the future, four possible answers were given as option.

These options were ranging from “yes, definitely” to “yes, possibly” to “possibly not” and “definitely not”. Results are on average unevenly distributed between the positive and negative answers.



On average 72% of respondents chose one of the negative question as an answer.

Saving payment credentials

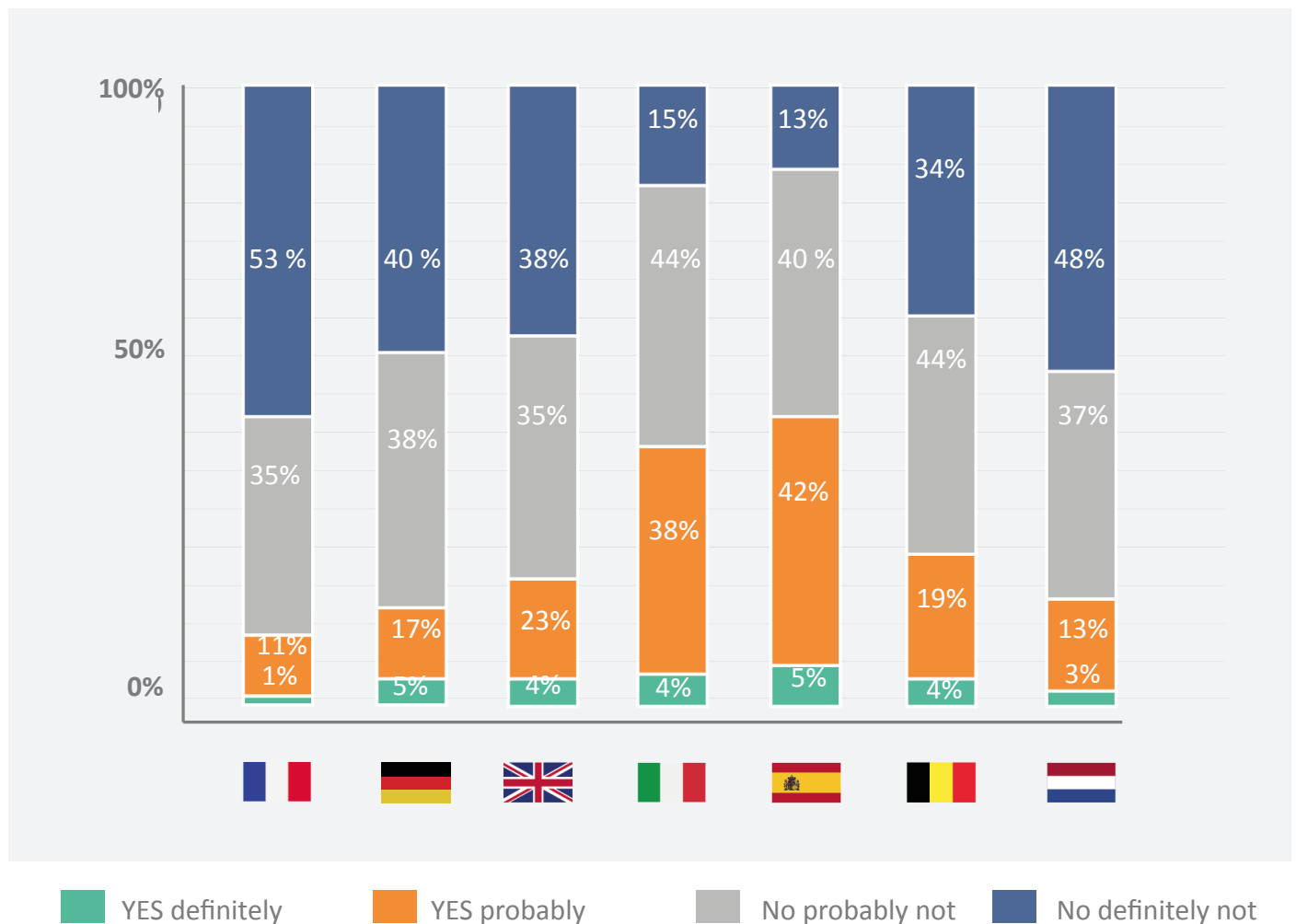


This reluctance is especially predominant in France (88%),

- Germany (78%),
- UK (73%)
- the Benelux (73%) with a shared average of 80%.
- Italian (58%)
- Spanish (53%) respondents are more open to the idea of having their credentials saved for the first time with a joint average of 56%

3.1

Willingness to save payment credentials online in the future



This could mean that saving payment credentials is a matter of principle for a significant part of the respondents and consumers should be persuaded to record credentials for the payment instrument.

There are however great differences between nations. Interestingly, the two most southern countries included in this research, Italy and Spain, show different results on the willingness to save payment credentials in the future when compared to the rest of the participating countries.

In Spain the distribution of positive to negative answers are almost equal. 47% of the respondents are positive about saving payment credentials in the future. Of this 5% indicated to be definitely willing to do so, while 42% are most likely willing to save their payment credentials. France shows the opposite reaction, since only 12% of respondents are positively-minded towards storing payment data. 11% denoted to be probably willing to save their credentials and only 1% of the French respondents are definitely going to do so. The survey results from the Netherlands are more or less similar to the French results.

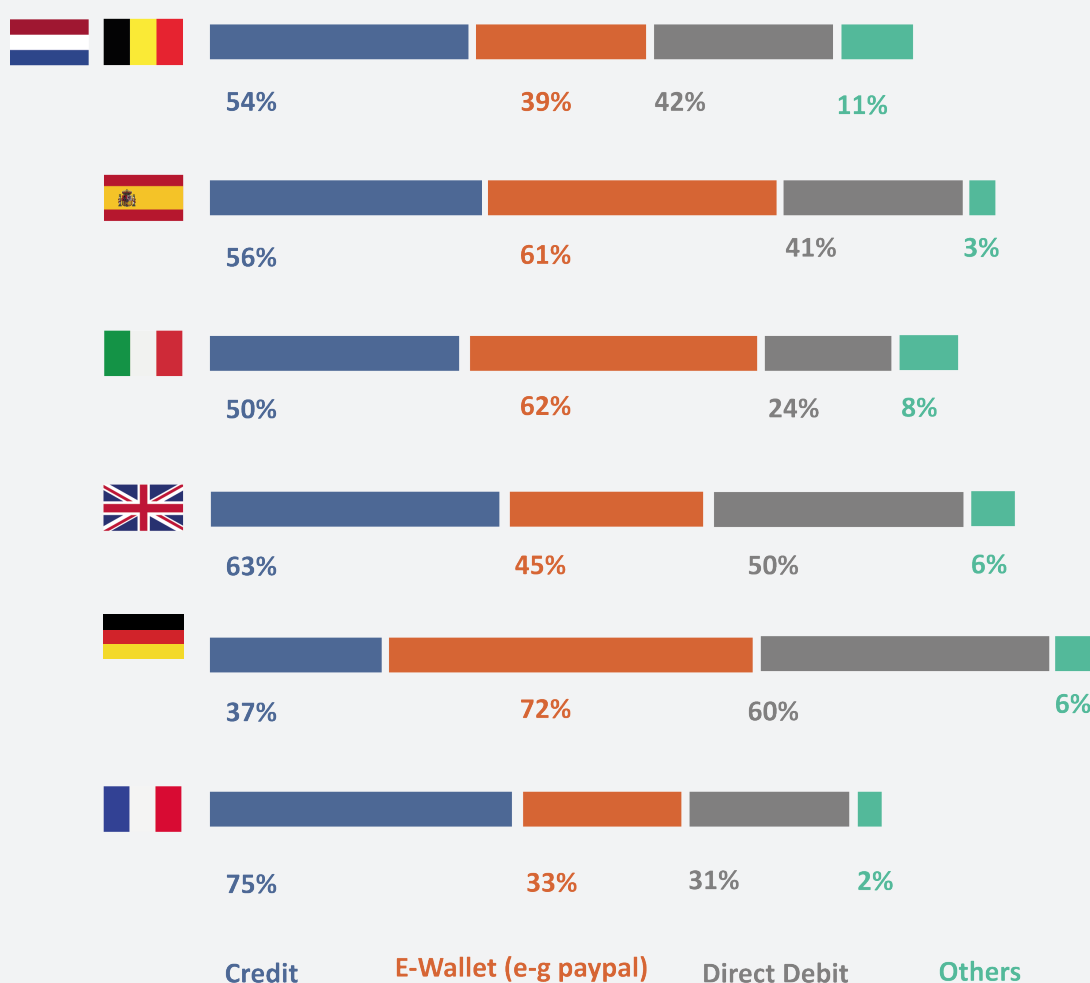
3.2 PREFERRED PAYMENT METHOD

EU-wide adoption of payment methods would be easier if payment preferences were comparable across countries. However, the study shows (confirming ECB data) that there are differences in payment preferences amongst European countries.

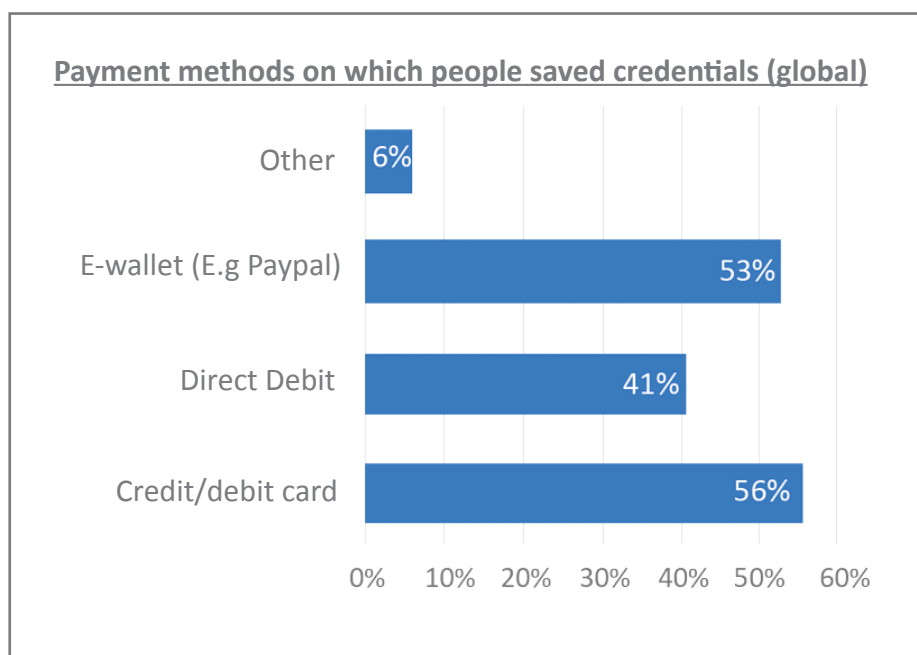
Credit cards are the most popular payment method to save payment credentials and avoid re-entering in the future in France (75%), UK (63%) and Belgium (69%) while e-wallets are the most popular means in Germany (72%), Italy (62%) and Spain (61%). The one country that is noticeably different is the Netherlands showing direct debit (63%) as the preferred method for the Dutch. The other available methods are mostly crowded out by these more popular payment methods.

European consumers have been asked to what type(s) of payment methods they save or would be willing to save during their next purchase (online or on a mobile application). In general, the majority of the respondents use or would use, their credit/debit card or e-wallet for online purchases and 2 out of 5 respondents would use direct debit.

What type(s) of payment methods have you saved / would you be willing to save online or on a mobile application to avoid having to re-enter your details the next time you want to make a purchase?



3.2



Looking at a country level, major differences are observed. In both France and Belgium, the majority of the respondents indicated not to use direct debit nor e-wallets, but make relatively much use of the credit/debit cards for online purchases. On the contrary, in Germany consumers rather use direct debit or e-wallets for online payment than credit/debit card.

When comparing country by country figures for recurring payments with the general country specific preferences for e-commerce payments⁴ some interesting observations can be made.

- In countries where cards dominate as preferred payment method for subscription based payments, cards are also the preferred e-commerce payment method in general: (UK 62%, France 61%, Belgium 58%).
- In Spain and Italy, e-wallets are more often preferred payment methods for recurring payments, although cards dominate e-commerce payments in general (Spain 58% and Italy 49%).
- In Germany and the Netherlands the preference for non-cards payments in general (Germany 88% and the Netherlands 87% non-cards) e-commerce is also reflected in the choice, for payments for subscriptions.

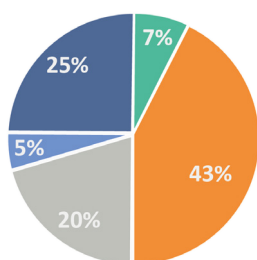
⁴ <http://www.worldpay.com/global/insight/articles/2015-12/global-payment-report>

Average online purchase amount per payment method

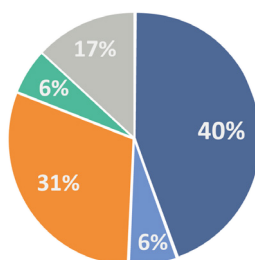
Whenever consumers use credit/debit card, direct debit or e-wallets for online purchases, they are mostly used for purchases between €10 and €100. However, respondents tend to entrust larger payments, more than €100, to credit/debit card (25% of all surveyed credit/debit payments) and direct debit (23% of all surveyed direct debit amounts). E-wallets are relatively more used for transactions under €10 on a comparative basis. Moreover, consumers are increasingly buying product and services on web-based interfaces that are in the lower price ranges. In the Netherlands especially card based payment has seen a sharp increase for products that fall into lower price ranges (Dutch Payment Association, 2015).

- I never use this payment method online
- Online purchase more than 500€
- Online purchase between 100€ and 500€
- Online purchase between 10€ and 100€
- Online purchase of less than 10€

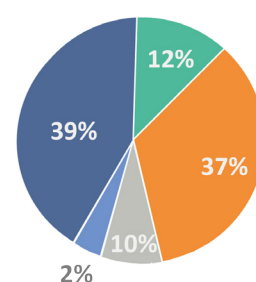
Credit/Debit Card



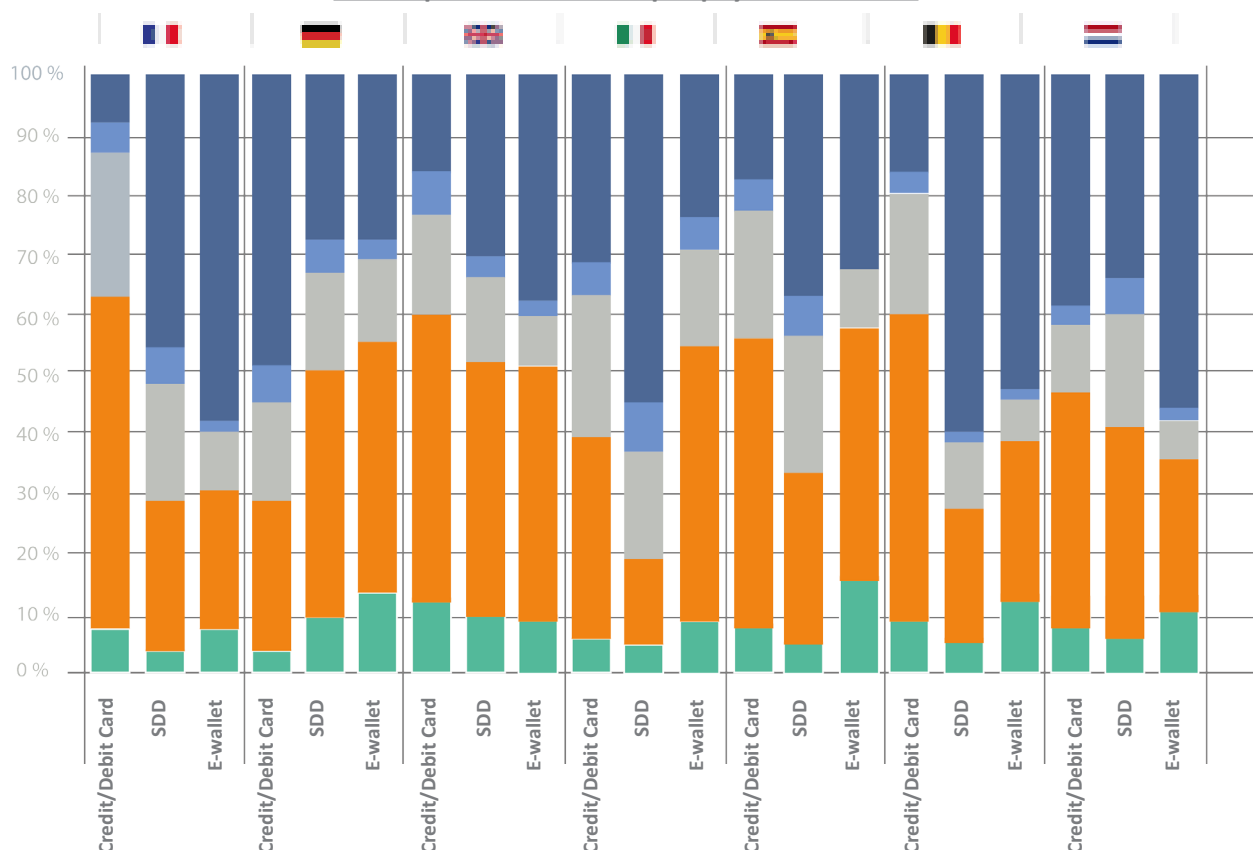
SDD



E-Wallet



Online purchase amount per payment method

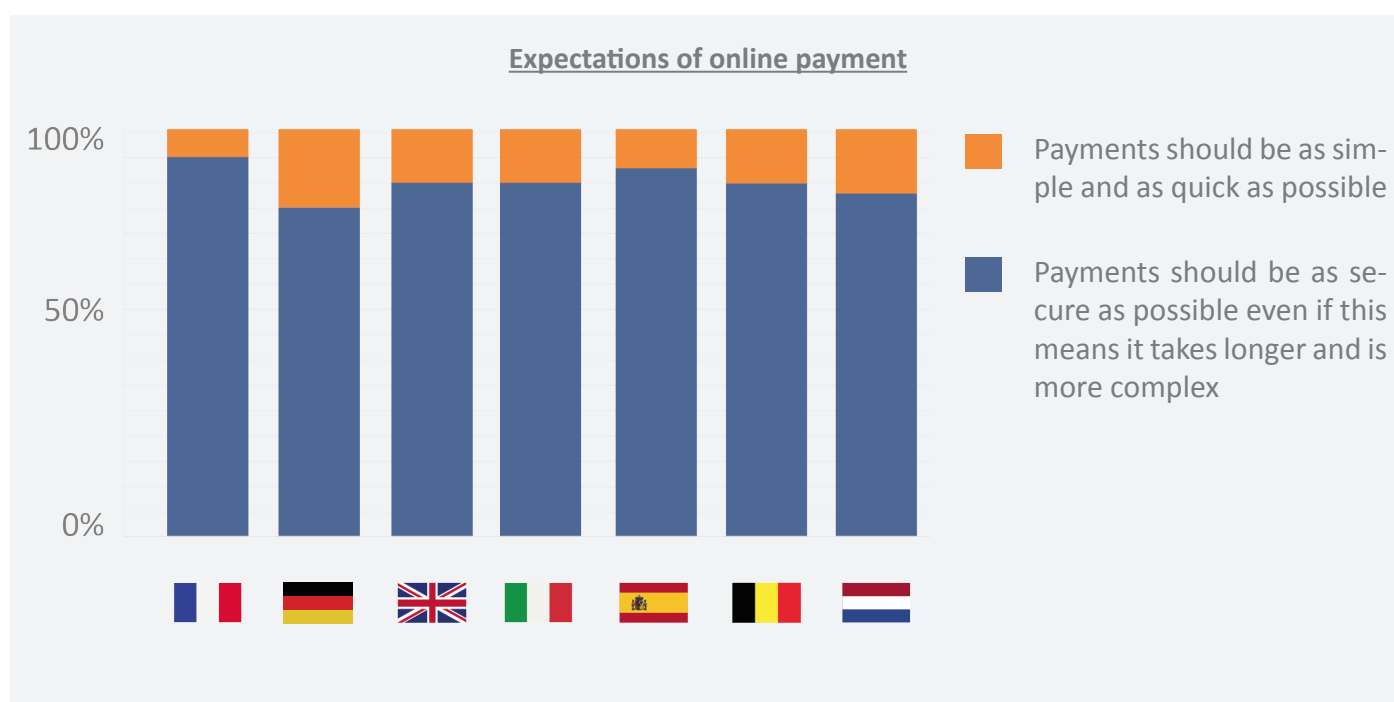


3.3 FRICTIONLESS PAYMENTS: THE DILEMMA BETWEEN CUSTOMER EXPERIENCE AND SECURITY

In general, it can be stated that security trumps ease of use when it comes to payments, specifically when asking the end consumer. This attitude is most strongly expressed by 92% of the French while the general average (when correcting for the 76% of Germans who share this attitude) is 86% on a pan-European level. This result aligns well with the regulatory climate in Europe (we see a strong tendency towards more security in payments).

However, it seems to contradict merchants' aim of making payment more seamless, striving for conversion through convenience, where security might be perceived as a conversion killer⁵.

- 5** Merchants optimize their payments based on three easy principles: “reach, conversion, cost”. Page 7 of https://www.abe-eba.eu/downloads/knowledge-and-research/20141215_EBA_Opinion_Paper_on_Next_Generation_Alternative_Retail_Payments_Infrastructure_Requirements_v1_0.pdf



Regulatory climate for security of payments

In the final guidelines on the security of Internet payments, published by the European Banking Authority in 2014⁶ it is mentioned explicitly that payment service providers must strongly authenticate their customers.

“...PSPs should perform strong customer authentication for the customer’s authorisation of internet payment transactions (including bundled CTs) and the issuance or amendment of electronic direct debit mandates....”

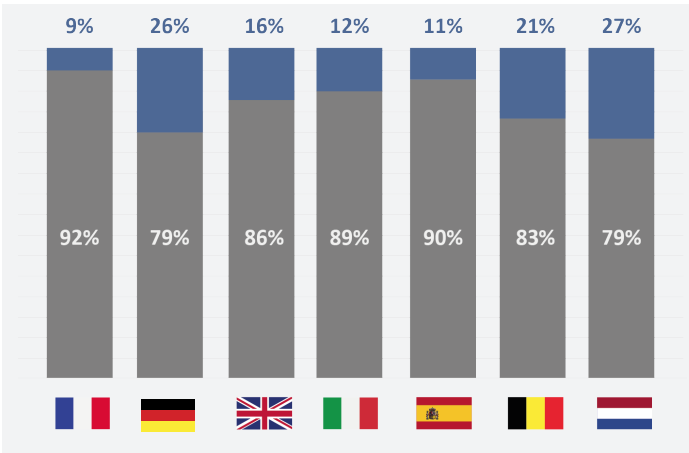
Under the revised Directive on Payment Services (PSD2)⁷, strong customer authentication is more specified as being two factor authentication that is bound to the payee (in case of subscriptions the merchant) and if possible the amount.

- 6** [https://www.eba.europa.eu/documents/10180/934179/EBA-GL-2014-12+\(Guidelines+on+the+security+of+internet+payments\)_Rev1](https://www.eba.europa.eu/documents/10180/934179/EBA-GL-2014-12+(Guidelines+on+the+security+of+internet+payments)_Rev1)

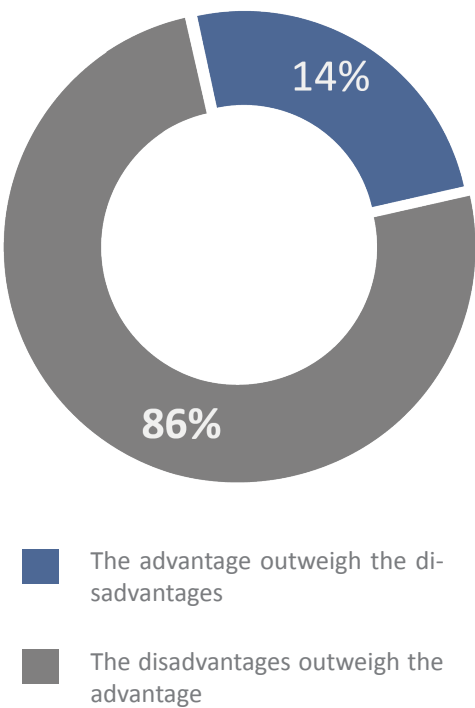
- 7** http://ec.europa.eu/finance/payments/framework/index_en.htm

3.3 FRICTIONLESS PAYMENTS: THE DILEMMA BETWEEN CUSTOMER EXPERIENCE AND SECURITY

This pro-security attitude from the regulator is also visible in the survey’s result, showing respondents’ general positive view on the advantages of authentication. When asked whether advantages of authentication outweigh the disadvantages, 86% of respondents answered in the affirmative. In this regard 92% of French respondents replied in the affirmative on while the Dutch and German respondents were the least supportive of this statement but still with a strong majority of 79% each.



View on authentication procedure (global)



As the increasingly digitized economy allows for new strategies to serve customers, nowadays product and services that were previously non-subscription based are offered in this fashion as well. The ease of use that is incorporated in receiving frequently bought products on a subscription level, demands for payment methods that allow for recurrence. Direct debit brings great value by enabling customers to forget about paying and to truly experience buying products and services in a seamless fashion. However, ease of use is not a main driver for customers choosing subscription based business model services. In fact, it is the extent of perceived security found in the payment method to be leading consumers towards a payment preference.

Additionally, a distinction between Europeans has to be made as their demand for security differs between countries. Even though customers demand convenient, seamless, frictionless and personalised user

experiences, overall they value security over ease of use. For merchants it is obvious that a more complex check-out decreases conversion rates. When introducing consumer authentication mechanisms, this will likely encourage abandonment of purchases. On a pan-European basis an average of 21% of respondents report some level of regular discouragement from the extra steps needed for verification purposes.

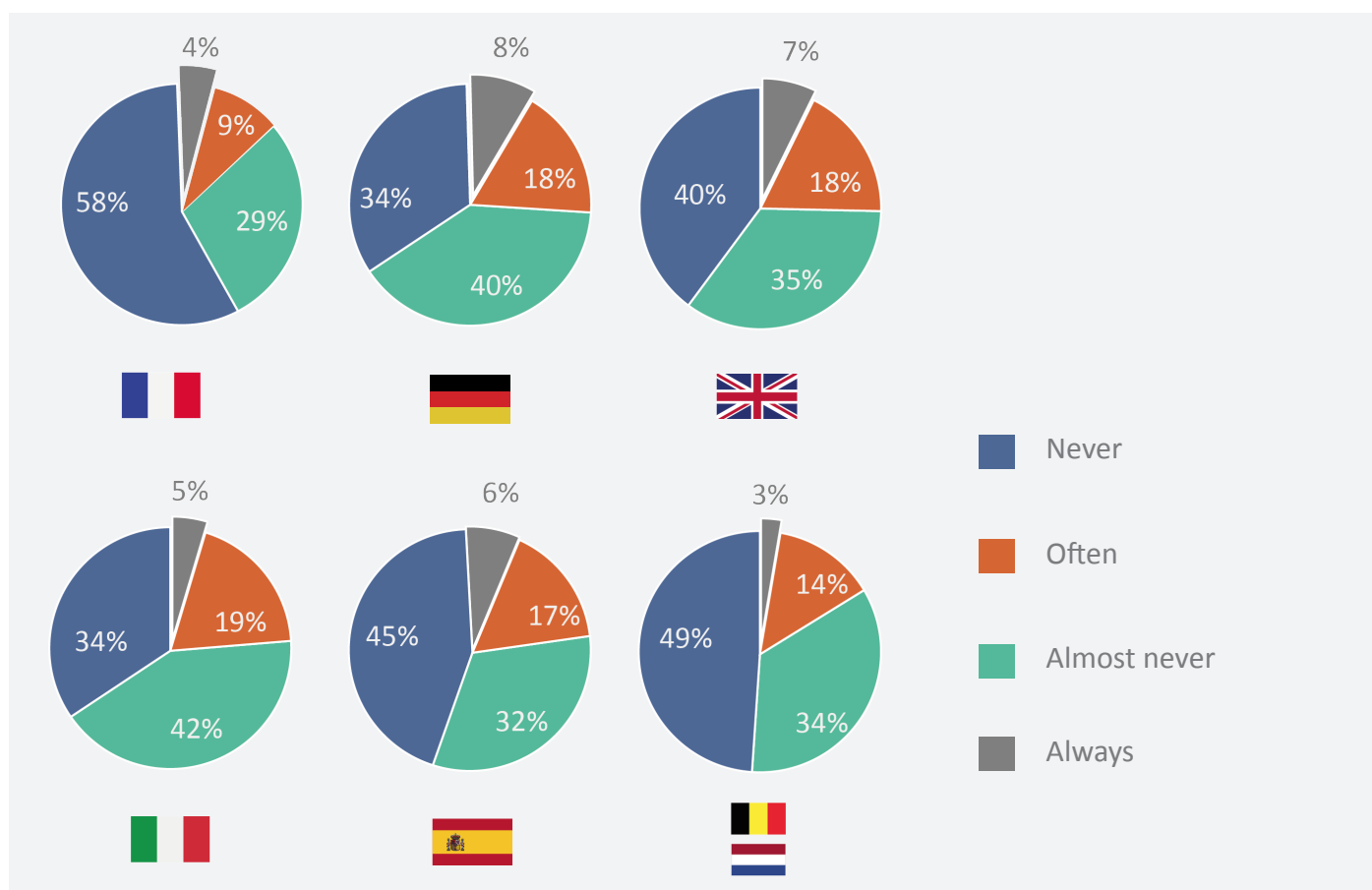
3.3

According to the survey authentication does always discourage 6% of the European customers on average. German customers seem to be more discouraged, as 8% indicated to abandon their purchase due to the verification step. In the Benelux the respondents are least deterred by the authentication, as only 3% of the customers always abandons their purchase. If the amount of respondents who also mentioned that it often leads to discouragement gets taken into account, then the Germans are the most easily discouraged at 26% and the French the least at 13%.

Using a digital interface to communicate with customers allows for quicker conversion than before. In order to reap full benefits of quick conversion, merchants need payment methods that instead of complicate, simplify the buying process, while satisfying the regulatory requirements for strong customer authentication.

Given this contradiction, the holy grail of online payments methods still seems to be a secure on-line payment method with an easy check-out process. Given the “request once, use many” nature of subscription based payments, they might just offer the optimal solution.

Does this verification step before paying and finalising discourage you to point that you abandon your purchase?



Conclusion

Subscription-based consumption has already penetrated the daily life of Europeans.

85% of European consumers uses subscriptions. Champions are the French and Spanish. The survey also shows that some Europeans are not always aware of having subscriptions active on their bank account. The very nature of subscriptions makes it frictionless and almost invisible to consumers.

There is room for growth for subscription-based commerce in Europe. 1 in 5 European consumers who declare not to make use of subscription are willing to do so in the future.

The subscription model is attractive for modern services: 30% of European respondents are open to subscribe to daily purchases. Streaming, on-demand media and home-delivery of food also rank top.

The study confirms the differences from one European country to another in terms of payment instrument usage. Nevertheless, some key common trends are emerging.

More than 40% of Europeans have already saved payment details to simplify recurring purchases. 1 in 4 that are currently not saving credentials online are willing to do so in the future.

Frictionless payments are preferred, but they need to be secure. Security trumps ease of use: the advantages of strong authentication outweigh the disadvantages for 86% of the European consumers.

On top of the fact that ECB data shows that direct debit is historically well positioned as an appropriate payment method for subscriptions, European consumers unanimously value it as the most secure payment method for subscription.



Smart recurring payments

SlimPay is a full stack payment solution for repeat and recurring payments. The solution enables merchants to automate and digitalise the entire payment process, creating a frictionless online transaction journey for end customers, and a fast, secure route to collecting payments for businesses. Founded in 2009, SlimPay is an authorised payment institution and counts over 2000 clients in 32 countries and employs over 60 payment experts.

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