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Chairman's Note

By MICHAEL LAFFERTY, London

Already we have reached the end of the first quarter of 2014 and the cards and payments industry's reputation as one of the most constantly disrupted industries in the world is fully intact. In this month's issue alone there are revolutionary ideas that look set to shake the payments ecosystem. One of these is inspired by the entertainment industry: PayStand CEO Jeremy Almond explains to *Insights* how replacing merchant service charges with a monthly subscription fee could become the business model of the future for the industry. This way of collecting revenue from merchants is similar to the way that everyday consumers pay for music and film subscription services such as Spotify and Netflix. Almond has also ensured that PayStand is laying infrastructure now so that merchants can continue to accept a blend of cash, card and virtual currency in the future. In an exclusive interview, Almond explains to *Insights* about the influence of investors in payments start-ups and what it takes to succeed.

Also this month, from an academic perspective, Professors Ewald Judt and Malte Krueger investigate whether or not there is a place in the industry for a European card payments scheme (ECPS), in an extract from their recent research paper. The authors make a number of valuable observations and urge the essential point for an ECPS that all transactions of cards issued in Europe should be processed in Europe, cleared in Europe and settled in Europe. This could be done by the scheme itself, a subsidiary of the scheme or by any processor approved by the scheme. Ewald Judt is Honorary Professor at the Vienna University of Economics and Business; Malte Krueger is Professor at the University of Applied Sciences Aschaffenburg. Both the extract and their full paper ("A European card payments scheme – Forever a phantom?", published in the *Journal of Payments Strategy & Systems*) are highly recommended.

Turning from Europe to Latin America, *Insights* takes a look at merchant acquiring activities in the region, in an extract from a new Lafferty report. It is a pleasure to be able to offer such in-depth knowledge of countries like Colombia to our readership. In Colombia, there remains an underdeveloped credit cards market, even by regional standards. More than 90 percent of transactions and billed volume take place in three cities: Bogota, Cali, and Medellin. Bogota alone represents nearly two-thirds of credit card billed volume in the country – a reflection of the limited bank penetration in smaller cities and rural areas.

A guest piece from Steve Edkins, CEO of FusionExperience, looks at how digital payment providers are fast becoming the major challenge to traditional financial services providers. Edkins' piece draws from new figures released from the British Bankers' Association (BBA) that reveal that smartphone banking has doubled, with 5.7 million transactions being completed through mobiles each day.

Digital natives are increasingly using mobiles and mobile apps for a number of banking needs. Speaking of mobile banking apps, reports in the financial press this month have shone a light on the possibility of NFC technology being efficiently integrated into the Transport for London (TfL) network. Reports suggest that two mobile phone network operators are working hard to have their respective digital wallets ready to interface with terminals on both the London Underground and at regular train ticket barriers.

Facilitating customers on one of the world's busiest commuter hubs may bring relevance to NFC, a technology that has been criticised as struggling to find its audience by certain industry stakeholders.

TABLE OF CONTENTS

LAFFERTY

One Lyric Square, London, W6 0NB
United Kingdom
T: +44 (0)203 008 8415 *F:*+44 (0)203 008 8426
www.lafferty.com

Michael Lafferty
Publisher and Editor-in-Chief
E: michael.lafferty@lafferty.com

Owen Sweeney
Assistant Editor
E: owen.sweeney@lafferty.com
T: +353 (0) 98 39126

Fin Keegan
Managing Editor
E: fin.keegan@lafferty.com

Kerry Manning
Assistant Publisher/Advertising Sales
E: kerry.manning@lafferty.com
T: +353 (0) 98 39128

Laura Wilkinson
Graphic Designer
E: laura.wilkinson@lafferty.com

International Academy of Retail Banking

Evelyn Hunter-Jordan
Executive Director
E: evelyn.hunter-jordan@iarb.org
T: +44 (0)20 3008 5283

Dick Harryvan
Co-chairman
E: dick.harryvan@iarb.org

Professor Abdul Rahman
Academic Director
E: abdul.rahman@iarb.org

Steven Cowan
Head of Group Marketing
E: steven.cowan@iarb.org
T: +44 (0) 20 3008 8425

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NEWS BRIEFS

WALMART CHANNELS MONEY TRANSFER AND PREPAID SERVICES THROUGH ITS PHYSICAL STORES

US retailer Walmart has announced a store-to-store money transfer service and its participation in a new Amex prepaid card scheme.

The Walmart money transfer service, known as Walmart-2-Walmart, will operate along the lines of Western Union's agent-based model and will enable customers to send money at one Walmart store while a different party collects at another.

The retailer has said that it has observed its customers struggle with the fees associated with traditional money transfer services and now, with the help of money transfer business Ria, promises to undercut current prices by up to 50 percent. Walmart will bring the money transfer service to 4,000 physical stores across the US.

Daniel Eckert, senior vice president of services for Walmart US, said: "After listening to our customers complain about the high fees and confusion associated with transferring money, we knew there had to be a solution. Walmart-2-Walmart brings new competition and transparent, everyday low prices to a market that has become complicated and costly for our customers. We're doing what we do best – launching a new service that challenges the status quo and drives down prices for our customers."

Walmart-2-Walmart's fee structure will have two pricing tiers: customers can transfer up to $50 for $4.50 and up to $900 for $9.50. The retailer's research says that current competitive offerings often include 10 or more fee tiers and charge up to $70 for transferring less than $1,000. Furthermore, money transfers above $50 make up the majority of transactions in the US: Walmart hopes to bring dramatic savings to these customers.

Ria is a Euronet subsidiary and a leading global provider of money transfers and will be the licensed money transfer operator for all Walmart-2-Walmart transactions.

Also this month, American Express said that it will launch its new prepaid payments card, aimed at financially underserved customers, through a number of retailers including Walmart. The card, known as Amex Serve, can be used to pay bills, buy groceries, shop online, withdraw cash for free at over 24,000 ATMs, send and receive money between family and friends with Serve Accounts, and be used virtually anywhere American Express Cards are accepted.

Walmart claims that 28 percent of Americans are classified as either underbanked or unbanked, with millions using money transfers as a critical part of maintaining household budgets or helping friends and family in times of crisis. The two new services will be added to the retailer's current suite of financial service offerings that include: cheque cashing, bill pay, money orders and tax preparation services, the Walmart MoneyCard (a reloadable prepaid card) and Bluebird (a checking and debit alternative).

MASTERCARD ACQUIRES AUSTRALIA-BASED LOYALTY AND REWARDS SERVICE PROVIDER

MasterCard has announced the acquisition of the loyalty and rewards company, Pinpoint, to expand services to issuers in the Asia-Pacific region.

Pinpoint, which was founded in 1984 and headquartered in Sydney, has a growing footprint across the region in key markets such as China, Hong Kong, India, Taiwan and Japan. Its customer base includes financial institutions and merchants.

MasterCard believes that this acquisition, in combination with its own existing capabilities, will benefit issuers, providing them with more effective and efficient rewards programmes to offer their customers. Furthermore the card scheme hopes the new venture will also help merchants to target new customers while retaining their existing client base, allowing them to grow their businesses and raise profitability. In addition, MasterCard's customers benefit from a wider choice of relevant and targeted offers.

Commenting on the acquisition, Vicky Bindra, president of Asia-Pacific, Middle East and Africa for MasterCard, said: "Bringing innovative and personalised rewards solutions to cardholders and customers is a priority for MasterCard. This is why it's exciting when we come across companies such as Pinpoint that excel in this area. Not only does Pinpoint offer a competitive edge in Australia, its growing presence across Asia-Pacific also holds much promise and will allow us to offer more effective programmes to our customers and cardholders."

The acquisition is expected to close in the second quarter of 2014.

ICICI AND VODAFONE COMPLETE M-PESA ROLLOUT IN INDIA

ICICI Bank and Vodafone are said to have completed the pan-India rollout of the mobile money transfer service M-Pesa.

India's Business Today online news service quotes Suresh Sethi, head of M-Pesa India, as saying that the rollout will be concluded this month with the addition to the network of Kerala and Andhra Pradesh states. M-Pesa was initially launched in four eastern states then moved on to major cities including Delhi and Mumbai, each phase accompanied by the training and authorisation of M-Pesa agents, now numbering 60,000. The M-Pesa service continues to be heralded as an effective mobile money tool that equips the unbanked and the financially underserved with basic financial services.

With an M-Pesa account, customers in India can deposit and withdraw cash from designated outlets, transfer money to any mobile phone in India, remit money to any bank account in India, make payments to load airtime, pay utility and satellite television bills and make purchases at certain shops.

Commenting on the service, Rajiv Sabharwal, executive director of ICICI Bank, said: "ICICI Bank has been at the forefront of technological innovations in banking. With the launch of 'M-Pesa', the bank now offers a unique and innovative service that provides basic banking facilities to millions of Indians who still depend on informal channels for their banking needs. We are very happy with the partnership with Vodafone as the tie-up will effectively leverage the security of financial transactions provided to customers by ICICI Bank and the strengths of Vodafone's significant distribution reach. This launch is in line with the bank's objective of achieving greater financial inclusion. It also enriches the bank's existing suite of mobile banking offerings."

The service was first launched in 2007 as a joint venture between Vodafone and Safaricom; M-Pesa achieved unprecedented success in its pilot market of Kenya and is heralded as a champion product for financial inclusion.

Earlier this year M-Pesa entered Romania, its first European market, where Vodafone is hoping to offer the service to approximately six million consumers who transact mainly in cash.

DIGITAL RIVER EXTENDS ITS SMB PAYMENTS SOLUTION TO UK MERCHANTS

Digital River, the global provider of 'Commerce-as-a-Service' solutions, has announced the expansion of its Digital River small and mid-size business (SMB) payments solution into the UK. The solution offers the parties involved (small and medium enterprises, commerce providers, systems integrators and developers) turn-key access to credit card processing capabilities for Visa, MasterCard and Maestro cards in euros and pounds sterling. The SMB solution already supports more than 17,000 merchants and partners in Canada. Digital River SMB offers several features for companies in Britain, including the ability to leverage payment tools that include recurring billing, batch processing, data import services, virtual terminal, tokenisation, fraud and authentication tools, and a developer portal. Recently, Volusion, an e-commerce provider for small and medium enterprises, integrated the Digital River SMB Payments solution with its commerce platform. The integration is designed to enable independent operators of Volusion e-shops to quickly launch online card processing capabilities in the UK.

"We are looking forward to working with Digital River and expanding our payments portfolio with services that are localised for the UK market," said David House, director of UK sales at Volusion. "This enhanced functionality will help our customers drive sales."

"The combination of our payments capabilities with Volusion's commerce platform creates a pairing that nicely complements the core competencies that each company brings to the integration," said Souheil Badran, senior vice president and general manager of Digital River World Payments. "We plan to continue to leverage this partner-centric integration strategy to create new opportunities across the UK as well as other geographies."

In 2013, Digital River processed more than $30 billion in online transactions, connecting B2B and B2C digital products and cloud service companies, as well as branded manufacturers, with buyers across multiple devices and channels.

AMEX AND CAPITAL ONE REPORT POSITIVE FIRST QUARTER RESULTS

American Express has reported net income for the first quarter of 2014 of $1.4 billion, a rise of twelve percent on the same period a year ago. Diluted earnings per share rose 16 percent to $1.33, from $1.15 for the same quarter last year. The results beat analysts' estimates.

The company's US Card Services reported first-quarter net income of $876 million (a rise of nine percent over a year ago) while International Card Services reported first-quarter net income of $159 million (a fall of 11 percent from a year ago). Global Network and Merchant Services saw net income of $443 million (up 19 percent on last year's first quarter); Global Commercial Services reported net income of $184 million (down four percent from last year's first quarter figure of $191 million).

Kenneth Chenault, chairman and chief executive officer, commented: "We are off to a good start to 2014, thanks to disciplined expense control, credit metrics near their historic low, higher revenues and a strong balance sheet that allows us to return a substantial amount of capital to shareholders. Card member spending was up six percent globally (seven percent adjusted for foreign currency conversions), with higher volumes in the US and internationally. While consumers remain cautious about taking on additional debt, we continued to see a modest increase in card member loan balances."

In their statement, Amex noted that its effective tax rate for the quarter just ended was 35 percent (up from 33 percent a year ago) while its return on average equity was 28.3 percent (up from 23.2 percent a year ago).

Also in the United States, Capital One, which derives over half of its revenues from credit cards, reported net income for the quarter ended March 31 of $1.2 billion (versus $1.1 billion a year ago: a rise of nine percent) or $1.96 per diluted common share (versus $1.77 a year ago: a 10.7 percent rise). Richard Fairbank, chairman and CEO, commented: "We received no objection to our [Federal Reserve stress test] and announced a $2.5 billion share repurchase programme that we expect to complete by the end of the first quarter of 2015."

FACEBOOK CLOSE TO BECOMING ELECTRONIC MONEY INSTITUTION IN EUROPE

Facebook, the market leader in social networking with over one billion active users, is "only weeks away" from gaining an Electronic Money Institution (EMI) licence in Ireland, according to the *Financial Times*.

EMIs in Europe can also avail of 'passporting', a process that allows firms to issue, redeem and distribute e-money or to provide payment services in other European Union countries under the terms of the EU's Payment Services Directive. The FT cites "three people involved in the discussions" to report that Facebook has also been in discussions with potential partners in London – TransferWise, Moni Technologies and Azimo – that offer international money transfer services online and through smartphone platforms.

Although these potential partners are all based in the UK, Facebook has chosen to apply for its e-money institution licence in Ireland. London has long been the dominant player in issuing e-money licences under the terms of the EU's E-Money Directive, with 53 such institutions licensed by the UK authorities. Several small countries have also issued licenses – Luxembourg (six licenses), Denmark (three) and Cyprus (one). Ireland, on the cusp of licensing Facebook, may now challenge all of them as the preferred gateway for e-money firms coming in from outside the EU. The prudential supervision requirements set out by the Irish central bank reveal that at the time of authorisation an EMI is required to hold a minimum level of initial capital of not less than €350,000: this should not be a problem for the American social networking giant, which reported revenues in its latest annual report of almost $7.9 billion and net income of $1.5 billion for 2013.

FUJITSU BRINGS BIOMETRIC ATMS TO EUROPE

Fujitsu have launched a new series of ATMs in the European market offering highly secure user authentication with biometric recognition through scanning of users' palms.

Called Fujitsu PalmSecure, the security solution uses sensors through a near-infrared light; this sensor reveals the vein pattern of a presented palm. Since each pattern differs by individual, a biometric template can be used to reveal the identity of the user. Fujitsu's technology is distinct because it does not call for any contact with the skin, offering a clear advantage to both bank and customer.

Besides incorporating Fujitsu's PalmSecure technology, the ATM Series 100 has mobile NFC support along with the customary functionalities of a typical ATM, from cash dispensing to multimedia features, although the company has lightened the machine as much as possible. Fujitsu revealed that its focus was on "reducing the ATM's weight to enable installation in small spaces, plus integrating specialised software to conduct periodic controls [and provide] operational and energy savings".

Juan José Alert, head of banking business for Fujitsu, commented: "Retail banking is evolving to meet the changing needs of customers who are demanding greater financial flexibility, and Fujitsu is committed to developing a new family of 'smart' ATMs – starting with the Fujitsu ATM Series 100 – drawing on our four decades of experience in this sector, our European Centre of Excellence for Banking Technology in Spain, and our 360º Solutions for the Banking Industry."

NEW UK REGULATOR IDENTIFIES CREDIT CARD INDEBTEDNESS AMONGST CONSUMERS AS KEY PRIORITY

In a speech delivered at Credit Today's Credit Summit in London, Martin Wheatley, chief executive of the Financial Conduct Authority (FCA), has identified the well-being of "those in the most vulnerable circumstances" as a key priority for the regulator, which took over formal responsibility for regulating the UK's consumer finance industry at the start of this month.

Wheatley put the question bluntly: "Why are card issuers providing the means, in some cases, for the most indebted consumers to escalate their way into further debt?"

"Many [consumers] are clearly struggling to manage their commitments on credit cards, as well as other bills. So, we know it's not uncommon for the most 'at risk' households to hold multiple cards and revolve multiple balances month-by-month. Among the UK's 30 million plus cardholders, something like 3.7 percent make minimum payments for 12 months or over – 2.3 percent for 24 months or over. Equivalent to more than a million borrowers making 12 or more consecutive minimum payments; 700,000 doing the same for over two years."

Wheatley also raised the question of whether those who revolve their credit are effectively subsidising those who are in a position to pay off their balances at the end of each month.

Research from Which?, the British

consumer advocacy group, has found that 44 percent of borrowers fail to repay their credit card balance in full every month. In a statement, Which? said: "We'd like to see the FCA investigating how lenders can help put people in control by providing clearer information, stopping excessive penalties and encouraging people to shop around without it damaging their credit rating."

FINANCIAL SERVICES INDUSTRY RESPONDS TO HEARTBLEED BUG IN SECURE SERVERS

A leading cryptographic software library called OpenSSL that authenticates and encrypts online content has been exposed as vulnerable to the mining of names, passwords and transmitted content.

The faulty OpenSSL version at issue has been in use since March 2012 and is incorporated into many online operating systems: since two-thirds of secured online servers use OpenSSL, the vulnerability is highly significant, although older OpenSSL deployments are not vulnerable. The technical team responsible has 'patched' the bug in question, known as Heartbleed, and is reissuing security certificates to restore users' data security. When news broke of the situation, the Federal Financial Institutions Examination Council (FFIEC) in the United States warned banks to take immediate action, saying that retaining a faulty system "could allow an attacker to decrypt, spoof, or perform attacks on network communications that would otherwise be protected by encryption".

The FFIEC added that "financial institutions relying upon third-party service providers should ensure those providers are aware of the vulnerability and are taking appropriate mitigation action". Firms worldwide have been taking the necessary technical steps and advising customers online: in many cases this is taking the form of a notice confirming that the site has not been affected.

The vulnerability was discovered simultaneously by Google engineers and Codenomicon, a Finnish security firm. A week after the bug was announced, a Canadian teenager was arrested for allegedly stealing tax identification details of 900 individuals: although a comparatively small breach, it serves to demonstrate the ease with which a skilled coder could extract sensitive financial information.

BofA TO PAY $727 MILLION FOR CARD VIOLATIONS

Bank of America (BofA) has concluded discussions with the Consumer Financial Protection Bureau (CFPB) in the United States that will see it pay over $727 million in settlements, following allegations that customers were pushed into signing up for extra credit card products.

The CFPB was established by US lawmakers in 2012 to protect consumers by carrying out federal consumer financial laws. Empowered by the Dodd-Frank Act of 2010, the CFPB has ordered Bank of America and its wholly-owned subsidiary, FIA Card Services, to make the payment in order to recompense what the CFPB calls "millions of consumers harmed by [the] bank's deceptive marketing and unfair credit card billing practices".

The deceptive marketing is related to two particular payment protection products ("Credit Protection Plus" and "Credit Protection Deluxe") sold between 2010 and 2012: telemarketing scripts were found to contain misstatements. The billing practices, on the other hand, stemmed from billing customers without or before obtaining the authorisation necessary to perform the credit monitoring and credit report retrieval services associated with certain identity protection products.

"We have consistently warned companies about illegal practices related to credit card add-on products," said CFPB Director Richard Cordray.

"Bank of America both deceived consumers and unfairly billed consumers for services not performed. We will not tolerate such practices and will continue to be vigilant in our pursuit of companies who wrong consumers in this market."

According to CFPB estimates, some 1.4 million consumers were affected by the bank's deceptive marketing of add-on products while the charges deemed to be illegal affected approximately 1.9 million accounts.

The measures being taken against Bank of America comprise the fifth action the Consumer Financial Protection Bureau has taken in the last two years to address illegal practices concerning credit card product sales: previously the CFPB has reached settlement agreements with American Express, Capital One Financial, Discover Financial Services and JPMorgan Chase.

NEW STANDALONE DEVICE SEEKS TO REMOVE THE DIGITAL WALLET FROM THE SMARTPHONE

A new digital wallet technology called 'Wocket' has been announced in the United States that offers consumers a digital wallet without a smartphone.

Use of the wallet, which operates without any smartphone involvement, involves dynamic pairing: a patent-pending method where two devices dynamically generate pseudo-random pairing codes recognised by other devices. Users swipe their cards directly into the wallet during the initial set-up process. Barcodes and text may be scanned or entered into the wallet as well.

There is effectively no limit on the Wocket's storage capacity for each consumer. A strong selling point may be the realisation that if the rest of the industry moves forward with smartphone-based payments, a phone's battery life will have a large say in whether or not users will be able to complete a desired payment transaction.

For extra security, the Wocket smart wallet generates a dynamic account number that reveals no information about the actual account number, but is 'dynamically paired' to a specific account number so that a transaction can take place without uprooting the retailer's existing infrastructure. The Wocket uses standard magnetic stripe technology on its reprogrammable card; no additional hardware at the retailer level is required.

Although yet to be officially launched, the company has said that versions of Wocket will include a wider range of communication technologies, such as 4G and NFC.

MOBILE MONEY IN LATIN AMERICA

A look at the mobile money industry in leading Latin American markets and how developments and innovations from this region could shape the future of mobile money across the world

By Kerry Manning

Mobile money services can be broadly categorised into three financial functions that are able to be performed using a mobile device: m-transfers, m-payments and m-banking. Mobile money services must feature a means of payment that includes any payment instrument (electronic money, debit transfer, electronic prepayment, and so on) that may be embedded in a mobile device, or stored remotely and directly linked to a mobile device or mobile subscriber.

Latin America has been identified as a region to watch in the global unfolding of this new era in payments: the recently announced EEDE (Entidad Emisora de Dinero Electroñico – Electronic Money Issuer Companies) legislation in Peru and the Payment Institution legislation in Brazil are game changers.

"Peru and Brazil are leading the way by allowing non-banks to accept and store deposits and issue e-money", says Patrick Houlihan, lead researcher on the Lafferty Mobile Money Global Research Programme. "This permits mobile network operators (MNOs) to issue e-money and opens the door for MNOs to dominate the mobile money markets in these countries in the years to come."

Bancarization

The low rate of bancarization throughout Latin America has led to a concerted effort from authorities to increase the level of financial inclusion. "Mobile money is expected to increase the rate of financial inclusion," notes Houlihan, "a major goal of the authorities in developing countries. Colombia is expected to follow Brazil and Peru and permit non-bank e-money issuance shortly."

The unbanked 'gap' refers to the number of individuals who possess a mobile device, but who don't have a bank account. Mobile money is in the perfect position to take advantage of this and to bring financial services to the unbanked and underbanked, effecting positive change by increasing the rate of bancarization. This is expected to lead to significant growth in mobile money in the next decade.

In addition, any player entering the market should consider the regional trend in which the consumer can be segmented into the affluent metropolitan middle-class and the unbanked/underbanked portion of society. Although the unbanked – both rural and urban poor – are a focus for mobile money deployments, the early adopters in the metropolitan areas should not be ignored. This segment, being much more affluent than the unbanked, represents a potentially lucrative consumer segment.

Interoperability

A lack of interoperability acts as a brake on mobile financial services and this is a key pain point for both clients and entrants to the mobile money arena in Latin America. Mobile money deployments are not in competition with each other: they are in competition with cash. This is because cash is accepted everywhere, making it fully interoperable. Mobile money, by contrast, is not widely accepted. Unless mobile money is widely accepted, it will not reach the point where scalability is possible.

Peru has recognised this reality with the launch of a new initiative to improve interoperability. This new mobile money ecosystem is spearheaded by ASBANC, the Peruvian banking association. All the major players in the market, including banks and mobile network operators, are working together to create this new ecosystem that aims to increase the number of touchpoints where patrons may pay using mobile money.

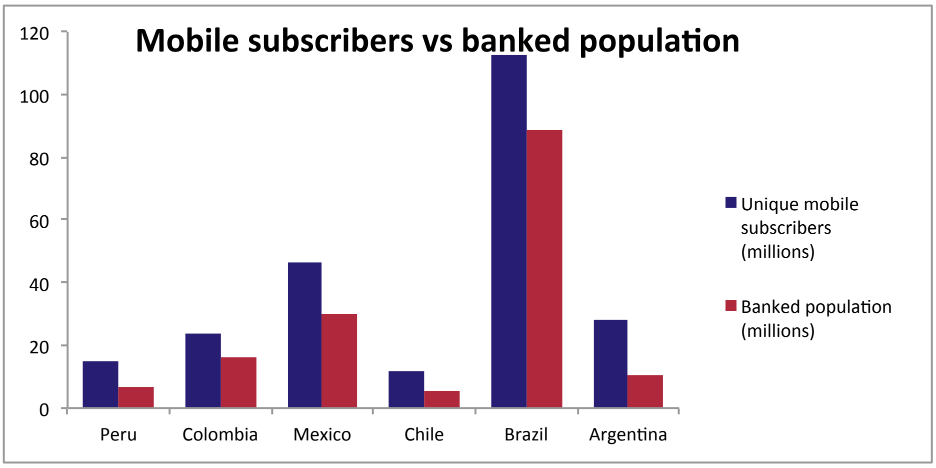
Business models

There are several different mobile money business models in operation in Latin America. The bank-led model, which is the most common business model, features a deployment promoted by a bank. This involves adding a new product (i.e. mobile money) to the bank's existing portfolio of products and services. A successful example of this is Daviplata in Colombia, which is promoted by Banco Davivienda.

In contrast, an MNO-led model is a deployment promoted by a mobile network operator. In most cases they partner with a bank. Further models include joint venture/partnership and third party/franchise operations.

Wanda

Wanda, whose stakeholders are Telefónica and MasterCard, is a very interesting deployment. It has already launched operations in Peru and Argentina, and plans to become a pan-Latin American deployment by launching operations in a further ten Latin American countries. This opens up the possibility of facilitating intra-Latin American international remittances, which would position Wanda to become the dominant player in mobile money in Latin America.



The key role of agencies

The provision of wide and extensive networks of banking correspondent agents has been an essential part of increasing the rate of financial inclusion across the region. Agents bring financial services to remote and difficult-to-access areas, increasing the reach of banks. They also provide essential services to rural mobile money clients, especially cash-in, cash-out operations (CICO).

In urban areas, however, agencies are used to decongest branches and provide low-cost branchless banking by processing low-value transactions.

Brazil, the largest market in Latin America, has the most extensive network of banking correspondent agents in the region. Colombia has also seen strong growth in the number of correspondent agents, with most other countries in the region following this trend.

Regulation

The importance of regulation at this stage cannot be stressed enough. As mentioned above, Peru has passed legislation authorising the creation of EEDE institutions, while Brazil has passed legislation that creates 'payment institutions'. This legislation means that both of these countries are among the most advanced mobile money markets in the world. In short, the legislation means that non-banks may accept and store deposits and then issue e-money. Potentially the biggest winners from this legislation are the telcos, as they no longer have to partner with a bank. With MNOs owning both the essential infrastructure and the customer accounts, the legislation sets the scene for an MNO-dominated mobile money market in these countries.

As the legislation in both Peru and Brazil was only passed recently, it is still too soon to consider its effectiveness. It does however, open the door for MNOs to command the mobile money market. It also allows other non-bank corporate entities, such as Yepex, to enter the market. On the flip side, licenced financial institutions stand to gain the least.

Colombia is expected to follow the trend and pass legislation allowing the establishment of SEDE institutions in the near future, leading the way for other countries in the region to follow the same template.

Across Latin America certain consumer trends are prevalent; these trends include security, a strong remittance market, smartphone usage, G2P transfers and healthy growth in the use of credit and debit cards. These and other factors should be considered by any player looking to enter any of the Latin American mobile money markets.

Strong economic growth in recent years and a population structure that is disproportionately skewed towards the young also favours growth in the adoption of mobile money.

Lafferty has researched and published Mobile Money reports for the following Latin American markets: Brazil, Peru, Colombia, Argentina, Chile and Mexico. The global series also includes Nigeria, Philippines, Morocco, India, Indonesia, Jordan and Egypt. For more information please contact Kerry Manning at kerry.manning@lafferty.com

LOOKING FORWARD

Is there a future for a European card payments scheme?

By Ewald Judt and Malte Krueger

For many years, and at least since SEPA was considered for the first time, there have been requests for a European card payments scheme (ECPS). The ensuing debate has produced no implementation to date. The main arguments for an ECPS relate to the increasing importance of electronic money flows for the retail payment network. A card payment network would have similar relevance to the economy as a functioning power grid or a mobile phone network. Interestingly, the EU Commission has also encouraged the creation of European networks in these areas.

All the efforts made in recent years towards an ECPS have not produced the desired results. The Euro Alliance of Payment Systems (EAPS) was unable to achieve the ambitious goals it set itself. The same applies to PayFair. Monnet, a project initially put in place by seven banks in seven countries (with more following afterwards) and intended to become an ECPS, was abandoned before it started. Eufiserv has some coverage in the ATM market but has struggled to achieve similar reach in POS payments.

These examples show that a true ECPS is unlikely to emerge within the current regulatory architecture of the card market, which is focused on scheme competition. The creation of a true ECPS can only be achieved by means of a cooperative solution similar to the European Payments Council (EPC).

This will require the consensus of the European players in the card business and a willingness to make the necessary capital investment, as well as the benevolent support of those European institutions that have demanded an ECPS. So far, European decision-makers have only formulated a wish-list based on somewhat inconsistent principles.

However, because of the lack of support by European institutions (and the ignorance shown by the top management of European banks and payment institutions concerning the importance of European governance in the face of billions of card transactions) together with the lack of a "spiritual leader"[1] to drive this project, the ECPS will probably remain a phantom.

The idea

Many European institutions, including the European Commission and the European Central Bank (ECB), see the absence of an ECPS as a major shortcoming of the European retail payment landscape.

As they point out, outside Europe there are several global card payment systems (especially US payment systems) and others with a global claim that are currently expanding internationally. But it is often unclear what different people mean by an ECPS and often they can be understood in different ways.

A generally accepted definition of an ECPS does not yet exist. It seems important, therefore, that those who demand an ECPS explain what they mean.

In principle, an ECPS should be, in the face of today's dominance by the two US schemes, capable of competing with these large schemes eye to eye.

It is uncontested that an ECPS should come under European governance by European shareholders (with respect to the control of the payment system, its functionality, rulemaking, fees and trademark rights). It is similarly uncontested that the processing should be European: that is, that authorisation and clearing of transactions should be done by Europeans with Europeans and that settlement should take place in Europe.

There is no consensus, however, on the other elements of the ECPS: which types of cards should be included? Should the cards only be accepted in Europe, or should worldwide acceptance be an option? What should a sustainable interchange fee system look like that takes into account the interests of all parties? How could a business model be set up that would be maintained over a long period of time in view of the necessary investments?

The past

This is not the first time the question of the existence/non-existence of an ECPS has arisen. It has frequently been put forward in the past and has been addressed in various ways over the years.

The eurocheque system can be thought of as the first genuine European payments system. It was introduced in the 1960s and phased out at the end of 2001. In the end there were 46 participating countries, of which 22 were 'active' (i.e., issuance and acceptance of eurocheques with eurocheque cards) and 24 'passive' (i.e., only acceptance of eurocheques with eurocheque cards). Thus, the eurocheque was widely accepted all over Europe. However, there was one drawback: the issuance of eurocheque cards and eurocheques on a broad basis took place in only seven countries.

Eurocheque International had already kick-started the further development of the cheque guarantee system into the chequeless debit card system, EDC (European Debit Card), at an early stage.

After the merger of the eurocheque system with the Eurocard system to become Europay International (with MasterCard as minority shareholder), EDC was transferred to Maestro International, (which was 50 percent owned by Europay International and 50 percent by MasterCard International) and rebranded as "Maestro", which even today can be found on most ex-eurocheque cards as a brand or cobrand.

From today's perspective, EDC was certainly by design an ECPS, but never took off. Maestro, under the influence of MasterCard International regarding the governance of the scheme, could not and cannot be considered a truly *European* payments scheme.

What came closest to an ECPS was Europay International, the result of the mentioned merger of eurocheque International and Eurocard International, with a credit card (brand owner) and a debit card (50 percent brand owner of the subsidiary Maestro International) in the product portfolio. The vast majority of the company shares were owned by European banks and banking associations, with MasterCard International having a minority stake.

This minority share was agreed upon to ensure that the genuinely *European* credit card "Eurocard" (issuance and acceptance only in Europe) would have worldwide acceptance due to its cobranding with MasterCard.

Transactions made outside Europe by cards issued in Europe could be cleared and settled through the respective cobranding scheme. The same would apply to transactions made in Europe by cards issued outside of Europe

However, Europay International cannot be regarded as a truly European payments system because the European shareholders of Europay International had interests in many different ventures and major card players were not represented as shareholders.[2]

In retrospect, it can be established that, at the start of the SEPA discussion, it would have been easy to set up an ECPS if there had been the will to do so. At that time, in most European countries, there were national institutions owned by banks in the respective countries.

The opportunity to merge these European payment companies into an ECPS to allow for low transaction costs due to Europe-wide economies of scale was missed. In any case, it is noteworthy that the European banks had just given up Europay International in the same year (2002) in which the EPC was founded. Subsequently, an ECPS was not considered by the EPC.

The design

So far, all attempts to create a real ECPS in line with the demands of the relevant European institutions have failed. Moreover, in spite of the promotion of SEPA, there are still a lot of (domestic) schemes that claim to be SEPA- and/or SCF-compliant (where SCF stands for SEPA Cards Framework) and may legally be so, but whose real business areas do not effectively extend beyond national borders.

The aggregation of these schemes at

the European level has not been an issue on the political agenda because decision-makers favour the idea of scheme competition within SEPA.

However, if the objective is an ECPS covering the whole European payments area, then this idea must be promoted politically in a more active fashion.

A true ECPS of this sort can only come from a solution based on cooperation. In the face of a global competitive environment, it is difficult to imagine that the European Union will establish an ECPS by regulation (as China has done) and mandate its use by all European cards and acceptance points.

A collaborative solution like the EPC is feasible, however. This could be done through a voluntary agreement between the European banking associations, analogous to SDD (SEPA Direct Debit) and SCT (SEPA Credit Transfer), with support by the European Commission and the ECB.

Such a collaborative solution would not have to cover all elements of a card payment scheme. Essentially, on the issuing side it would have to be made clear that "all cards are part of the ECPS". Processing rules should make sure that "all transactions made by European cards in Europe are processed in Europe". The acquiring, however, could remain subject to market forces, although regulatory support would be helpful in order to achieve the rapid establishment of ECPS by card acceptors ("any card at any terminal").

The elements of a possible ECPS based on a cooperative solution have to be defined.

If the ECPS is meant to cover the entire market and lead to appropriate economies of scale on a European basis, then it will be necessary for all cards issued in Europe to be part of the ECPS. All card issuers, regardless of their origin, might act as licensees of the ECPS.

On the acceptance side, it would be similarly important that, as far as possible, all acceptors domiciled in Europe should take part in the ECPS and should become licensees of the ECPS.

It should be uncontroversial that an ECPS should have European *governance* conducted by European shareholders, allowing them control of the payment system. The company could be a non-profit company and any surplus earned used to improve the efficiency of the system and reduce the fees paid by issuers and acquirers.

Alternatively, the company could be designed as a profit-making company, where profits are distributed to the shareholders. Issuers and acquirers whose headquarters are located in Europe, and their respective associations, should be approved as shareholders.

Essential for an ECPS is that all transactions of cards issued in Europe should be processed in Europe, cleared in Europe and settled in Europe. This could be done by the scheme itself, a subsidiary of the scheme or by any processor approved by the scheme.

Transactions made outside Europe by cards issued in Europe could be cleared and settled through the respective co-branding scheme. The same would apply to transactions made in Europe by cards issued outside of Europe.

The *issuing* of cards is the sticking point for a true ECPS. In order to realise a true ECPS, more or less all European cards should be part of this scheme, within the terms of a cooperative solution like the EPC. The decision over which card types should be included is important for any 'Europeanisation' of the card business. Several scenarios are possible. The most realistic one is that the ECPS could involve the issuance and acceptance of a plain vanilla product, leaving it up to the issuers whether to offer a debit or a credit card.

In any case, a business model is required that will be sustainable in the long run considering the investments made and this will require some assurance from the regulators that such a business model is acceptable. Such a business model would require rules on interchange fees. Only recently, the EU Commission proposed interchange fees of 0.2 percent for debit cards and 0.3 percent for credit cards. It is doubtful whether this will promote the creation of an ECPS.

The alternatives

Apart from the establishment of an ECPS as described above, there is the possibility that the existing de jure and de facto national SEPA debit card systems could be joined together into an ECPS, with the ECPS contributing a European cobrand and the various (more or less national) debit card systems continuing to exist. This has not worked so far, but could occur if soft "European" pressure were applied. This would lead to massive operational changes in all affected systems. Moreover, some national (debit) card systems have already disappeared from the market or been reduced in importance due to regulatory pressure.

Another alternative would be for a (national) debit card system to cover more markets than the national one. Primarily, this could be achieved by expanding the acceptance network outside the country of origin, with the help of local acquirers.

Such a development might originate not only from one such system but from several. SEPA already provides for this and such an implementation has already been demanded by the EU and the ECB repeatedly without having led to any implementation.

If mergers and acquisitions were to occur in the course of this development, the solution would follow similar development to that seen in the United States where there were initially regional networks for online debit cards ("online" here standing for online PIN authorisation at the POS), which then developed over time through organic growth and mergers and acquisitions into (almost) national networks.

In Europe, however, the development of one or several (national) debit card system(s) or their agglomeration into a kind of ECPS is unlikely in the foreseeable future.

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1 Eckart van Hooven was such a 'spiritual leader' in the eurocheque-Eurocard-Europay system.

2 In addition, Europay International was granted only a short life, because the shareholders (European banks/banking associations) agreed on a merger in 2002 with MasterCard International, which led to the demise of this scheme.

This article is based on the research paper "A European card payments scheme – Forever a phantom?" published in the Journal of Payments Strategy & Systems, *Vol. 7, No. 4, 2014 (www.henrystewartpublications.com/jpss)*

Ewald Judt is Honorary Professor at the Vienna University of Economics and Business; Malte Krueger is Professor at the University of Applied Sciences Aschaffenburg.

THE DUAL PERSPECTIVE

Fin Keegan examines how stakeholders involved in cards and payments are being called upon to develop a dual perspective, both alive to new possibilities and mindful of simple vulnerabilities

When it comes to technology, the spectrum of developments calling for executive understanding runs the gamut.

On the one hand, firms are expected to ensure the most basic safeguards are in place: the Heartbleed bug that emerged online this month turns out to be a fundamental vulnerability in an almost universally used security feature. Meanwhile arcane developments on the leading edge of innovation cannot be lost sight of and unforeseen consumer preferences must be kept under constant surveillance and responded to: the net result is the need for a dual perspective that never loses sight of the complex or the simple.

This month's range of developing stories is typical: on the one hand we learned that Facebook are on the cusp of becoming an Electronic Money Institution (EMI) licensed in Ireland (a gateway to EU markets), while Japanese firm, Fujitsu, introduced biometric ATMs into Europe that use the vein configurations of individual palms for identifying consumers.

To keep up with these two stories alone, industry players have to become aware of the ins and outs of the European Union's E-Money Directive, which sets out the terms for the burgeoning mobile money market across most of the continent: players must know that, although 53 EMIs have been licensed by the UK authorities to date, it was in Ireland that Facebook chose to make its market entrance. Meanwhile, Fujitsu's technology is remarkable in that it is not skin configuration that is recognised in a palm (as one might assume from the traditional registration of fingerprints) but vein configurations, and all without any physical contact required, a clear advantage for both industry and consumer. To understand this story, we need to look into biology and, indeed, the psychological impact on consumers of different forms of payment interfaces: who does not feel uneasy about planting their palm on a glass that is constantly being handled by others? Fujitsu's technology not only removes that unease about hygiene but also lessens the maintenance burden for ATM operators.

The challenge for cards and payments stakeholders – from consumers to decision makers – is to both keep abreast of the latest developments in software and hardware solutions while not overlooking the vulnerabilities left in the wake of previous tech cycles. The Heartbleed bug that was announced publicly on April 7 is a perfect example, reminding us of the perennial truth that complex systems created by humans are always liable to failure from the most basic of causes: in fact the more complex the system, from the doomed RMS Titanic to nuclear arsenals that, in retrospect, narrowly skirted catastrophe, the more fragile it becomes (as Nassim Taleb, author of *Black Swan*, has made clear in his work).

One example of a nuclear bullet we dodged: a dropped socket wrench in an Arkansas launch silo in 1980 caused a fuel explosion and missile misfire; unfortunately the warhead was a nine-megaton thermonuclear device, which would have caused unthinkable harm had it chanced to detonate. By comparison, a mass failure of payment cards at the POS, as happened to RBS customers in the UK last year, is trivial (although many children and parents might feel differently). But the same principle is undoubtedly at work: a system has become so complex it is vulnerable to simple, but highly consequential, failures.

In the case of the Heartbleed bug, there were several notable features from which we can draw lessons for our industry. First of all, though the OpenSSL at issue is used on the majority of websites worldwide, its most up-to-date variant was faulty for over two years before anyone noticed. This is both remarkable and all too human: just because everyone, including all one's competitors, assume something is all right does not necessarily mean it is all right. The lesson must be that there should be in-house checking of all elements in a payments operation, from cryptographic codes buried deep in online processes to user interfaces that are the most visible layer and yet contain basic errors that customers notice and staff are blind to.

A second lesson from the Heartbleed bug is the human tendency to deny rather than confront. Although US regulatory authorities quickly warned banks to investigate the bug and any third-party contractors that might be using it, only two of the top six retail banks in the country, at the time of writing, have information for customers on their websites.

From boardrooms to homes, we have all become so dazzled by tech and its possibilities that we devote too much energy chasing the latest innovations while neglecting fundamentals.

One clear example lies in a virtual key we all use every day, usually without a second thought: very few individuals, including executives, have sufficiently cryptic passwords. It may well be that the most valuable thing you can do for your company right now is to ensure that no two of your (or your colleagues') passwords are identical.

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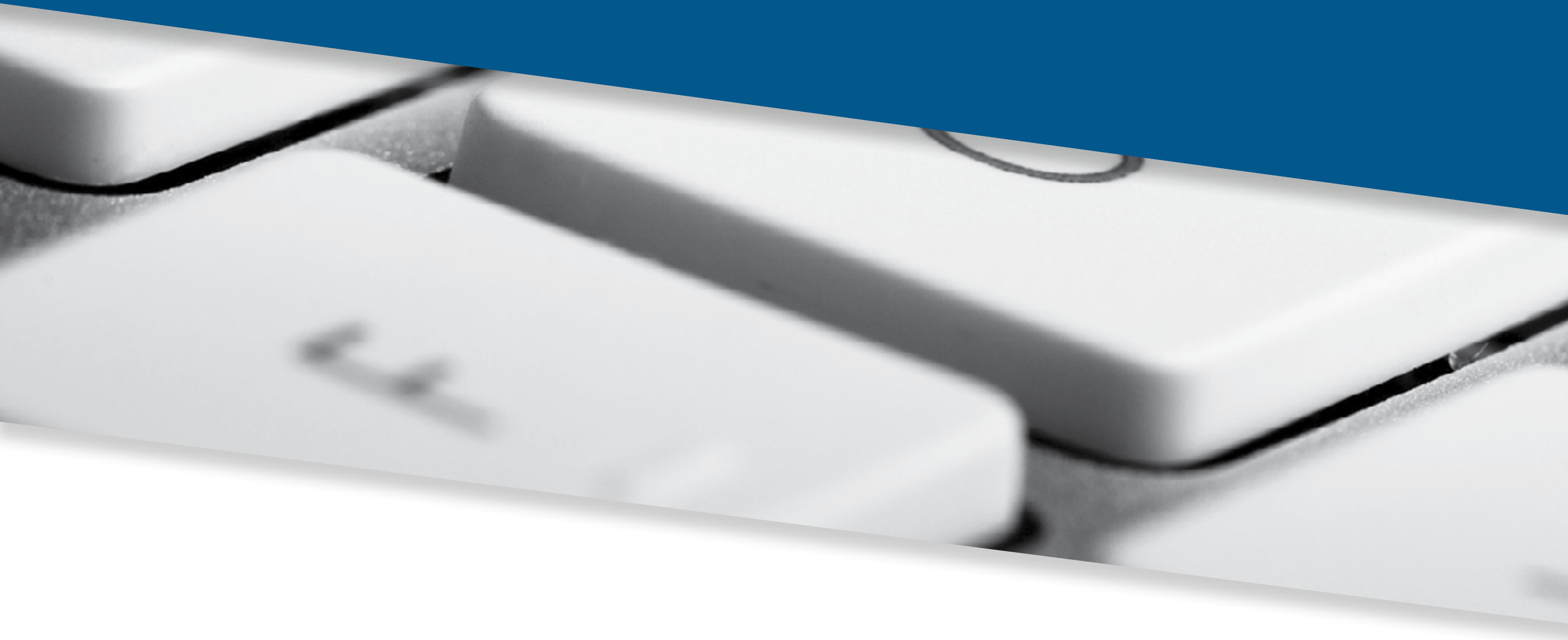

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THE CHANGING FACE OF FINANCIAL SERVICES

Steve Edkins, CEO of FusionExperience, offers the opinion that digital payment providers are fast becoming the major challengers to traditional financial services providers

Last month, the British Bankers' Association (BBA) released new figures revealing that smartphone banking has doubled, with 5.7 million transactions being completed through mobiles each day. Digital natives are increasingly using mobiles and mobile apps for everything from checking their bank balance and setting up direct debits to paying bills and taking out loans.

In response to the growing popularity of mobile banking, several payment providers have emerged to capitalise on this growing market: iZettle, SumUp, Paylev-en, mPowa and Intuit are just a few of the companies looking to grow in the mobile payments space. However, the emergence of new digital payments providers is changing the financial services industry and threatening the dominance of the UK's big banks, bringing the industry to the brink of a transformation.

Payments: the new battlefield for control?

The rise of mobile consumers and the development of smartphones has enabled digital 'superbrands' to penetrate the payments space and usurp some of the capabilities traditionally reserved for big banks. For example, both PayPal and Google have developed a mobile wallet, Facebook has established Facebook Credits and Apple has created the iStore mechanism. The evolution of mobile wallets that use near-field communications (NFC) for payments 'on the go' means that technology companies are starting to act as intermediaries that pioneer stored monetary value and effectively bypass the banks.

The introduction of digital currencies has also contributed to the beginning of a paradigm shift in modern payment systems. Whilst there are still question marks over the longevity of bitcoin, it is placing pressure on organisations to create a system that enables frictionless money transfer. Bitcoin has grown its reputation as a peer-to-peer digital currency that offers a secure financial system independent of traditional banks. In addition, low-cost or non-existent transaction fees have driven the uptake of bitcoin among online retailers who can increase sales margins by accepting it as a method of payment. So far, Overstock.com, Zynga, OKCupid, and WordPress have all signed up to using bitcoin. As the financial services industry approaches a stage where serious money is invested in digital currencies, it is likely that we will see brands, for example, Apple, Amazon and Google, start to create their own virtual currencies.

Redistribution of cash

It is now only a question of time before the industry reaches a tipping point where the redistribution of cash liquidity materially impacts banking as we know it today. The convergence of so many different entrants into the payments sector means it is becoming even more important for financial providers to maintain a sense-and-respond stance towards the changing market dynamics being driven by consumers.

New entrants are at an advantage. Instead of being constrained by legacy IT systems, challengers often have large amounts of capital, a captive customer base and are capable of leveraging available data to detect behavioural patterns. This information can then be used to dictate the margins in financial products and influence behaviours. For example, by identifying customers who prefer short-term lending, retailers can offer consumers discounts or promotions to encourage spending on financial products with lower interest rates.

In addition, some of the most successful challengers to traditional banks are joining the market with simple products that have a lower level of risk. For example, Facebook is reportedly set to enter the financial services market in the form of remittances and electronic money. According to sources close to the company, the social network site is only weeks away from obtaining regulatory approval in Europe for a service that will allow users to store money on Facebook and use it to pay and exchange money with others. Adopting this approach allows new challengers to quickly achieve scale by offering simple services that reduce the overheads associated with compliance and capital adequacy requirements.

As more challengers emerge in the financial services space and digital payment providers come to the fore, organisations will need to focus on becoming data-driven businesses in order to successfully compete against a growing number of providers that are trying to secure the attention of an ever-fickle, increasingly demanding customer.

Only by collecting, connecting and correlating data will firms be able to make informed, timely and actionable decisions around financial products that allow organisations to keep pace with the rate of change.

Mobile Money in Latin America

Date: *Thursday 15 May 2014*
Time: *4.00 pm BST*

Presenters: *Patrick Houlihan, Researcher*
Kerry Manning, Head of Marketing, Lafferty Research Services

Register Here

Latin America has been identified as a region to watch in the global unfolding of a new era in payments. In this webinar we look at the mobile money industry in leading Latin American markets and how developments and innovations from this region could shape the future of mobile money across the world.

The first 50 participants will receive complimentary access to the webinar.

Cost: *€100*

FIXED-FEE DISRUPTION

Jeremy Almond, CEO of successful start-up PayStand, talks to *Insights* about the end of transaction fees and disrupting current business models to build the payments ecosystem of the future

Questions by Owen Sweeney

Can you give us an overview of PayStand? How would you describe what sets you apart from the competition?

Basically PayStand is a next generation online payments gateway and a checkout system for organisations to be able to receive payments or donations on their websites or applications. We are really unique in two core ways. Firstly we have a fixed cost payment model, which we call "payments as a service". Typically the payments model is a transaction fee business model and we believe a fixed cost model is a much fairer way. We don't charge merchants transaction fees, so this tends to save them anywhere from thousands to hundreds of thousands to millions of dollars a year, which is always a nice thing. Secondly we offer multiple forms of payments acceptance. With the likes of digital currencies taking off, there are new sorts of payments mechanisms that are emerging and our model is about offering multiple ways for people to purchase. With our software, an organisation can receive money through traditional payments like Visa, MasterCard and American Express, electronic cheques and even currencies like bitcoin. You can think of us like a money router, through which a merchant gets set up with all the software they need [to] receive money very easily and they aren't charged for it [in a traditional way].

Can you elaborate on PayStand's payments processing flexibility service?

What we are talking about there is how a merchant chooses to use us. The way our system works is a little bit like what happens in the real world. If you are going to your favourite coffee shop you can pay with a blend of cash and cheque and credit cards and, oftentimes, the smaller merchant might charge different amounts based on how you buy. You might be buying a $3 cup of coffee and if you pay in cash or cheque a $3 cup of coffee stays at $3. However if you use your card it might be $3.25 because the bank is charging them for the convenience of accepting a payments card. We take that same sort of concept online and we believe it's important to show customers the cost that is associated with using each network so they can start making informed decisions on which payments model makes sense [for them]….I'm not anti-credit card, I still use my credit card…I want the points or miles etc. and I'm willing to spend a bit more to do that. There are other cases where I wouldn't need to use a card because I have the cash in my bank account, so I really want to be able to have a single transaction that doesn't contain all the extra bells and whistles that a card network might have: we enable that flexibility and give the customers [and consumers] a lot of choice.

What markets are you providing services in, geographically speaking?

All of our merchants can receive money from anywhere in the world from their customers. The card purchasing and the digital currencies can all work globally. On the merchant side right now we only support merchants based in the US, because it takes time to build the right regulatory framework to bring payment acceptance to other countries, but it's definitely something we will do and by far a priority for us. We don't have an exact timeline on this but it is something we want to do.

Can you foresee any way that your business model might have to be adapted if you were to expand into more markets?

Previously I have seen business models that might need to be tweaked a bit when you move into other countries…One of the things that sets us apart is our belief that ultimately payments should be a fixed cost offer, like every other software. It would be crazy if you thought about your accounting or CRM software charging you more the more successful you got. That would be insane and there is a reason that transaction fees were part of the business model for payments in the past, but [now] the money is moving from one database to another, and it's all just software. So we believe payments should become a software business model, regardless of what country you are in. There might be tweaks in terms of pricing but, in general, we think that will be the trend if you were to project out ten years from now. A new payments infrastructure that is being created right now will drive costs down and transaction fees aside and ultimately become a fixed cost model.

In terms of the low monthly fees, why isn't the competition doing it?

A lot of this is to do with timing. In any start-up there is a combination of technology and some other things that make what we are doing possible. The concept to us that there are now new cash-like systems on the digital currency side enables, in a way, a technology movement that allows us to move money from Point A to Point B without transaction fees. Once this infrastructure is in place then you can really reimagine the business model. If you think about it, that has only been possible for the last few years. Digital currencies are now at their beginning stages and it will take quite a bit of time for adoption. Digital currency in some form, maybe not bitcoin, will [drive a] disruptive new payments infrastructure. That technology will allow us to move money without the charges on it….We're building a business model now for where we think the world [of payments] is going.

Is the monthly fee harnessing the concept of membership and perhaps a new way to embrace customers in the payments industry?

Think of it like the music subscription business, Spotify. There's no greater inspiration for a business than Spotify. The music industry has gone through similar progress to that of the payments industry. When you think about it, five or ten years ago the music industry was very much transactional, because there were actual costs of buying music back then whether it was spinning up a CD or delivery costs; then it became digital and peer-to-peer networks started to come out and it dramatically lowered the cost of the delivery. So, they could look at the business model differently and say: "Look, it makes sense to have a membership model, where people can have everything they want at a low cost". Ultimately their costs aren't changing significantly when they buy more music. With digital delivery, the cost model changes. Our view is the same thing for payments. Money is basically following the same model as Spotify and Netflix: the delivery costs are dramatically lower so a membership model makes much more sense and customers are happier with it and happy to pay. Merchants have a fixed-cost model for payments and can project exactly what they will be paying every month and, as they succeed more, their costs don't rise. We think it is a fair model and our merchants agree with us.

To what extent are banks or financial partners or middlemen sidestepped? What steps are removed from payments practices?

It's certainly getting more efficient. Part of how the transaction fee model has moved on over the years is you have now got more and more middle men in the process: that adds costs. The interesting thing with the industry now is that there is sort of a pricing war that happens…We are very close and we are very good friends with many parties in the industry. What we want to do is pave the way for a new model that makes more sense for the industry. We have found that the established players in the industry are on board with that. They see that there is change happening too and I think they are looking for a company like ours that is pragmatic and is not some philosophically-driven, 'two kids in a garage' [start-up] that is building a bitcoin company to burn down the industry. What we believe is that the technology change is happening and becoming more efficient and we can help the industry move to a commerce model that [fits] an internet age.

What obstacles are you currently facing with PayStand? Is anything slowing you down?

We feel very blessed that the business is growing rapidly right now. This is a great thing. Right now our challenge is to educate. What we are finding is that, once merchants are educated on our offerings, then it is a really clear choice for them – the fixed cost model.

In terms of the private Beta that you recently exited, is there anything you discovered in that process that surprised you?

There are a couple of things that surprised us. For any start-up, the Beta is really the fun part. My team and I are very passionate about helping 'main street', small businesses: we think they are part of the heart of our economy. We really targeted them at first and we've seen great data on them, and what we found surprising was that larger companies really gravitated towards what we are doing. As we got even more successful the model started making even more sense for the larger companies. We weren't expecting that so early on.

We primarily targeted a number of retail companies so a surprise was the number of non-profits we discovered that were using us…So we are pretty proud of that.

What background do you and PayStand come from?

So both the team and myself come from what I consider as being a mix of technology, e-commerce and financial services backgrounds. My background in particular has seen me involved in technology for 15 years. I started in a tech company called Digital Instruments…This was back in the 'dot com' days. Even back then, as a large B2B company, we sold all of our parts online through e-commerce back in the late nineties. This was what got me started in e-commerce. After I left that company I spent ten years working in different forms of e-commerce. I helped a number of retail customers and I'm on the board of one…and I have [noticed], when working in companies that were moving into e-commerce, that they were experiencing the same problems. Basically they were setting up things like PayPal and their experience was generally terrible. People would be sending them offsite to some other brand and then charging them some significant amount of fees that they couldn't really get around and then they would have to spend more money on integration. So the experience generated was very poor. PayStand is a company I wanted to build for the last five years or so and I think the time has been right over the last couple of the years…Many of my co-founders came from a financial background so I think all of us are passionate about a system that is designed for the internet age.

What's the implementation and installation process for merchants that want to introduce PayStand into their websites? What support does Paystand offer their customers in that regard?

We're building a long-term vision and business so we are really committed to making this product work with no hassle, and be just easy to use. Our software can be set up in five minutes and merchants don't need a programmer to do it.

It's just a matter of dragging and dropping code to set up a payment button or a donate button. There's full e-commerce capability built in so it's very simple but very powerful.

We assign a 'customer success person' to every one of our merchants so if you need something set up we will spend time with you to actually do it. We think that this is really important. It's important to have our phone number…and to have someone available to walk you through; this is something a lot of tech companies aren't that great with.

We have a lot of flexibility with larger businesses too that have their own programmers who want to build on an API or something like that.

What has the take-up been like with your social media integration offering? What's the split between App/Facebook/website integration choices among customers?

It depends on the merchant but we do see a fair bit of traction on social media. One of our philosophies when building this [product] was: from the ground up, what would a payment checkout solution look like if it was built in 2014? I think the payments model from a decade ago was very different, a gateway plus a merchant account, plus website integration and then maybe different e-commerce software. Our view is that now the world has changed and customers are all over the world in social media and they are buying on mobile devices so their checkout experiences should work on all these things. Merchants should assume that customers will shop through all [these channels]. So our system works in a way that, whether someone is shopping on an iPhone or on Facebook, we give merchants software that works really well and provides a native experience.

In Facebook it feels like you are still in Facebook so you can promote to fans; or, if you have your website and it's being accessed on a mobile device, [the payments element] is naturally responsive and should look like it is.

Do you have anything ready in case Twitter decides to grant more integration possibilities for payments companies?

It's interesting to see how integrated it might get, currently we support Twitter commerce with something called Twitter Cards and partners [of Twitter] are able to publish with these. Our products, right out of the gate, support all of that.

There have certainly been discussions and questions within the industry about whether Twitter will allow direct purchasing on there. I think it is something that will grow and something we would love to help them with.

Following your recent successful funding rounds, how have you decided to deploy the capital? Have new investors steered the company a millimetre or two in a new direction since they have come on board?

We're lucky to have investors that have alignment and have a good background in scaling companies of our nature. I can't say that every founder is that lucky but at this stage we feel very lucky and the board is very supportive.

I think part of that is that the company is doing very well and it's hard to focus things when things are going well. What the investment group brings on is a level of steady hands and [knowledge of] how we can grow the business.

Our goal is to grow, educate as many customers as fast as we can and build the product better. The investors have built companies like Adobe and Microsoft and Google so we feel blessed that we have experienced the 'good kind' of problems as we have grown.

On the capital side maybe it's more important [to invest] on the experience side of things. [Having] smart people in the room, trying to make the world a better place, is a good thing and I feel like we have that.

In terms of deployment of capital, what we are finding is that we want to get the product into the hands of more customers in different kinds of ways; what that means is our customers are using different kinds of software, whether its WordPress and QuickBooks.

They want PayStand to be built into their existing systems, especially the larger and more sophisticated merchants. A big part of our product growth is really enabling PayStand to exist within the merchants' payments ecosystem. I think you will see in the next 6-12 months integration between PayStand and other software increase pretty rapidly.

Interview conducted on 23 April 2014. Questions by Owen Sweeney

LATIN AMERICA MERCHANT ACQUIRING

Brazil's MSC revenue had a CAGR of 19 percent between 2005 and 2013, reaching $7.1 billion, or 67.4 percent share of total MSC revenue

By David Hickey

Latin America has some of the most exciting electronic payments markets in the world. The growth in use of credit cards has been impressive: combine that trend with the highest average MSC rates of any global region, and great potential for profit quickly becomes apparent. Importantly, all markets, from the advanced to the developing, offer significant room for further growth.

With individual markets having distinct characteristics, the approaches to developing the payments industry have always had to be uniquely tailored to the environment. In markets such as Brazil, Argentina, Colombia and Peru, merchant acquiring is traditionally split between specialist acquirers for Visa and MasterCard transactions. Although regulators in Brazil have encouraged new entrants, ending the monopolies of Cielo and Redecard on acquiring transactions exclusively (on behalf of Visa and MasterCard respectively), exclusive acquiring arrangements are still a notable feature of Latin American markets.

In Mexico and Venezuela, merchant acquiring is carried out directly by the banks; however the markets differ: in Mexico, merchants prefer to generate scale from a single acquirer in order to benefit from loyalty programmes, whereas in Venezuela, retailers have acquiring agreements with multiple banks, each one providing its own POS terminal. In Chile all acquiring is carried out by one company, Transbank, which is owned by the banks.

Credit card penetration varies across the region. Brazil accounts for two-thirds of the region's credit cards with more than one credit card in issue for every adult. When debit and retailer cards are taken into account, the average Brazilian has over four cards in their wallet. Argentina and Uruguay are the only other countries with significant credit card penetration: 86 and 90 cards per 100 adults respectively. No other country in the region has more than 50 cards per 100 adults, with Ecuador lagging behind at 25 cards per 100 adults. The discrepancy between card ownership in the top three markets (Brazil, Uruguay and Argentina) and the rest of the region suggests great potential for further development of the credit cards market.

Strong growth in billed volume

Latin America is the fastest growing region globally in terms of POS credit card billed volume. Between 2005 and 2013 the region's POS billed volume had a CAGR of 21.8 percent. The Latin American credit cards market largely escaped the most recent global financial meltdown with just a slight slowdown in billed volume growth recorded in 2009. Indeed small decreases in billed volume were observed in Ecuador, Mexico and Puerto Rico in 2009. In Latin America overall, billed volume grew by 14 percent in 2009, down from 23 percent the previous year before reaching 23 percent again in 2010.

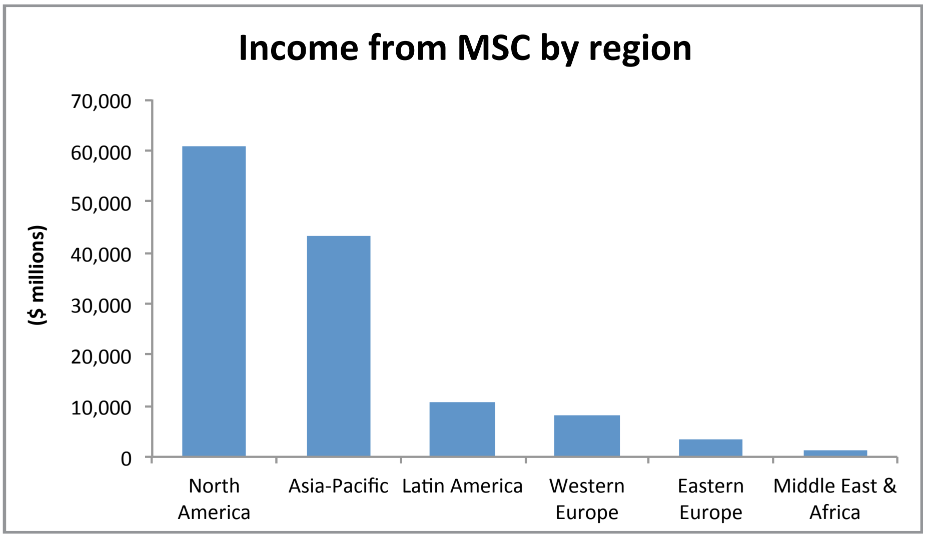
Billed volume growth has been observed in all markets throughout the region. The markets with the highest increase in POS billed volume between 2005 and 2013 were Peru (with 35 percent growth) and Argentina (34 percent). Puerto Rico experienced the slowest growth with a nine percent increase in the same period.

A key factor in the development of billed volume has been growing infrastructure to enable consumers to make POS payments. POS networks across the region have grown significantly over the past decade; however all countries, with the exception of Brazil, have a low penetration rate when compared to developed markets such as Portugal, Spain, or the US.

In Brazil, the number of POS terminals increased from 1.4 million at the end of 2005 to 3.7 million at the end of 2012. To meet the needs of foreign visitors expected for the 2014 FIFA World Cup and 2016 Rio Olympics, the Brazilian banking sector, supported by the Central Bank, is expanding and improving the acceptance footprint in the country. For example, Ingenico, a global POS terminal vendor, sold more than one million POS terminals to institutions in Brazil during 2012. The main POS acquirers in Brazil are increasingly choosing to upgrade their networks to more technologically advanced POS terminals, including terminals with touch screens, and contactless and near field communication (NFC) functionality.

Further growth in merchant acceptance is expected to dramatically increase card payments across the region, including credit cards. However, with an average POS billed volume per card of $1,555, Latin America is just over half the corresponding figure in Western Europe. As card penetration increases, and credit cards become more of a mass market phenomenon, this comparison is likely to widen further.

Currently, around 95 percent of Latin America's credit cards billed volume is made at the POS. The high proportion of POS billed volume to total billed volume in the region is driven by strong POS credit cards usage in Argentina and Brazil – the region's two largest credit cards markets. Around 98 percent of Brazilian and 99 percent of Argentinean credit card billed volume originates at the POS.



Colombia, Paraguay and Peru have significantly lower POS ratios compared to the rest of the region. A cash culture, an informal economy of considerable proportions and the lack of POS acceptance locations are thought to be the main reasons behind the low ratio in the three countries.

In Colombia, there remains an underdeveloped credit cards market, even by regional standards. Both banks and the government view credit cards as a vehicle for capturing the unbanked, for developing microcredits, and for giving SMEs better access to credit. As a result, many credit card customers use their cards as a cash/credit instrument through ATM cash advances. More than 90 percent of transactions and billed volume take place in three cities: Bogota, Cali, and Medellin. Bogota alone represents nearly two-thirds of credit card billed volume in the country – a reflection of the limited bank penetration in smaller cities and rural areas.

Upward trend in income from MSC

As previously mentioned, falling MSCs have been more than compensated by high volumes of sales at the POS. Income from MSCs has had consistent annual growth between 2005 and 2013, increasing more than three-fold during this period, supported by growing merchant acceptance and credit card ownership.

Virtually all Latin America markets have had continuous growth in MSC income in recent years thanks to strong credit card growth, often from a low base.

By far the biggest market is Brazil, which has emerged as one of the leading global credit cards markets in recent years. Brazil's MSC revenue had a CAGR of 19 percent between 2005 and 2013, reaching $7.1 billion, or 67.4 percent share of total MSC revenue. Argentina MSC revenue CAGR was the largest in the region at 33 percent between 2005 and 2013.

After Brazil and Argentina, Mexico is third in terms of income from MSC in Latin America. While Brazil and Argentina have well-developed cards markets, Mexico is at an earlier stage of development and so presents a huge opportunity for growth. Mexico is the second most populated country in the region after Brazil, yet its credit card penetration lags far behind. There are approximately 35 credit cards per 100 adults in Mexico, compared to over 100 per 100 adults in Brazil. Through the FIMPE (Fideicomiso para Extender a la Sociedad los Beneficios del Acceso a la Infraestructura de Medios de Pago Electrónicos) initiative that has targeted payment card acceptance among small merchants in Mexico, credit card use at POS has increased. If this trend continues, income from MSC in Mexico is likely to overtake Argentina in coming years.

This article is an extract from the new Lafferty research report, Merchant Acquiring in Latin America. *The report describes and analyses the change taking place and offers critical data for the main markets in the region.* Merchant Acquiring in Latin America *is the ideal guide for anyone looking to do business in the region who requires accurate and up-to-date benchmarking data for the merchant acquiring sector.*

To order your copy, or for more information, please contact steven.cowan@lafferty.com

STATISTICS OF THE MONTH

In recent years Asia-Pacific has seen the sharpest rise in debit card adoption compared to other regions across the globe

Debit cards are a fundamental part of retail banking, providing a number of consumers across the globe with immediate and easy access to their funds.

In more developed regions like North America and Western Europe, the debit card is rapidly changing from a simple ATM transaction tool to a high-tech everyday payment and POS transaction tool. This is particularly evident in Western Europe, where contactless technology on debit cards has also made them far more convenient than carrying cash: the ease of using the debit card for everyday purchases has clearly had an influence on their growth. In all regional markets, with the exception of the Middle East and Africa, the debit cards market has grown well above its theoretical saturation point, with almost 1.6 debit cards per adult.

Over the last decade, spending on debit cards grew three times faster than on credit cards. Spend on debit cards as total global (69 markets) billed volumes have almost tripled between 2005 and 2012 from $6 trillion to $16 trillion dollars respectively.

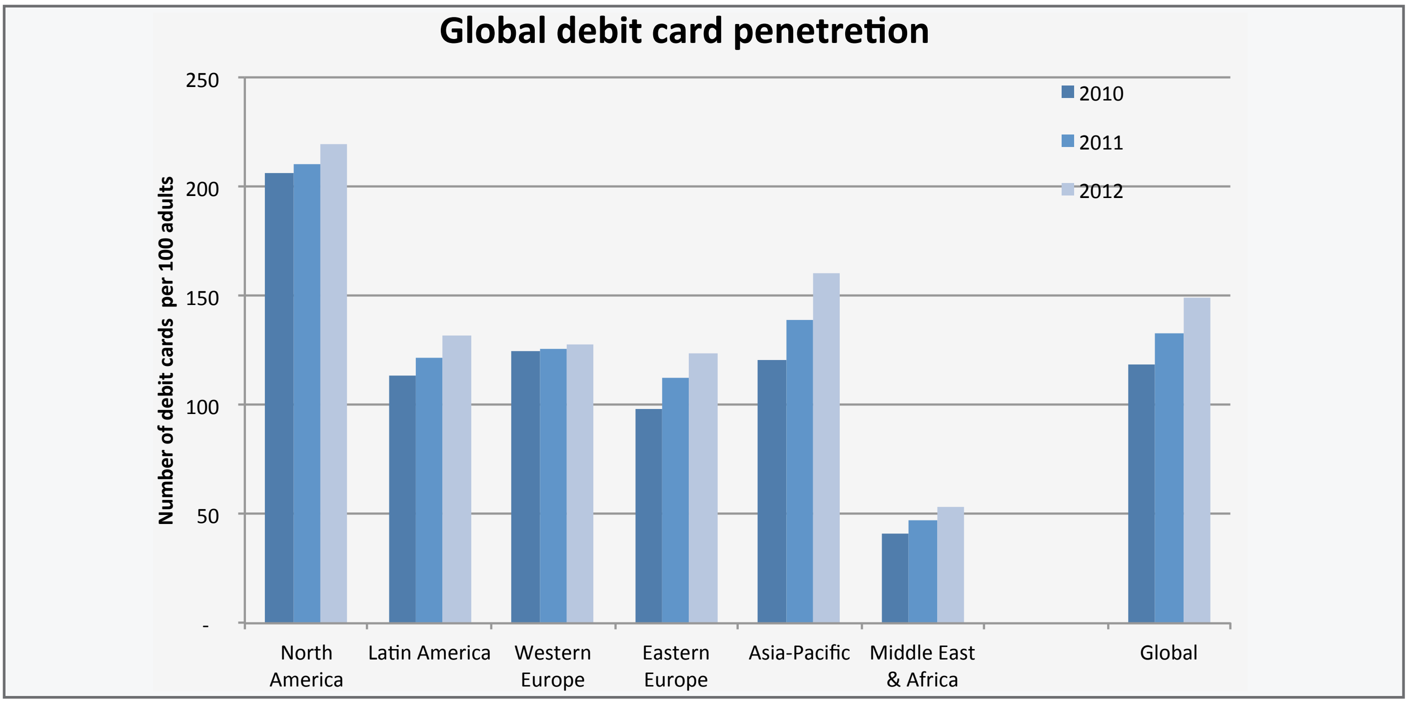
Whilst in North America and Western Europe migration of lower value payments from cash to debit cards has been a key trend over the last several years, in the Middle East and Africa the debit card is still at an embryonic stage. In this region, debit cards are used mainly for large sum ATM withdrawals due to limited POS acceptance. Debit cards, often referred to as ATM cards, are included as standard with current accounts and sometimes attract a nominal annual fee of between $2 and $4.

Improvements in mobile telecoms' infrastructure and the deployment of EMV-compliant POS terminals have resulted in a wider number of acceptance points across the region. However, debit cards face strong competition from mobile payment systems; these mobile payment systems have an advantage over debit cards in that there is a broad established base of users, even in remoter rural areas.

The strides taken to reach the underbanked and unbanked population, to increase financial inclusion by both governments and the financial services sector have had an influence in debit card adoption: the card base continues to grow gradually. In the Asia-Pacific region, whilst cash and cheques remain the most popular forms of payment, that pattern is quickly changing amid rising income levels. Debit cards are becoming the new status symbol. Debit cards surged from 1.2 to 1.6 cards per adult from 2010 to 2012. Debit transactions are growing quicker than credit transactions in this region.

Overall, the rise and rise in debit cards has been at the direct expense of credit cards. Despite regulatory and infrastructural hurdles in Middle East & Africa and Latin America and regulatory challenges in North America and Western Europe, debit card payments are likely to continue to grow because of the financial management inherent in this type of card compared with cash. Although issuing banks are reportedly removing debit reward programmes in markets like North America and Europe, the appeal of debit cards has flowed from the debt-free and payment security components, and these concerns will continue to be a priority. That said, the margins on debit cards have traditionally been low and, with lower annual, lower interchange and lower overdraft fees being imposed on issuing banks, this is likely to have a major impact on overall revenues and debit cards market strategy.

The figures above include 69 markets covered by Lafferty Global Research Databases, online at ***www.laffertyresearch.com***



Is now the season for NFC?

The argument that NFC (near field communication) is merely a choice, as opposed to a necessity, for consumers looking to pay, may diminish this summer with two new factors in the mix.

Firstly there was the news that PayPal president David Marcus, one of the most notable objectors to NFC, had softened his stance on the payments company possibly working with the technology in the future.

On an official PayPal blog, Marcus admitted that he had long seen NFC as functionally problematic for the payments industry: "NFC was a technology in search of a problem...designed and embraced by companies thinking about their own interests rather than solving a problem for consumers". Marcus' scepticism about NFC had been sustained by his belief that mobile carriers, banks, equipment manufacturers, and other associations would constantly fight over who would ultimately own the Secure Element of the NFC transaction, thereby becoming, in his words, "the toll master for every transaction that takes place". One recent development in POS technology, namely Host Card Emulation (HCE: the presentation of a virtual representation of a smart card using only software), may have prompted this rethink on the possible implementation of NFC into PayPal systems in the future.

"The Android team at Google started supporting and pushing another standard (not exclusively for payments) called NFC HCE, or Host Card Emulation. The beauty with this move is that it doesn't require the whole industry fighting over control for the Secure Element. The Android team approached us with this initiative late last year to collect our feedback on implementation. For the first time ever, I saw a glimmer of hope for NFC in some shopping configurations," wrote Marcus.

For now Marcus has said that BLE (Bluetooth Low Energy) Chips in devices that create payments 'beacons' are still the way to go in PayPal's opinion. "The bottom line is that I'm moving from being a massive sceptic of NFC, to being cautiously optimistic on NFC HCE take-up in very specific shopping use cases. But I still passionately believe that paying hands-free through a BLE Beacon and notifying the merchant you're in the store through that method will enable more transformative experiences for consumers and retailers alike."

Then came the news that Transport for London (TfL), the body that operates bus and train services (including the Underground) in the English capital, was looking into enabling widespread payment facilities for NFC-enabled mobile phones and bank cards.

Previously TfL launched an initiative that allowed commuters to pay for bus fares via contactless bank cards. The plans for the new payment scheme were originally announced in the hope that it would coincide with the London 2012 Olympic Games. The timeline was extended to the end of 2012, as TfL said it would not launch the scheme until it had 100 percent confidence in its robustness.

This of course is understandable to anyone who has ever used the London Underground during rush hour, all the while witnessing the rapid opening and closing of the ticket barriers as they respond to the closed-loop Oyster Cards. Critics immediately pointed out the potential congestion commuters would experience if the ticket barriers struggled to recognise NFC devices quickly: NFC-enabled terminals in physical stores often do not.

At a conference in 2012, TfL executive Shashi Verma commented that near field communication was not yet fast enough for the London Underground and that it still needed to become more user-friendly. At the time, TfL said it was working to extend contactless bank card payments to the London Underground in 2013. Now, at the second quarter of 2014, the *Financial Times* reports that mobile network operators Vodafone and EE are preparing their respective mobile wallets to work with current TfL terminals that have been upgraded over the past two years.

Verma told the FT: "The upgrade we have made to our readers to accept contactless payment cards also makes them capable of accepting suitable payment applications on mobile phones.

"We are doing some testing to see how the devices perform on the system and welcome any new payment technologies that meet the relevant industry standards and enable sufficiently fast transactions speeds."

NFC's biggest disappointment to date has been the refusal of Apple to introduce NFC into the iPhone. Now that it appears that one of the world's busiest commuter networks and one of the most popular new generation payments methods in the world are embracing it, it may be time for Apple to reconsider.

By Owen Sweeney

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