

# PUSH THE LIMITS



“Optimising payments is always about making a trade-off between security, speed & ease of use, and costs,” stresses Dr Niklas Bartelt, Director of Product Management Cards & Payments at DZ BANK in Frankfurt. “And the banks will always endeavour to push the limits. What used to take hours now takes minutes. In a hundred years’ time, the same things will be happening in nanoseconds. So we need to maintain the mindset that this is an ongoing development.”



In the trade-off between the three components security, speed & ease of use, and costs the balance will shift over time. "These days, limits are pushed mainly by technical and regulatory developments," adds Dr Bartelt. "People will find new technologies increasingly easy to use, and chip technology is becoming cheaper all the time. This will lead to all kinds of innovations."

#### Contactless and biometrics

This does not mean that DZ BANK is in favour of bringing everything that is technically feasible to the market as quickly as possible. Dr Bartelt: "Naturally, as banking professionals, we are extremely excited about the likes of contactless and biometric payments. But we mustn't fall into the trap of making large-scale introductions of innovations that companies and consumers don't want because they have made a different trade-off between the three components. It is a question of cooperating to find solid and

all kinds of barriers that slow down innovation. An obvious one at the moment is merchants not wanting to invest in a new terminal. Naturally, they are sensitive to the arguments that it would reduce the likelihood of fraud, speed up the process at the check out and increase customer spending, but there is the upfront investment as well. We are dealing with people after all! As a bank, we also try to consider what is right for our clients. You can aim to make payments a hundred percent secure, but that makes them extremely expensive. At the same time, we want to bring products onto the market that are profitable. After all, we are a commercial company."

#### No silver bullet solutions

According to Dr Bartelt, there are various ways of pushing the limits. "With offline payments, for example, which save merchants a lot of time." This increases speed and reduces costs for the retailer. Dr Bartelt:

## SELF-ADMINISTERED CHECKOUTS ARE A TRADE-OFF BETWEEN SPEED AND RISK, AND SO FAR MERCHANTS HAVE BEEN CHOOSING RISK OVER SPEED

practicable solutions that clients are willing to pay for. While things could go almost any way, I personally don't see contactless and biometric payments breaking through on a large scale within the next twelve months. Of course, we have to do our homework for the future, but we mustn't forget that we still have to do business in 2010!"

#### Good enough for clients

"Look how long it took for digital payments to break through," Dr Bartelt continues. "Unfortunately we have to take into account

"Initially, it was difficult to determine the right offline limits in order to prevent the default rate from becoming too high. Volksbanken Raiffeisenbanken started with a low percentage, but in the meantime several large merchants have had positive experiences with off-line payments. Consequently, the percentage offline is in some cases above 30% percent. Everyone wants faster and cheaper payments. But there are no silver bullet solutions – developments will always take time to ensure that the process is robust."

#### Checkout design

At the checkout, speed is crucial. Dr Bartelt: "Smart merchants like discounters are now often faster with cards than handling cash payments. However, for many, there is still a psychological barrier when it comes to making a complete transition. In the Netherlands, some retailers are taking a smart approach with card-only lanes. France and the Netherlands now also have self-administered checkouts, although this technology is still in the experimental stages. This is also primarily a trade-off between speed and risk, and so far merchants have been choosing risk over speed. This is slightly outside our scope as a bank, as there is still a way to go in the design of checkouts."

#### Speed with a purpose

When speed and security are weighed up against each other, settlement naturally also plays an important role. While in the Netherlands processing is virtually continuous because payments are settled at least every half hour (parcel settlement) between a few dominant players, in Germany – with a much larger number of banks – they are processed bilaterally between banks via 'garage clearing'. Dr Bartelt: "Continuous settlement is possible, but expensive. But it is also a common misconception that quick means secure. If a payment takes a day longer, but there is a guarantee that it will arrive, people are prepared to wait. That's why, as a bank, you have to carefully establish the wishes of the client in relation to what they are willing to pay. Speed is expensive, and not always necessary. As a bank we can, for instance, provide considerable added value in the client's reconciliation process. But if a merchant asks for speed without utilising it, it is of no benefit. In many cases, the processes underlying the payment process are what makes it complex. At DZ BANK, we set our clients up with an interesting tool. We manage all their cash, giving them a single combined transfer, along with the information they need to reconcile each individual checkout payment."



Some stores of the retail chain Albert Heijn, which operates within Ahold, offer a solution that includes self scanning and self-check outs, in addition to the standard way of payment with cash and cards. Customers can take a scanner from the shelves, scan the barcodes on the products themselves, and then pay for their shopping at an unmanned payment terminal.

### Preserving compatibility with legacy processes

Another example is the manner in which DZ BANK offers its B2B e-invoicing service, the 'VR-RechnungsService'. Dr Bartelt: "While it is considerably advanced, we have placed the emphasis on user-friendliness and compatibility with legacy processes. For instance, an invoice can also be 'printed' electronically without any paper being required. This is done by using the VR-RechnungsService printer driver from Microsoft Word or another word processor. Alternatively, a client can use our cost efficient Mailing solutions /

lettershop processes to produce actual paper invoices for customers who do not yet have the technology required for e invoicing and also save money. At the same time we also add other modules for reconciliation and so forth which add further capabilities around the payment / invoicing process for a corporate customer. This way, we allow clients to adjust to this innovation gradually. There are no magic solutions – it is for the most part a question of finding out what buttons you need to push to optimise the process for the client. You can only do this by working alongside your client as a cooperative partner."

### Next generation of payment solutions

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**Biometric** services are enjoying rapid acceptance by consumers who value their unparalleled ease of use. Moreover, Equens' high-speed processing services and ultra-high standards in terms of reliability, security and privacy protection ensure fast and secure treatment of personal data.

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