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Vipps

Nordic banks join forces to recover lost ground in e-commerce, a credit positive

On 30 June, a number of large Nordic banks announced that they were merging their mobile payment providers – Vipps in Norway, MobilePay in Denmark and Pivo in Finland – to create a mobile payment provider with parent company Vipps AS that offers a single technical solution across the Nordics. The merger aims to improve the attractiveness of the service to pan-Nordic e-commerce retailers, share development costs and boost the potential for adding new payment products, a credit positive for the owner banks. The owner banks are Denmark's Danske Bank A/S (A2 negative/A3 stable, baa2[1]), Norway's DNB Bank ASA (Aa2/Aa2 stable, a3), a majority of smaller Norwegian banks and Finland's OP Financial Group (OP), which includes the rated entity OP Corporate Bank (Aa3/Aa3 stable, a3).

The new merged company will serve 11 million users and more than 330,000 shops and web retailers across the Nordic region. Given the high penetration these mobile payment providers have domestically, the merger brings scale to deliver further growth focused on growing the merged company's presence in e-commerce. Building new partnerships is essential to stay relevant in an increasingly digitalised environment, with a low and declining share of physical notes and coins in transactions. Investment costs in mobile payments are elevated and competition from pure digital payment service providers is intense, with Klarna Bank AB (publ) (Klarna) being a leader in e-commerce payments and checkout solutions.

We assess that the new company has the ability and willingness to develop e-commerce payment products and checkout solutions to compete with other payment service providers because of the new company's large customer base, access to expertise and infrastructure and financial backing from the large banks in each country.

Mobile payment providers started out as no-cost, peer-to-peer money transfer services, and gained wide and fast adoption. While the initial services allowed banks to lower the volume of physical notes and coins in circulation, thereby reducing costs related to the handling of physical cash, banks' share of payments in e-commerce has been small. To improve revenues, banks must also attract more e-commerce retailers.

The Vipps technology, which will be used in all three countries, has the advantage of being able to build in further functions for the user, such as paying bills easily via mobile, and thus increase its attractiveness for users. A payment solution widely adopted by users is likely to gain traction among e-commerce retailers. Thus, the merged company has the potential to challenge incumbent buy-now-pay-later providers.

Swedish mobile payment provider Swish AB is not part of this merger, leaving Sweden with a separate technical solution that uses its own infrastructure to process mobile payments.

The launch of P27 aims to harmonise the payments infrastructure across the Nordics, but the decision by Swish not to be part of the Vipps merger indicates that not all banks are ready to abandon their own technologies and infrastructure.

The Vipps merger is conditional on approval by the relevant authorities, including the European Commission. The parties expect to receive final approval in the second half of 2021 or in early 2022. The banks behind Vipps will own 65% of the new parent company, Vipps AS, with Danske Bank owning 25% and OP owning 10%. The reason the Norwegian share is 65% is that the banks behind Vipps cover almost the entire Norwegian banking sector.

Endnotes

1 The ratings shown in this report are the bank's deposit rating, senior unsecured debt rating and Baseline Credit Assessment.

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