

A CASHLESS SOCIETY

The Single Euro Payments Area (SEPA) initiative will enable customers to make cashless euro payments to anyone located anywhere in the area. But how well are the member states prepared for the shift to a cashless society. *FST* asked PBS' **Susanne Brønnum**, Capgemini's **Nick Ford**, Open Way's **Wim Pardon** and Equens' **Manfred Schuck**.

FST. SEPA is a huge change for the payments landscape. What will be the practical changes for the payments infrastructure and how do smart players in the industry need to react?

MS. The basic change will be that previously protected domestic markets will be opened up for competitors. This will take some time because of existing contracts, current local specials and protective behaviour. But after a while new players will enter and start to compete on price, performance, quality and functionality. Therefore, every company in SEPA has to decide what role to play.

If you do not have the qualities or quantities to remain an independent player, you will have to choose between a number of scenarios that anyone can understand. It will be hard to continue operating in your own home market without international growth. Only a handful of

successful niche players and maybe one or two large players from Europe's biggest economies will succeed.

If you are here to stay, you will have to prepare for international competition. Ultimately, only true added value based on open European standards will help you to survive. Protective behaviour in order to retain customers will deter new customers, and existing customers will eventually be lost.

“Consumers have specific needs. They want low-risk, maximum security payments services that preserve the confidentiality of any private information”

Nick Ford

SB. The practical changes will encompass chip and PIN on all cards and scheme rules, especially current domestic ones, which will be open to all players within the Euro-zone. New certification criteria for terminals and standards for the communication between terminal and acquirer and acquirer to issuer will be endorsed later this year and must be implemented.

Smart players will convert quickly to the SEPA-formats. Processors in particular have much to gain as a fast-mover effect might mean more clients. I foresee that many banks will look for outsourcing solutions when standards and regulations are finally set. In my opinion, SEPA will be somewhat delayed from the current timeframe of 2010 as standards are not yet determined. And it is unclear what will happen to domestic card schemes as the ruling now is that



in order to be SEPA-compliant, a card scheme may only be accepted in one other country.

NF. The European payments market is undergoing substantial change due to market forces such as new regulations, more intense competition, technical changes and evolving customer needs. Banks face three main challenges: pressure on their margins and selling prices, the need to differentiate themselves in a changing marketplace and a new investment cycle.

Becoming (or remaining) a top-tier player in the post-SEPA payments market depends primarily on increasing transactions volumes. Low-cost operations offer a significant competitive advantage. To be among the major players in SEPA, a bank will need to process at least five billion payments transactions a year.

Based on the advantage they gain from their volume position, banks will have three primary strategic choices, or a combination of them: niche strategy, low-cost strategy or leader strategy. Banks unable or unwilling to adopt one of these strategies will have to outsource their payments processing functions.

WP. SEPA will work as a single domestic payments market across Europe where customers and market players can make payments in Euro as easily and inexpensively as in their home town. Europe is starting to become a single payment neighbourhood, and issuers and acquirers need to be prepared. OpenWay is ready to implement the new pan-European Payment standards with WAY4 payment processing solutions.

FST. Consumers want to make quick and reliable card-based payments. How can the balance between convenience and security be maintained?

SB. Chip and PIN has the right level of security and when consumers are familiar with using the PIN they find this very effective and fast. In Denmark, almost all transactions are chip and PIN and we have no issues with quick payment transactions keeping these within the same timeframe as magnetic stripe transactions, normally faster due to fewer security checks. Getting there, however, was a major under-

taking, making sure that chip terminals, cash registers and the chip card itself worked properly together. It is necessary that banks work together in such an undertaking.

Other means of making quicker payments are the use of off-line PIN and contactless payments. Contactless has the issue of no-PIN in order to allow quick payments which are not reliable and therefore only intended for small value payments until biometrics or other cardholder validation methods become standard.

NF. Cards are the most important means of non-cash payment in Europe in terms of volume and growth. They will become more significant as SEPA increases competition and removes barriers for payments. European customers will be able to use their cards to make payments and cash withdrawals throughout the SEPA area with the same ease as in their own country.

To promote competition and achieve full reach for cards across Europe, the European Payments Council has published the SEPA Cards Framework (SCF). To improve security and reduce fraud, SCF promotes the EMV (Europay Mastercard Visa) chip and PIN as the technical norm. Compliance with the EMV norm represents the first substantial effort concerning cards by ensuring technical interoperability in Europe. As of spring 2007, EMV compliance was 42 percent for cards, 47 percent for point-of-sale and 61 percent for ATMs. It appears that most stakeholders will comply with EMV by the 31 December, 2010 deadline.

WP. To provide convenience and maintain security, everyone in the card payment industry must work together. For our part, OpenWay is working closely with all the main international payment schemes to achieve greater security. Since 2001, we have been

achieving EMV standards for issuing and acquiring projects, including M/Chip4 and VSDC+.

MS. In principle, better security does not have to mean less convenience, as security can be provided transparently through technological solutions. The migration from the magnetic stripe to the EMV chip is an example of a huge increase in security without any impact on convenience. Only the simultaneous migration to PIN in some markets affected convenience, although in the end it is questionable what is more inconvenient – needing a pencil or having to remember a four-digit code. It is probably only the change itself that is considered a problem.



Since 2006, **Manfred Schuck** has been General Manager Marketing & Sales of Equens. Before, he held the position of Head of Business Development of Transaktionsinstitut für Zahlungsverkehrsdienstleistungen AG (TAI), one of the predecessors of Equens. Prior this appointment, he was Senior Manager of DZ Bank AG.

Besides the migration to EMV, many security enhancements were implemented over time without any impact on convenience, as the changes were not visible for the consumer. It is reasonable to expect that technological evolution will have a positive impact on both security and convenience, although every change will initially seem inconvenient.

FST. Many European businesses have stopped accepting cheques altogether. How well is the region prepared for the shift to a cashless society?

MS. It is reasonable to expect that the market share of cashless payments will continue to grow, partly because of the convenience for customers, but probably even more so because of the convenience and lower total costs for retailers.

Cheques were an expensive payment tool, and it is now becoming clear that cash payments are more expensive than cashless payments because of the extensive logistics and risks of theft or fraud.

SEPA will result in a more competitive market. Because of overall costs, cash handling will become more expensive for retailers, and cashless payments cheaper. In the end, retailers will promote cashless payments and may even expect their customers to only make cashless payments.

However, although the market share of cashless payments eventually may rise to 80 or 90 percent, there will always be a need for cash in certain markets for reasons of lack of trust or traceability.

WP. From an issuing perspective, the major players in the market appear to be ready, but some countries are less prepared than others. The acquiring side needs considerably more effort and investment. Many acquirers have underestimated what it takes to become SEPA compliant. OpenWay can help these acquirers by delivering all SEPA front- and back-end functionalities through WAY4.

SB. The region is well underway to stop cheques altogether. Only a few countries are still using cheques as general payment.

We are starting to see banks issuing a prepaid card instead of issuing cheques – a trend that will grow

in coming years. However in order to really shift to a cashless society we need to find more solutions covering person-to-person payments either through mobile devices or prepaid cards. P2P payments are an area that cheques by nature are still occupying and that's what the card industry needs to focus more energy on.

NF. A successful move to a cashless society depends on how small value payments will be executed in the retail sector, P2P transaction maturity and the size of the market. Economies in SEPA vary in their reliance on cash. Newer entrants to SEPA remain reliant on cash. Nordic countries have moved some way towards a cashless society.

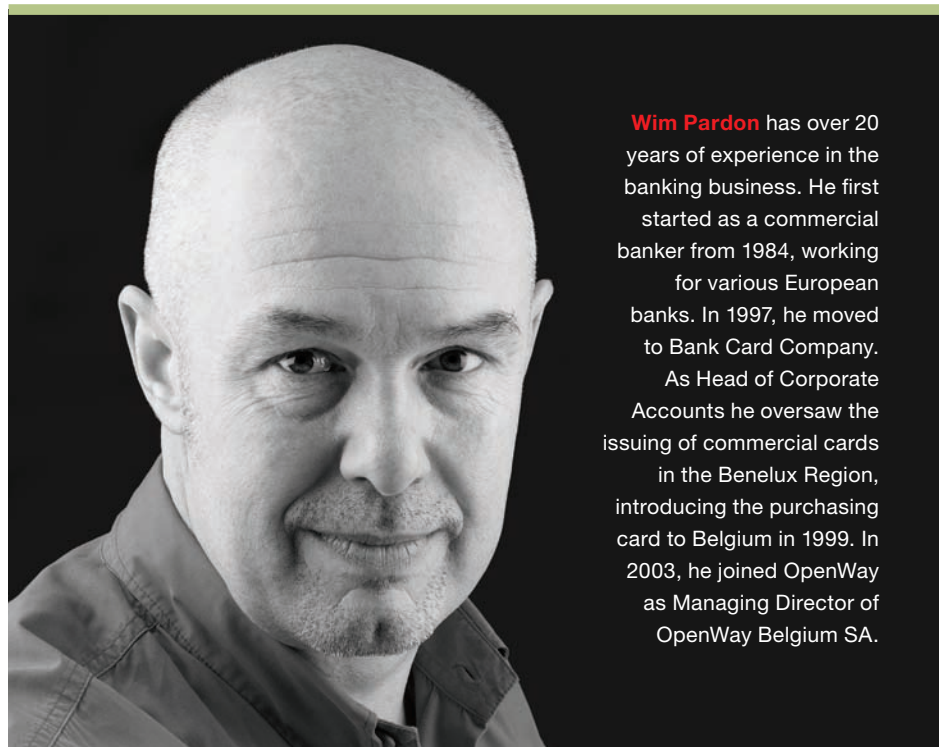
A shift is dependant on the number of payment alternatives available to the customer and the provision of incentives to encourage uptake.

FST. Online security is a major concern for many people and 'card not present' fraud is on the rise. What measures can be taken to reassure the sceptical and protect the payments of those who choose this channel?

WP. EMV makes use of standard security measures like authentication and PIN verification, which are especially important given the increasing volume of internet shopping and mobile payments. To make mobile and internet transactions even safer, we work to a range of standards including CAP (Chip Authentication Program), MMA (MasterCard Authentication) and 3D Secure.

“Smart players will convert quickly to the SEPA-formats”

Susanne Brønnum



Wim Pardon has over 20 years of experience in the banking business. He first started as a commercial banker from 1984, working for various European banks. In 1997, he moved to Bank Card Company. As Head of Corporate Accounts he oversaw the issuing of commercial cards in the Benelux Region, introducing the purchasing card to Belgium in 1999. In 2003, he joined OpenWay as Managing Director of OpenWay Belgium SA.

NF. Consumers have specific needs. They want low-risk, maximum security payments services that preserve the confidentiality of any private information. They want user-friendly payments. They are attracted to the new payments services because of their simplicity and the security they offer. This consumer concern also applies to e- and m-payments, or to contactless cards. When consumers use multi-application cards, they want them to be recognised in all channels. The cost factor does not affect the consumer's decision if the service offers real added value. However, consumer payments rely strongly on merchants accepting the instrument. The supply side drives payments instrument usage.

SEPA Online Payments (SOP) will enable web merchants to offer secure payment methods to their clients. Debtors (mainly consumers) shopping on a merchant web site will be able to authorise payments through their own bank's e-banking portal.

SB. The current answer is 3D Secure. Other measures under way include token solutions and digital signatures.

Last year in Denmark we processed more than 32 million internet transactions, a rise of 22 percent from the year before. The tendency is growing and as more and more consumers in Europe gain internet

access and the variety of shops explode, internet commerce will keep increasing. The industry will need to come up with new and improved solutions to combat fraud, but I think the current measures, if implemented everywhere, would have a huge impact on the current fraud losses.

“To provide convenience and maintain security, everyone in the card payment industry must work together”

Wim Pardon

MS. Over the years, a huge variety of new and updated payment products have been introduced to facilitate payments in the online environment.

After a steep learning curve, a perfect balance between convenience and online security has almost been achieved. Meanwhile, the e-commerce playground has evolved into an 'adolescent' market, ready to leap for maturity. The product design and risk management challenge is to meet the customer and market requirements.

Nowadays, successful products are tailor-made for their respective environments. They are transparent, fast and flawless, and give customers control

over their payments, establish the authenticity of the parties involved in the transaction process, prevent repetition of the same transactions, and are based on the 'to have' and 'to know' principle.

Despite the many technical solutions, customers must take note of the fact that cautiousness in providing personal information on the internet remains key to security.

FST. Are there any technologies on the horizon that you are looking to develop? Are you going to get involved in mobile and contactless payments – the likes of which are being touted as having huge potential?

SB. PBS is going to trial a contactless prepaid solution later this year. We are already offering prepaid solutions but want to test a contactless version in a theme park and in stadiums and other places.

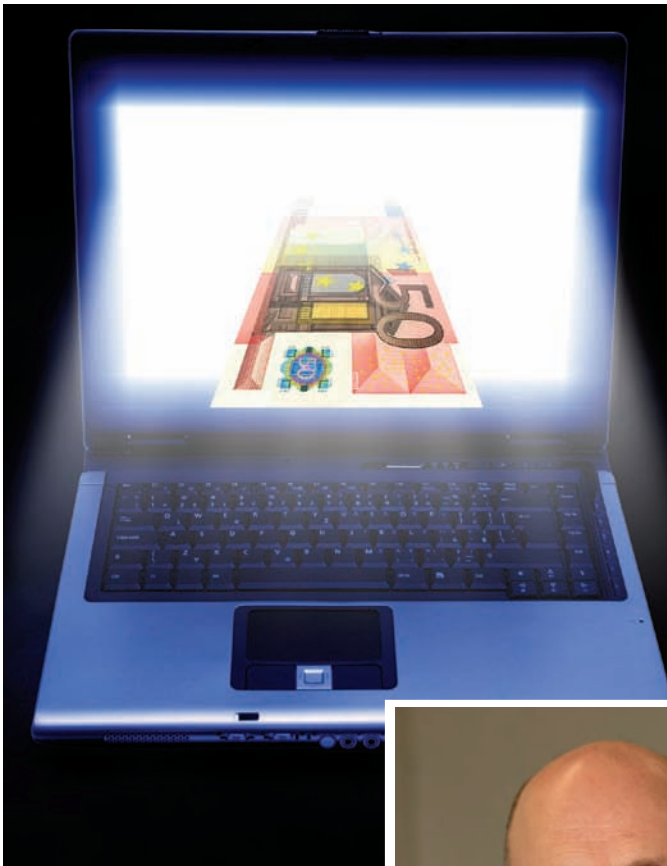
There is a national project ongoing concerning a contactless travel card for busses and trains that we are following closely as well.

I was in New York recently and was impressed with the Paypass initiatives and especially the contactless solution in taxis, which is very smart. We are also heavily investigating mobile payments and trials



Susanne Brønnum

has worked within the international card business for 17 consecutive years. She joined PBS in 1990 as a trainee, before graduating as BBA. She began her career as Product and Business Developer, where she successfully launched new card services and products. Brønnum concluded a General Manager Programme from Harvard Business School in 2001. Today, she is Director of the cards division within PBS.



**“Better security
does not have
to mean less
convenience”**

Manfred Schuck

within this and participate in Mobey forum etc. Biometrics as another new technological initiative is followed closely.

MS. Equens is focusing on the development of new services. This involves the deployment of new technologies and the combination of existing technologies and services to create new lines of service. We have four key innovation areas in the market, namely invoicing, healthcare payment transactions, mobile payments and prepaid/giftcard solutions. The services have been a success and are now being extended on a European scale. Moreover, we are delivering new services and performing pilots in cooperation with several parties in order to cater for market demands and gain experience in new developing markets.

WP. Our experience shows that contactless payments continue to enjoy widespread and growing acceptance, adapting themselves to local markets.



Nick Ford is Head of Payments and Supply Chain for Capgemini Financial Services in the UK. He has over 15 years experience in advising financial services clients on supply chain and payment strategies. He is an Executive Member of the European Management team for Capgemini Payment Services, and the UK spokesperson for the *World Payments Report*, which Capgemini produces in conjunction with the European Financial Management & Marketing Association (EFMA) and ABN AMRO.

Using contactless technology, we have implemented a variety of different projects, such as pre-paid loyalty cards targeting Thai youth and a social card system for residents of Moscow.

Mobile service channels are also a hot topic today. Whereas previously we concentrated on increasing the range of online payment offerings, today we are focusing on customer profile management through multiple channels. This technology increases client loyalty by providing personal services through any channel, and it allows the bank to effectively sell new products and services.

NF. Capgemini does not develop any technologies but we are working with many clients in the financial services and related sectors (eg. transportation and telecommunications) to develop strategies for their products and services in this area.

We are also forming alliances and collaborating with partners in developing solutions and services in this new and rapidly growing area of the market. ■