KIDS WORLD GROUP PRIVATE BANK

Social Card with Banking Function

Prepaid Card & Virtual Prepaid Card

KWG PB QR Shopping App

www. kidsworldgroupprivatebank.com

www. kidsworldgroup.com

CERTIFICATE OF INCORPORATION OF A PRIVATE LIMITED COMPANY

Company No. 6121765

The Registrar of Companies for England and Wales hereby certifies that

KIDS WORLD GROUP PRIVATE BANK LTD

is this day incorporated under the Companies Act 1985 as a private company and that the company is limited.

Given at Companies House, Cardiff, the 21st February 2007

REGISTRAR OF COMPANIES FOR ENGLAND AND WALES

THE OFFICIAL SEAL OF THE REGISTRAR OF COMPANIES

Companies House

— for the record —

The above information was communicated in non-legible form and authenticated by the Registrar of Companies under section 710A of the Companies Act 1985

THE COMPANIES ACT 2006

Company No. **6121765**

The Registrar of Companies for England and Wales hereby certifies that KIDS WORLD GROUP PRIVATE BANK LTD was incorporated under the Companies Act 1985 as a limited company on 21st February 2007.

The Registrar further certifies that according to the documents on the file of the company:-
a) NORBET HANS DRUSEL is the director of the company,
b) EUGEN VON BOCH is the secretary of the company,
c) the situation of the registered office is 72 HIGH STREET, HASLEMERE, SURREY GU27 2LA,
d) the issued capital of the company is 2 shares of £1 each,
e) NORBERT DRUSEL is the shareholder of the company.

According to the documents on file and in the custody of the Registrar, the company is up to date with its filing requirements and has at least 1 director, who is a natural person over the age of 16.

The company has been in continuous unbroken existence since its incorporation and no action is currently being taken by the Registrar of Companies to strike the company off the register or to dissolve it as defunct. As far as the Registrar is aware, the company is not in liquidation or subject to an administration order, and no receiver or manager of the company's property has been appointed.********

Given at Companies House, the **16th February 2012**

L A GRANT
for the Registrar of Companies

This certificate records the result of a search of the information registered by the Registrar. This information derives from filings accepted in good faith without verification. For this reason the Registrar cannot guarantee that the information on the register is accurate or complete.

Companies House

THE COMPANIES ACT 2006

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Companies House

APOSTILLE

(Hague Convention of 5 October 1961 / Convention de La Haye du 5 octobre 1961)

UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND

1. Country: United Kingdom of Great Britain and Northern Ireland
   Pays: Royaume-Uni de Grande-Bretagne et d'Irlande du Nord
   This public document / Le présent acte public

2. Has been signed by **L A Grant**
   a été signé par

3. Acting in the capacity of **Officer of the Companies Registration Office,**
   agissant en qualité de

4. Bears the seal/stamp of
   est revêtu du sceau/timbre de

5. at London/à Londres

Certified/Attesté

6. the/le **22 February 2012**

7. by Her Majesty's Principal Secretary of State for Foreign and Commonwealth Affairs /
   par le Secrétaire d'Etat Principal de Sa Majesté aux Affaires Etrangères et du Commonwealth.

8. Number/sous No **J152639**

9. Stamp:
   timbre:

10. Signature: **H Dave**

FOREIGN AND COMMONWEALTH OFFICE
LONDON

For the Secretary of State / Pour le Secrétaire d'Etat

If this document is to be used in a country which is not party to the Hague Convention of 5th October 1961, it should be presented to the consular section of the mission representing that country.

An apostille or legalisation certificate only confirms that the signature, seal or stamp on the document is genuine. It does not mean that the content of the document is correct or that the Foreign & Commonwealth Office approves of the content.

Companies House

(AR01) Annual Return

Company Name: KIDS WORLD GROUP PRIVATE BANK LTD
Company Number: 06121765

*This is a summary of the information submitted to Companies House on **27/02/2012**. This document does **not** indicate that the submission has been successful. You will receive **separate** notification when the submission has been accepted or rejected.*

Company Details

Company Type: Private company limited by shares
Made up Date: 21/02/2012

Principal Business Activities:

SIC Codes

99999

Registered Office Address:

72 , High Street
Haslemere
Surrey
United Kingdom
GU27 2LA

Details of Officers of the Company

The Company Secretary :

Name:	Eugen VON BOCH
Address:	
	1 , Fahrweg Fremersdorf 66780 Germany

Director :

Name:	Norbet DRUSEL
Date of Birth:	13/10/1948
Nationality:	German
Occupation:	Businessman
Country/State of residence:	Germany
Address:	
	14 , Koenigsallee Dusseldorf Germany 40212

Statement of Capital

Currency:	GBP
Number of shares issued:	2
Total aggregate value of shares issued:	2

Issued Share Capital Details:

Class of share	Number of shares issued	Amount paid up on each share	Amount unpaid on each share	Aggregate nominal value of issued shares
Ordinary	2	1	0	2

Prescribed particulars

FULL VOTING RIGHTS AND FULL ENTITLEMENT TO PROFIT AND CAPITAL DISTRIBUTION

Details of Shareholdings

Type of Member List:	FULL
Class of share:	Ordinary
Number Held:	2

Details of Shareholders

Norbert DRUSEL

KIDS WORLD GROUP CREDIT CARD

3900

13261

DAVID P DRUSEL

VALID DATES

08/10 - 08/14

KIDS WORLD TRADE CENTER CREDIT CARD

3900

13261

DAVID P DRUSEL

VALID DATES

08/10 - 08/14

KIDS WORLD HEALTH SERVICES CREDIT CARD

3900

13261

DAVID P DRUSEL

VALID DATES

08/10 - 08/14

KIDS SPORTING INTERNATIONAL CREDIT CARD

3900

13261

DAVID P DRUSEL

VALID DATES

08/10 - 08/14

KIDS WORLD ENTERTAINMENT CREDIT CARD

3900

13261

KIDS WORLD GROUP PRIVATE BANK

Smaller than...

VALID DATES

08/10 - 08/14

DAVID P DRUSEL

KIDS OPEN UNIVERSITY CREDIT CARD

KIDS WORLD GROUP PRIVATE BANK

smaller than...

3900

13261

DAVID P DRUSEL

VALID DATES

08/10 - 08/14

KIDS DAILY NEWSPAPER CREDIT CARD

KIDS WORLD GROUP PRIVATE BANK

smaller than...

3900

13261

DAVID P DRUSEL

VALID DATES

08/10 - 08/14

KIDS CYBER CASH HOUSE CREDIT CARD

3900

13261

KIDS WORLD GROUP PRIVATE BANK

smaller than...

VALID DATES

08/10 - 08/14

DAVID P DRUSEL

THE BLACK SWAN CREDIT CARD

3900

13261

DAVID P DRUSEL

VALID DATES

08/10 - 08/14

KIDS WORLD GROUP FOUNDATION
CREDIT CARD

3900

13261

DAVID P DRUSEL

VALID DATES
08/10 - 08/14

KIDS CYBER PHONE HOUSE CREDIT CARD

3900

13261

VALID DATES

08/10 - 08/14

DAVID P DRUSEL

Eingetragen / Registered 22/02/2010

No 008309015

HABM – HARMONISIERUNGSAMT FÜR DEN BINNENMARKT
MARKEN, MUSTER UND MODELLE

EINTRAGUNGSURKUNDE

Diese Eintragungsurkunde wird für die unten angegebene Gemeinschaftsmarke ausgestellt. Die betreffenden Angaben sind in das Register für Gemeinschaftsmarken eingetragen worden.

OHIM – OFFICE FOR HARMONIZATION IN THE INTERNAL MARKET
TRADE MARKS AND DESIGNS

CERTIFICATE OF REGISTRATION

This Certificate of Registration is hereby issued for the Community Trade Mark identified below. The corresponding entries have been recorded in the Register of Community Trade Marks.

Der Präsident / The President

Wubbo de Boer

Cards INTERNATIONAL

LATIN AMERICA
Growth story

MOBILE PAYMENTS
Reaching tipping point

DEBIT CARDS
News forms of profitable geowth

2012 YEAR BOOK

PLUS
2EMD uncovered
Durbin effects
Prepaid growth for India
US revolving credit growth
Contactless: a year of progress

VRL
Analysis • Insight • Intelligenc

Contents

Tense times

The past 12 months have been tense. It has not exactly been knuckle-whitening – the payment industry is far too measured and deliberate for that – but there has been tension none-the-less. From the major regulatory and government initiatives that have reared their heads, to gunfights in the industry's very own Wild West – mobile payments. The fact is, we are on the verge of some significant changes.

The year saw a number of things creep menacingly towards us. The Google Wallet was one particularly unnerving product launch for the retail banking sector. Hardly frightening – the rollout was gentle and uptake less than staggering – but undeniably threatening for traditionally conservative banks and payments institutions. It is, perhaps, a taste of things to come. A glimpse of a world where the bank is not necessarily at the heart of the transaction, but remains on the periphery.

As with so many of these of these potentially game-changing initiatives, there are two ways you could look at it: As a threat, or as an opportunity. In the spirit of optimism, let's focus on the opportunity, which is two-fold. First, there is the option to join the fray.

The field is still wide open, and the "killer app" has yet to be identified. The question is, is your business flexible enough, and your appetite for risk high enough to make it work? For many issuers the answer is "probably not". In which case, there is a second opportunity. Which is to provide a solid platform upon which mobile payments platforms can be built, and ensuring your existing channels – in particular debit and prepaid portfolios – speak the language of innovation.

This means making sure that online banking channels are able to keep up with changes in consumer demand. It means incorporating user-friendly personal finance management facilities.

And, some would argue most importantly, getting effective and genuinely valuable loyalty offerings in place on current accounts and debit portfolios.

This review brings these issues to the fore. Inside we look at the start-ups, strategic partnerships and product launches that are shaping the changing payments landscape. We look at the global flashpoints – South East Asia and Latin America in particular – where telecoms and payments are already well intertwined. And we look at the technological drivers, the implementation of NFC technology at the point of sale, and the ongoing rollout of EMV.

And of course, these exciting developments and opportunities exist alongside the sectors main profit drivers: credit lending and traditional point of sale card transactions. In credit 2011 saw some interesting M&A activity, suggesting potential for growth and development in the next year or so.

The blossoming love affair between emerging and alternative payments and debit/prepaid platforms is of course a threat to credit card issuers.

But the fact remains that credit facilities are still highly attractive, often essential, to the consumer. And the "pay now" and "pay before" models are struggling to bring the cardholder loyalty and rewards programmes that are truly as valuable as those available on a credit card.

So it is fair to say that the credit card is far from dead. And developments in hybrid cards suggest just one way in which those portfolios can be re-packaged for the credit-crunched consumer.

The pace of change as certainly picked up in 2011, but as I said at the beginning, it is hardly frightening. Opportunities abound, and the next year will see increasing numbers of companies detailing their plans to make the most of them.

James Ratcliff
Editor, *Cards International*

EUROPE, MIDDLE EAST, AFRICA

RESULTS

German credit cards shall go to the ball

The latest 'E-Commerce Report' by Deutsche Card Services, a subsidiary of German financial services group Deutsche Bank, shows German consumers use credit cards to pay for 38% of purchases.

In second place is direct debits – the most popular payment method in preceding years. Behind that is giropay – developed by German credit institutions and based on the online PIN and TAN procedure.

"Credit cards have been always the 'Cinderella' of the card market in Germany – never getting the recognition they deserve and sitting in obscurity," said Felitas Aguilar, sales manager for e-payments software provider ACI.

Aguilar notes the 'significant growth' in the number of credit cards issued in Germany. She cites banks such as Postbank, Targobank and Santander Consumer Bank as examples of those that are starting to see credit cards as a valuable revenue stream.

INDUSTRY TRENDS

ATMIA hits back at cash decline

ATM trade organisation ATMIA has rushed to rubbish claims that cash is on the decline in the UK, stating that the Payments Council Q3 2010 report uses "unscientific anti-cash rhetoric" and underestimates cash usage.

Ron Delnevo, European chairman of ATMIA and MD of ATM operator Bank Machine cites unnamed experts who suggest the UK cash figure could be understated by 30% and claim the gap is growing.

Delnevo said: "As usual, those who would benefit from a plastic-only society are pointing to a so-called cash decline and cite this as the first step towards a cashless society. The real facts are that this is neither true nor desired by the British public".

Flora Hamilton, executive director of ATMIA Europe, said cash enjoyed a bounce-back during the recession, so the decline in cash usage could be viewed as a return to normalcy.

REPORT

Visa report shows fragile EU recovery

EU consumer spending across Visa products grew by 1.2% in the third quarter of 2010 compared to the same point last year but figures show a fragile European recovery from recession.

The 'Visa Europe EU Consumer Spending Report,' produced in conjunction with advisory firm Markit, shows consumer spending rose to €242bn ($317.3bn) from €202bn in the third quarter of 2009. This 19.6% growth is unadjusted for card issuance, payment preference and inflation.

Average transaction values across the EU fell to €50.8 from €51 in 2009 and €54.8 in the third quarter of 2007.

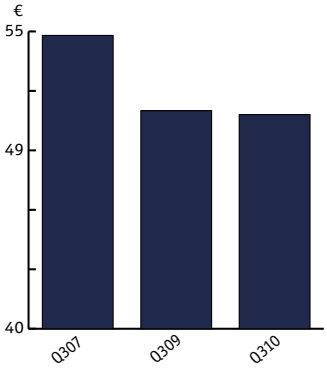
The report showed troubled eurozone markets such as Greece and Ireland recorded "particularly marked" declines in household spending. However, figures for Eastern Europe, France and the UK were more positive as spending proved to be "robust".

"The Visa card spending data add further to evidence of a fragile economic recovery in Europe," said Chris Williamson, chief economist at Markit.

The Visa report is based on an analysis of the 227m transactions across Visa products circulated in the EU. ■

EU

Transaction values decrease despite a rise in overall spending



Source: Visa

LATIN AMERICA

E-COMMERCE

Visa breaks down barriers for e-commerce

Visa has teamed up with two online shopping services in a bid to break down boundaries for Latin American and US cross-border e-commerce in time for Christmas.

Through SkyBOX, Visa cardholders in 40 Latin American or Caribbean countries can register for free and shop at online US retailers.

The second e-commerce shopping enablement service, Borderlinx, will serve Visa cardholders in Australia, Bahrain, Canada, Kuwait, New Zealand, Oman, Qatar, Russia, Saudi Arabia and the UAE.

"One inhibitor to the growth of cross-border e-commerce is the delivery of goods. In many countries, buying from US-based online merchants has proven to be costly and logistically complicated," said Gerry Sweeney, global head of e-commerce and authentication for Visa.

Both Borderlinx and SkyBOX will provide consumers with personalised US shipping addresses to which retailers can then mail purchased items. The online shopping services will then arrange for these items to be delivered to the cardholder's home country.

PROCESSING

FIS signs deal with Banco Bradesco

Banking and payments technology provider FIS has signed a 10-year card processing deal with Brazil's Banco Bradesco and hints at possible expansion plans in the Latin American region.

Under the terms of the agreement, FIS' card processing joint venture Fidelity Processandora e Servicos (FPS) will process and support Banco Bradesco private label, Visa and MasterCard portfolios until 2020.

FPS' card processing services include call centre management, back-office support, risk management and collection services. FPS claims to support more than 40m card accounts in Brazil, including more than 5m prepaid cards.

REGULATION

Brazil slashes payment card fees

Brazil's Monetary Council has slashed the number of issuance fees on credit cards from more than 80 to just five. Under the new rules, which come into effect next March, credit and debit card companies must offer customers the option of a card with basic services.

Associação Brasileira de Cartões de Crédito e Serviço said it wants to continue working with the federal authorities to help them formulate new rules for the cards industry and to ensure self-regulation by cards companies.

The fees that will remain in play include an annual fee and the use of automated teller machines for withdrawing cash on credit.

The move is reported to have been made to heighten competition in Brazil's $310bn credit card industry, where both merchants and consumers alike complain about unfair costs. ■

NORTH AMERICA

PRODUCT LAUNCH

Travelex launches foreign currency card

Foreign exchange currency provider Travelex is launching the US' first chip and PIN prepaid foreign currency cards, available in euros and British pounds.

The MasterCard 'Cash Passport' will allow US travellers to transact with overseas merchants that have migrated towards chip-based transactions. The card will still include a traditional magnetic stripe for merchants who have not migrated to the standard.

"There is a growing demand from the American traveller for technology compatible with what merchants are utilising abroad," said Jon Dario, president of Travelex Currency Services.

Travelex claims as the card is PIN and signature protected and is not connected to the cardholders' bank account, the risk of identity theft in the event the card is lost or stolen is minimal.

MOBILE BANKING

US Bank unveils mobile platform for prepaid

US Bank, a subsidiary of Bancorp Bank, is set to launch a mobile platform for its AccelaPay Visa prepaid card programme in a bid to create a 'tighter-bond' with its cardholders.

Using banking and payments technology provider FIS' mobile banking platform, AccelaPay cardholders will be able to use their mobile phones to check their account balance, pay bills, receive account alerts and view mini-statements.

The US Bank cites research from an unnamed source that shows prepaid cardholders are more likely to own a mobile phone than a computer. It claims by adding mobile access to a customer's primary financial vehicle will help create a tighter bond between US Bank and this customer segment.

"By enabling this customer segment to conduct financial services via their mobile phones, the financial institution will benefit from strengthened relationships and ultimately a stronger revenue stream," said Frank D'Angelo, executive vice-president at FIS Payment Solutions.

E-PAYMENTS

Canada's Tim Hortons to accept Interac debit

Canadian coffee and doughnut chain Tim Hortons will begin a nationwide roll-out of Interac debit cards after fears of a 'slowing-down' of transactions through e-payments were allayed by rigorous piloting.

Tim Hortons announced it aims to accept Interac debit payments at 90% of its 3,000 stores across the country, covering locations such as Ontario, Québec, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador.

The coffee shop expressed concerns over slowdowns at cash registers and customer security and as such resisted debit cards as a payment method up until 2003. Those concerns faded as it began to introduce debit cards in Western Canada and further expanded its e-payments offerings three years ago by accepting MasterCard credit cards and prepaid gift cards. ■

ASIA-PACIFIC

REMITTANCE

Western Union expands remittance service

Remittance specialist Western Union is expanding its Account-Based Money Transfer (ABMT) service to customers in China and Romania.

Using the service, China's Shanghai Pudong Development Bank (SPD Bank) account-holders will be able to send and receive funds directly from their accounts via online banking or mobile phones for cash payouts, at Western Union Agent locations, in 200 countries around the world.

Although the launch of the service has been announced by Western Union, the online banking service will not be activated until mid-2011 with ATM and mobile options to follow.

Once in operation, the launch will mark the first time ABMT services are available in China.

"In both China and Romania, people are rapidly embracing new technologies. We are proud to offer fast, reliable services in these important markets," said David Yates, EVP for Western Union.

Banca Transilvania account-holders will be able to send money directly from their bank accounts via ATM money transfer for cash payouts at Western Union Agent locations and receive funds from people around the world. The receiver can withdraw the funds through the bank's network of 780 ATMs around Romania.

The Western Union ABMT service will become the first to allow money transfers via ATMs in Romania.

RESULTS

Asia-Pacific Visa spend up 12% in 2010

Payments volume generated on Visa cards across Asia-Pacific reached $800bn this year – an increase of 12% on 2009, indicating strong economic recovery in the region.

The total number of transactions in the Asia-Pacific region increased to 10.2bn, up 11.4% from 12 months ago. Payments volume across Visa debit grew by 42.9% and credit also saw an increase of 9.7% on 2009.

Following Visa's full year 2010 earnings, it produced the regional breakdown that it claims highlights the continued trend by consumers to use electronic forms of payments rather than cash and cheques throughout Asia-Pacific.

Visa figures also show the number of Visa debit cards shot up by 15% this year, said to be an indicator of increased financial inclusion in developing economies.

M-BANKING

M-banking proves popular in Hong Kong

More than a third of Hong Kong consumers who own a smartphone are conducting m-banking with the service proving to be indicative of a bank's 'progressive' strategy.

The Mobile Banking Perception Study, conducted by research company Synovate last month, found 4% of Hong Kong respondents are currently using m-banking.

"Given the current ownership of smartphones with the ability to conduct mobile banking at 39% and how recent mobile banking was introduced to the market, this figure is not bad at all," said Cindy Chan, associate director of research for Synovate in Hong Kong.

The study found more than 80% of respondents perceive banks that offer m-banking to be "keeping up with changing times and meeting their needs". 88% of those respondents aged 18-29 labelled such banks as 'progressive'.

60% of Hong Kong consumers said they would prefer to use a bank that offers m-banking services over banks that do not.

The Synovate Mobile Banking Perception Study surveyed 915 people aged 18 to 64 residing in Hong Kong on mobile banking usage. ■

EUROPE, MIDDLE EAST, AFRICA

FRAUD

Brighton becomes UK's card fraud hotspot

New research has named the seaside town of Brighton as the card fraud capital of the UK in 2010, yet incidences of fraud continue to decline.

According to life assistance company CPP's annual Card Fraud Index, over 13m people are said to have fallen victim to card fraud in the UK, a third of which (33%) do not become aware of such an occurrence until they are informed by their bank or their card is refused at an ATM or POS.

"In 2010 we saw a three% decrease in card fraud incidents in the UK compared to the previous year," said Sarah Blaney, a card fraud expert at CPP.

"This in itself is good news and shows how progress is being made to reduce the number of victims. In particular, online fraud has decreased, which could be a result of industry initiatives such as Verified by Visa and MasterCard SecureCode."

The study claims the top five card fraud hotspots in the UK are Brighton with 38% of its population affected by card fraud, London with 34%, Manchester with 33%, and Bristol and Leeds tied in fourth, with 32%, and Edinburgh with 31%.

RESEARCH

Visa spending tops €1trn in Europe

Visa debit card spending in the UK grew by 45% to a total of £251bn ($402bn) in 2010, as debit continues to replace cash as the nation's favourite way to pay.

According to Visa's annual results for the year ending 30 September 2010, there was a 10% increase in the average number of point-of-sale (POS) transactions in the UK per debit card last year. The number of Visa cards issued rose 34% to 81m.

"Debit has replaced cash as the favourite way to pay in the UK and at the same time Visa has become the most popular debit card," said Peter Ayliffe, chief executive of Visa Europe.

There was a 16.3% growth in POS spending on Visa cards across Europe, which meant expenditure exceeded €1trn for the first time.

TRANSIT

MasterCard strikes Oyster branding deal

In a move to raise awareness for its 'PayPass' contactless technology, MasterCard has struck a deal with Transport for London (TfL) for the branding of the Oyster card wallet in 2011.

MasterCard's aim to enable 'open-loop' payments on public transport in cities such as London looms closer as Hany Fam, president of the UK and Ireland division at MasterCard, believes its PayPass functionality could reduce the frustration some commuters feel when travelling.

"Frustrations such as missing a train because you have to queue up to buy a ticket or waiting for a bus only to find that you don't have enough value to travel, could be a thing of the past," said Fam.

The open-loop payment system would allow commuters to 'tap and go', paying travel fares directly at the ticketing gate with the credit, debit or prepaid card they use for everyday purchases.

MasterCard will distribute more than 6m Oyster wallets in London this year. ■

ASIA-PACIFIC

NFC

Gemalto launches new NFC trial in Japan

Digital security software provider Gemalto has joined forces with Japanese mobile operator Softbank Mobile to launch a mobile contactless pilot in Japan, which allows customers the choice to pay via different credit card accounts.

Softbank Mobile customers will be able to use their mobile phones to pay for goods and services in convenience stores, fast-food restaurants and theatres. The programme allows users the option to choose between two Japanese credit card issuers – Orient Corporation and Credit Saison.

MasterCard PayPass applications in a handset's universal integrated circuit card (UICC).

"The advent of NFC in Japan will enable us to deploy mobile contactless services in payments and other domains," said Tan Teck-Lee, president of Gemalto Asia.

MERGERS & ACQUISITIONS

MasterCard acquires Travelex prepaid programme

Travelex has sold its prepaid card programme management (CPM) to MasterCard for £290m ($458m) to "accelerate investment" in Asian and Latin American regions.

Under the terms of the transaction, which is expected to close in the second half of 2011, MasterCard has agreed to provide programme management services for the Travelex Cash Passport prepaid card, which is sold throughout Travelex's stores and online channels.

Travelex CEO Peter Jackson said: "The sale of the CPM will allow us to accelerate our investment plans, particularly in higher growth regions such as Asia and South America, and in the growing e-commerce channel."

Along with the agreed sum MasterCard will pay for Travelex's CPM, a further £35m has been promised by the card association if certain performance targets are met.

BIOMETRICS

MasterCard develops payment solution for Aadhaar

MasterCard has announced the development of a bespoke payment solution for Aadhaar holders in India with biometric authentication.

The Aadhaar government initiative provides Indian residents with a 12-digit Unique Identification Number (UID), which is captured on a multipurpose national identity card.

The project aims to collate residents' basic demographic and biometric information thus enabling them to gain acceptance to India's formal banking system.

The payment solution is claimed to enable participating banks to issue a 16-digit primary account number to consumers enrolled in Aadhaar.

It claims to have developed a direct interface with the identity project to perform UID biometric authentication of such transactions.

"MasterCard is proud to collaborate with the UIDAI (Unique Identification Authority of India) in enabling financial inclusion for a significant portion of the Indian population by facilitating payments," said TV Seshadri, general manager, South Asia, MasterCard Worldwide.

The network claims its solution is based on the UIDAI platform and will encourage Aadhaar holders to switch from cash to e-payments. It is designed to support prepaid, credit and debit products to drive the UIDAI's objective of financial inclusion in the country. ■

LATIN AMERICA

PRODUCT LAUNCH

TSYS launches health care payment suite in Puerto Rico

Payment processing providers TSYS Merchant Services and Paytech have joined forces to launch a health care solutions payment suite in Puerto Rico.

TSYS' 'first paid health care solution' provides a real-time calculator that determines what a patient owes for health care services at the time of treatment.

The software claims to break the patient's costs down by confirming a patient's coverage and benefits, determining out-of-pocket status, and calculating charges.

"First Paid is the first product in Puerto Rico that allows health care providers to efficiently collect patients' out-of-pocket expenses," said Candido Alfonso, CEO and president of Paytech.

"The medical industry has focused on electronically billing insurance plans but First Paid is solely focused on helping health care providers collect the expenses not covered by insurance."

INVESTMENT

Digicel gets $2.5m Haiti grant from Gates

The Bill & Melinda Gates Foundation has announced it will award mobile operator Digicel and its partner Scotia Bank $2.5m to fund a mobile money scheme in Haiti.

Digicel, the first firm to launch mobile money services on the island, has been awarded the money as part of a $10m incentive fund set up to jumpstart the introduction of mobile money into the Haitian economy.

The devastating earthquake in January 2010 destroyed one-third of Haiti's bank branches, further limiting access to financial systems that served only ten% of Haiti's population before the earthquake.

Digicel's service enables customers to use their mobile phones to make deposits and withdrawals, and transfer money.

"Making mobile money services available to the poorest families in the developing world can be a first step to introducing a broader range of financial services, including savings accounts, helping people build financial security and productive lives," said Sylvia Mathews Burwell, president of the global development programme at the Bill & Melinda Gates Foundation:

CASH SHORTAGE

Buenos Aires cash shortage crisis deepens

The coin shortage that has gripped Argentina's capital since 2008 has been dubbed one of the most 'peculiar' economic crises in recent history by US newspaper *The New Yorker,* but the attention is now turning to bank notes, or rather the lack of them.

Local reports have claimed many consumers are suffering from a decrease in the number of bank notes being dispensed at cash machines across the city – a problem the Argentinean Central Bank (Banco Central de la República Argentina) has blamed on local technological problems.

"The Central Bank has promised to try to bring in as many printed notes as possible by next week, and around ARS10,000 [$2,500] have been requested," said Argentinean newspaper, *The Buenos Aires Herald.* ■

NORTH AMERICA

M-PAYMENTS

Starbucks rolls out m-payments app in US

Consumers are now able to pay for their coffees via their smartphone, as Starbucks rolls out its mobile app across the US.

The Starbucks Card Mobile App, available on BlackBerry, iPhone and iPod handsets, is set to increase loyalty and convenience among its customers throughout its 6,800 stores and more than 1,000 Starbucks in US retailer Target locations.

In addition to the mobile payment capability, the app allows customers to manage their Starbucks Card account, check their balance, reload their card, check their rewards status and locate the nearest store.

Customers can download the free app for the selected devices by visiting the Starbucks website.

Customers can pay by holding their mobile handset in front of a scanner and scanning the Starbucks app's on-screen barcode.

M-PAYMENTS

VeriFone launches mobile POS solution

VeriFone has developed a mobile card acceptance solution with built-in NFC and EMV capabilities for US merchants.

VeriFone's 'PAYware Mobile Enterprise', due to be launched early this year, is designed to integrate with merchants' existing in-store POS terminals and is claimed to be ready for the anticipated roll-out of both EMV smartcards and NFC-enabled mobile phones in the US.

The solution includes a PCI-approved PIN debit keypad and a 2D bar code scanner to allow merchants to perform mobile check-out or inventory control tasks. The software is also supported by VeriFone's PAYware Connect gateway for payment acceptance outside of store environments.

"With PAYware Mobile Enterprise, retailers can revolutionise customer service and store operations by utilising versatile mobile applications and secure payment acceptance integrated with existing POS infrastructure," said Erik Vlugt, VeriFone's vice-president of product marketing.

VeriFone plans to update the current PAYware solution and provide customised applications and critical management, decryption/tokenisation and gateway services in a bid to enable new mobile applications such as 'in-store queue-busting', inventory management and out-of-store delivery and service calls.

RESEARCH

US cash usage on the decline

Research firm Aite Group has predicted that cash usage in the US will have declined by 17% by 2015.

Aite conducted two consumer surveys in 2010 that measured the use of cash as a payment method in peer-to-peer, bill payment and retail transactions in the US.

According to the report, *The Less-Cash Society: Forecasting Cash Usage in the United States*, the decline in the use of cash as a form of payment will continue through to 2015 at a rate of just under four% a year.

It was noted, however, that although 30% of consumers use cash less often as they did two years ago, 20% of consumers use it more often.

"Despite forecasts of a cashless society, the US is nowhere near the realisation of this vision," said Ron Shevlin, senior analyst with Aite Group and author of the report.

"In fact, if the use of cash were to decline by 17% every five years – our forecast for 2015 – the use of cash in the US wouldn't fall below $1bn before the year 2205, roughly 200 years from now." ■

The London loop opens up

An open loop payment system will be introduced for London's transport system, which will sit alongside the current Oyster Card. **Louise Naughton** speaks to Transport for London, MasterCard and Visa to find out exactly how it will work and where the real benefits will be felt

London Mayor Boris Johnson has made the announcement that the UK's payments industry has been waiting for – London's successful prepaid transit card system, Oyster, will move to an open-loop network in time for the city to host the Olympics in 2012.

Through a partnership with MasterCard, Visa and American Express, Oyster contactless payments will be available on 8,000 of London's buses by the summer of 2012.

A roll-out of the contactless technology across the entire Transport for London (TfL) network is expected to follow later on that year.

"It is something that we have been working on for quite some time and this is just the right time to announce it," said a TfL spokesperson.

"We know the industry have been talking about this for quite some time and we felt it was time to put it on the record and say that this is TfL's plans for the coming year."

The card of choice

TfL expect the early adopters of the contactless technology, already using and comfortable with the service, to be the first to jump on board with the contactless card system. Other consumers are then predicted to follow their lead.

The contactless-payment card network will be applicable for those who use the pay-as-you-go service on London's transport, leaving the Oyster card to remain the card of choice for those on a monthly or annual ticket.

As a result, there are no plans to phase out the Oyster card and the open-loop network will run as an alternative for those who are more likely to pay for their travel with cash.

Discussions are also underway with the train operating companies that serve London about whether contactless bank cards could be used on National Rail where Oyster is currently accepted.

Travellers from overseas will be the key market for the new system and the date in which it is schedule to launch will obviously coincide with a huge influx of tourists that will flock to the capital city, looking to sneak a peak at the Olympic Games.

"The new system is especially applicable to foreign travellers coming to London as they wouldn't have an Oyster card," said the same spokesperson.

"This way they will be able to bypass the hassle of going to a ticket office and getting a card that they will then have spend time understanding how it works."

For industry spectators, the conversations and rumours that have circulated over the last few years on this subject has caused some to feel that the Oyster open-loop system was going to remain just that – a rumour.

> **"This is such a huge project with wide-ranging impact and visibility, not to mention the fact it is at the heart of millions of people's everyday lives. It is therefore very tricky to communicate outwardly before you are ready"**
> Chris Kangas, head of PayPass, MasterCard

But, as Chris Kangas, head of PayPass for MasterCard, explains, the complexity of the project has meant that a lot of developments have been forced to happen behind the scenes.

"This is such a huge project with wide-ranging impact and visibility, not to mention the fact it is at the heart ofm's of people's everyday lives," said Kangas.

"It is therefore very tricky to communicate outwardly before you are ready.

"It has just been in the last year that the specifics around the type of transaction model that can work in the transit environment have been nailed down. This clarity has led to the announcements being able to be made."

Kangas attributes some praise to the UK Cards Association for setting up a 'meeting of minds' in December 2010 with a view to generating a consensus as to how to move forward with the project.

Chris Kangas, head of PayPass, MasterCard

It worked, as it is claimed that it was in that very session in which the business model became clear. Evidently, sometimes communication is all you need and it appears baffling as to why this gathering hadn't been organised sooner.

New transaction model

MasterCard's main focus over the coming months will be to assess how its operational and technical elements will need to change in order to support the structure of the new transaction model.

Mark Austin, vice-president and head of Visa contactless at Visa Europe, claimed there will be more than 20m contactless debit and credit cards in circulation by the start of 2012.

Estimates currently pace the contactless cards issued in the UK at around 12m, so there is a long way to go before Austin's prediction is realised.

Nevertheless, the UK's payment industry can all let out that breath they have been holding for a number of years as this deal could well serve to be the force that pushes contactless technology into the mainstream. ■

REPORT

Banks must adapt to payment changes

Banks must adapt to the sweeping changes in the payments industry and weather the interchange storm if they are to reverse payments-based revenue fortunes, said a new report by management consulting firm The Boston Consulting Group (BCG).

The report, *Global Payments 2011: Winning After the Storm*, says strong payments businesses have shown severe weaknesses in previous years. Banks must determine whether their current operating models are suited to today's shifting industry dynamics.

"The size of the prize is too large not to take action," said Niclas Storz, a BCG partner and a co-author of the report.

"We estimate that by 2020, the global payments market will be worth $782trn in non-cash transaction values and $492bn in transaction revenues."

Global payments revenues, which typically constitute up to a half of most banks' total revenues, fell at a compound annual rate (CAR) of 7% from the end of 2008 through to 2010, according to the report.

BCG also said that European retail payment revenues fell from $173bn in 2008 to $136bn in 2010.

Banks are advised by the consulting firm to exploit the structural differences in payments markets throughout Europe.

The report predicts the focus in Western Europe is likely to be on refining operating models and by contrast Central and Eastern European financial institutions will be concentrating on forging 'winning' business models.

From the end of 2008 through to 2010, total payments revenues in the US fell at a CAR of 4%, despite steady payments values and a 3% annual rise in volumes.

Although the BCG has said total revenues are expected to grow in 2011, they are likely to remain about 6% below the 2007 peak level of $162bn – a level that is not expected to be surpassed for another few years, said the report.

The payment industry in the US has gone through "considerable disruption" over the last two years and new financial regulations such as the Credit Card Accountability, Responsibility and Disclosure (CARD) Act of 2009, modifications to Regulation E and the Durbin Amendment are viewed by the BCG to only compound this disruption and have a "dramatic effect" on the US payment businesses for years to come.

"As much as $25bn in annual retail-transaction revenues will be regulated away from US financial institutions as the new guidelines take effect," said BCG's senior partner Carl Rutstein.

"To get back on track, banks in the US need to transform their credit-card businesses, move beyond the checking account to deepen client relationships and make sure they stay smart and nimble in the digital financial services game."

The situation in Asia-Pacific is a different one. The report claims retail payments in the region are primed for growth but it warns that banks will have to tailor their business and operating models in order to balance growth aspirations with efficiency goals.

In the mature Asia-Pacific countries, BCG says growth discussions should focus on existing customers and opportunities to increase share of wallet by improving the convenience of payment solutions for consumers and merchants. ■

SIGNIFICANT GROWTH PREDICTIONS

BCG forecasts the payments industry will see a near three-fold revenue increase by 2020

2010	North America	Latin America	Western Europe	CEE	Asia-Pacific	MEA	Rest of the world	Total
Volume (m)	116,700	29,000	78,000	11,900	65,400	4,000	1,200	306,300
Value ($bn)	95,595	20,842	98,739	18,647	90,913	5,315	1,323	331,374
Total revenues ($bn)	160	71	147	40	140	29	2.4	590
2020	**North America**	**Latin America**	**Western Europe**	**CEE**	**Asia-Pacific**	**MEA**	**Rest of the world**	**Total**
Volume (bn)	207	109	125	30	213	38	29	750
Value ($bn)	137,481	71,254	154,780	52,909	301,147	34,752	29,6830	782,006
Total revenues ($bn)	286	195	276	97	534	132	60	1,579

Source: BCG Global Payments database, 2010

TRENDS

US revolving credit on rise again

After two years of gloomy and depressing financial results, there is finally cause for celebration as the Federal Reserve reveals US revolving credit has risen for the first time since 2008.

The Fed's report on December 2010 consumer borrowing showed revolving credit increased by $2.3bn, or 3.5%, to $800.5bn.

The last time credit card debt showed an increase was in August 2008 – a month before investment bank Lehman Brothers filed from bankruptcy.

The results are being touted as the start of a change in fortune for the financial services industry as it looks to be a sign that consumers in the US are growing in confidence about the state of the economy.

December is the third consecutive month where a growth in revolving credit has been recorded, with the Fed revising its original figure of $1.5bn in November 2010 and thus claiming a rise of $2bn.

Consumer credit outstanding now stands at $2.41trn with the month of December contributing $6.1bn, or 3% to this figure.

The *Wall Street Journal* says economists surveyed by Dow Jones Newswires had forecasted the Fed data would only show consumer credit rising by $2.5bn.

Results from e-commerce and payment processing provider First Data's SpendTrend analysis of January 2011 further compound this feeling of optimism in the industry.

It found more customers opted to pay with credit cards during the month of January with transaction growth on the payment method also reaching a 13-month high.

"Consumer spending during the final quarter of 2010 was the strongest in nearly five years and the momentum from the strong holiday season carried over into January," said Silvio Tavares, senior vice-president and division manager of First Data Information and Analytics Services.

Across all card types, First Data found that January's total dollar volume growth increased 7.4% year-on-year and was up from December's growth of 6.5%. Transaction growth also improved from the previous month by 0.7% to 8.3%.

First Data's SpendTrend tracks same-store consumer spending by credit, signature debit, PIN debit, EBT cards and checks at US merchant locations. ■

A cause for celebration?

While UK card fraud figures continue to plummet, **Louise Naughton** asks whether the payments industry can afford to relax, with fraudsters increasingly moving into the online world and more e-commerce and digital goods merchants finding themselves exposed and vulnerable to risk

Total fraud losses on UK cards, cheques and online bank accounts all fell in 2010. The UK card fraud figure crashed to £365.4m ($595m), their lowest levels for a decade, according to the UK Cards Association.

While this announcement may be cause for celebration, it may be wise to keep the champagne on ice as fraud still remains a significant threat in the online and card-not-present (CNP) arena.

Payments management company CyberSource's seventh annual *UK Online Fraud Report* says over a third of businesses expect to see the percentage of web revenue lost to fraud grow year-on-year in 2011 – an increase from 2009.

Online fraud continues to be perceived among merchants as the 'greatest business threat' – growing from 25% in 2007 to 59% in 2010. Some 72% of digital goods companies ranked online fraud as the most serious threat, generating a higher expectation of fraud risk than respondents from other sectors.

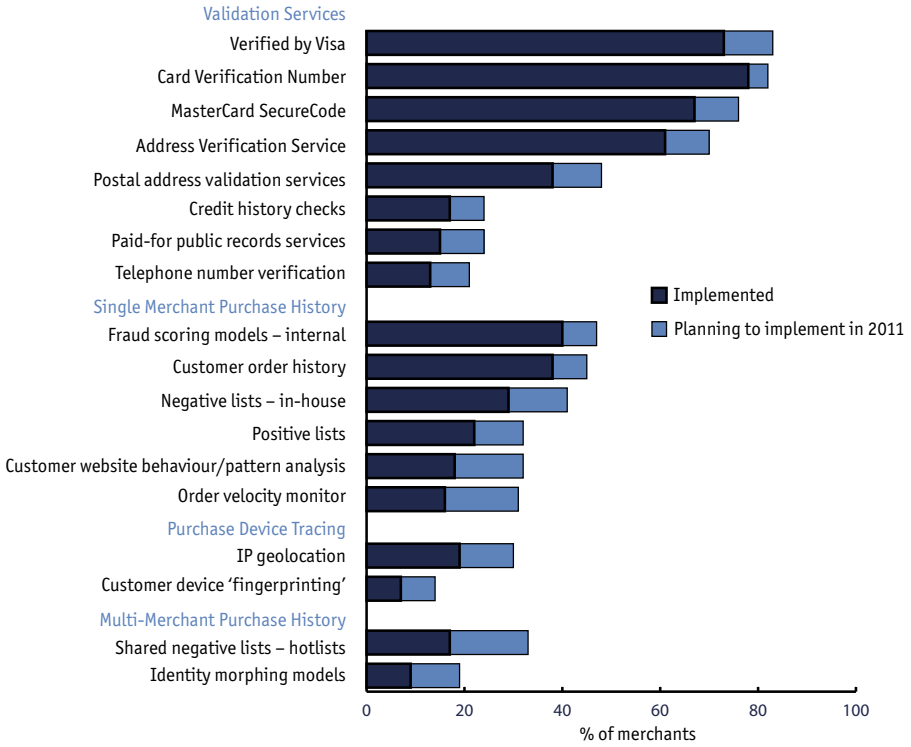
Over a third of UK businesses reported that the percentage of online revenue lost to payment fraud has increased year-on-year and CyberSource claims that merchants are currently rejecting 5% of incoming orders on average due to suspicion of fraud – a figure that has increased from 4.6% in 2009.

Digital goods retailers reject 6.1% of orders, which represents the highest average amount of rejected orders on the suspicion of fraud.

One-fifth of respondents of the survey manually review orders for potential online payment fraud, which is a slight increase on the 2009 survey according to CyberSource. 1.9% of accepted orders resulted in fraud losses, up from 1.6% in 2009.

SECURITY

Automated fraud detection tool current usage and plans



Source: CyberSource

'Lousy technology'

The UK Cards Association has cited online fraud prevention tools such as Verified by Visa and MasterCard SecureCode as contributing to the drop in total fraud losses on UK cards in 2010 .

However, academic research claims the 3-D Secure (3DS) services may not be as robust and consumer-friendly as the industry would like to believe.

Steven J Murdoch and Professor Ross Anderson, researchers in the computer laboratory at Cambridge University, claim 3DS has so far escaped academic scrutiny, despite it being a 'textbook example' of how not to design an authentication protocol.

In their paper, *Verified by Visa and MasterCard SecureCode: or, how not to design authentication*, published in January 2010, Murdoch and Anderson say 3DS may have its economics right, at least for merchants and banks, but it has "lousy technology".

"Merchants who adopt [3DS] get transactions treated as cardholder-present transactions, while banks get to shift liability onto the customer," says the paper. "Customers receive little benefit in security while suffering a huge increase in their liability for fraud."

Merchants typically deploy a combination of six different automated anti-fraud tools – something that has not changed since CyberSource's previous survey in 2009 – and investment in automated screening tools are predicted to continue during 2011.

"For 2011, there is a focus on achieving more with the same resources, a scenario that is not uncommon in the wider market," says the report.

"Fraud management budgets will remain relatively stagnant, both in terms of the tools being employed and associated staff."

With this in mind, CyberSource says merchants should focus on further streamlining internal processes, as well as optimising the use of appropriate anti-fraud tools.

Academics have shone a light on the card schemes' 3DS authenticator services and revealed they are not as they seem. ■

CONTACTLESS

Payment landscape changing Down Under

Contactless is a technology that can thrive if played and utilised in the correct manner. Yet unfortunately too many markets appear to be too heavily focused on the issuing side of the game and preoccupied on the form in which the technology comes, which suffocates and prevents the technology from flourishing into the game-changing tool it has been touted as becoming.

However, Australia appears to be a market that has the balance just right and MasterCard's recent announcement of its five-year roadmap shows how important the technology is to the future of the payment landscape 'Down Under'.

More than 5.3m MasterCard PayPass contactless cards have been issued in Australia and the technology is currently accepted at 35,000 merchant locations, according to MasterCard's divisional president Eddie Grobler. The growth of PayPass transactions grew 235% between June and December 2010 and this figure is set to grow even further under MasterCard's new plans.

All MasterCard payment cards are set to be PayPass-enabled by October 2012 and various merchants such as taxis, newsagents, supermarkets, service stations, fast food restaurants and cinemas will be required to deploy at least one PayPass-enabled terminal during the next five years.

"The set of changes outlined in the roadmap will change the face of the payments industry in Australia and bring a broad range of benefits across the financial sector," said Grobler.

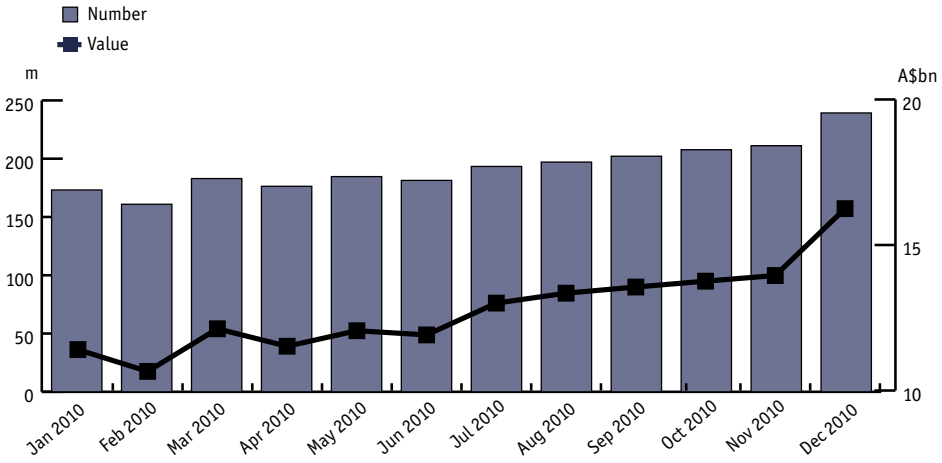
Andrew Cartwright, country manager for MasterCard Australia, claims the country's contactless market is more advanced than the UK in terms of adoption, as it has 8 out of its 12 MasterCard issuing banks already supplying PayPass-enabled cards. He attributes the growth of the technology to the balance that has been found in the issuance and acceptance of the technology.

Cartwright claims banks in Australia were, and still are, hungry for innovation and thanks to the contactless terminalisation that took place in merchants such as McDonald's and 7-Eleven stores, they have also been able to see first-hand the benefits the technology can bring to merchants and consumers alike.

"The fact that the major merchants have already got on board with contactless gives credibility to the technology for smaller merchants as they may not have been aware of the technology before their competitors began to implement it," said Cartwright.

AUSTRALIA DEBIT CARD USAGE

Total purchases and cash-outs (January-December 2010)



Source: RBA

Another factor that is giving a helping hand to the growth of contactless is that all four dominant acquiring banks in Australia are supporting the technology and doing so from a competitive perspective.

In addition to its contactless plans, all new and reissued MasterCard credit and debit cards issued by Australian banks must be EMV capable by October 2011 and all POS terminals EMV compliant by April 2012.

Unsurprisingly MasterCard's plans are not being welcomed with open arms by EPAL – the company that manages Australia's domestic debit processor EFTPOS.

"When I look at the MasterCard's PayPass five-year strategy I am encouraged by the move to contactless but what I am concerned about is the fact that the existing MasterCard and Visa PayPass and paywave implementations are still proprietary in nature," said EPAL managing director Bruce Mansfield.

"There is no common specification of EMV code that allows us to offer contactless in an interoperable basis. My concern with MasterCard issuing all its cards with PayPass and getting a certain amount of terminals to accept the contactless is that it is primarily an example of MasterCard using contactless to take away choice to consumers and merchants."

Mansfield claimed it is EMVCo, the organisation established by American Express, JCB, MasterCard and Visa to manage EMV Integrated Circuit Card Specifications, that has the responsibility to create an interoperable platform for contactless in Australia.

EMVCo has published a three-phased plan for contactless implementation for Australia.

The first phase consists of MasterCard and Visa providing their propriety EMV specification for EMVCo to review, which took place last month. Mansfield claims the country is at least a year away from having a fully interoperable EMVCo specification that allows cards and terminals to work seamlessly.

"By MasterCard publishing this roadmap they are going to force merchants into not complying with EMVCo because they are not going to want to have transactions forced down a more expensive scheme debit path than domestic debit with EFTPOS," said Manfield.

He also goes on to claim that MasterCard and Visa's contactless offerings only fulfil one of the three requirements for low-value e-payments in that it is fast but not safe and not low-cost.

In a bid to make the EFTPOS contactless payment option more attractive, it is considering introducing an aggregated purse as opposed to a transaction based solution as he believes a merchant does not want to pay a merchant service fee for every transaction under A$10 ($10.7).

Despite the rumblings between EFTPOS and the card networks, the level of innovation in Australia's payments market is very encouraging.

The realisation that the merchant community plays an important and crucial role in the success of any payment form has been clearly identified and other markets could be said to have a lot to learn from 'Down Under'. ■

EUROPE, MIDDLE EAST, AFRICA

FRAUD

European ATM fraud down 14%

The European ATM Security Team (EAST) has reported a 14% drop in ATM related fraud loses in 2010, with total losses of €268m ($387.6m) reported.

EAST attributes the fall to a reduction in losses due to card skimming attacks, which have fallen for the past six half yearly reporting periods, from a peak of €315m in December 2007 to the current level of €123m in December 2010.

ATM related fraud attacks fell by 7% with a total of 12,383 incidents reported.

"The continuing drop in fraud losses is very good news for both cardholders and the industry," said EAST director and coordinator Lachlan Gunn.

"The fall indicates the significant investment made by the European banking sector into EMV technology, as well as into anti-skimming devices at ATMs, is really starting to pay off."

82% of ATM-related card skimming losses are now international, with most now occurring in countries outside of Europe.

SURVEY

UK card spending slows during Q1 2011

March suffered low spending growth in the UK as the pent-up consumer demand left over by the Arctic conditions of December dissipated, according to the UK Expenditure Index.

The research, produced by Visa Europe and financial information services company Markit, showed consumer spending grew 4.4% in the first quarter of 2011 when compared to the same period last year.

On a seasonally adjusted basis, spending in the first quarter was 0.5% higher than in the final quarter of 2010.

Visa claims this is the first time since the second quarter of 2010 that a quarterly expansion has been recorded, but this was in part reflected the weather-affected December.

Year-on-year spending growth was 8.5% in January but fell to 3.2% in February and 1.8% in March.

"Data for February and March suggests a slower growth trend as households fought the growing headwinds of falling real incomes which fell last year for the first time in 30 years," said Markit chief economist Chris Williamson.

The value of average transactions fell on a year-on-year basis from £50.03 ($81.9) in the first quarter of 2010 to £49.25 in the same period in 2011, but grew on a quarterly basis from the final quarter of 2010.

CONTACTLESS

La Caixa launches contactless ATMs

Spain's la Caixa bank has deployed the world's first contactless-enabled ATMs, claiming the technology allows the fastest ATM cash withdrawal in existence.

The ATMs are currently located in Barcelona, Sitges and central Palma with various locations in the Balearic Islands and Catalonia expected to be added in the future, although no specific time period has been revealed.

Users of the innovative ATMs can wave their contactless cards next to the reader – a break from the traditional process of inserting a card into a reader slot – before entering PIN numbers to operate the machine.

The ATMs, developed by IT service provider Fujitsu, are also adapted to work with all existing contactless payment methods, such as NFC (near-field communication)-enabled mobile phones.

La Caixa teamed up with Visa to launch 'Contactless Shopping', a multi-city contactless payment system deployment across the Balearic Islands in March 2011, touted as a European-first. ■

NORTH AMERICA

RESULTS

Chase announces Q1 2011 results

JPMorgan Chase announced its card services division accrued a net income of $1.3bn, up from a net loss of $303m at the same point last year, in its first-quarter 2011 results.

The improved results are claimed to be driven by a lower provision for credit losses and were partially offset by lower net revenue.

The division generated $4bn in net revenue – a drop of $465m or 10% from the year-ago period. Net interest income was also down by $489m or 13% in the first quarter of 2011 to $3.2bn.

The decrease is claimed to be driven by lower loan balances, the impact of legislative changes and a decreased level of fees.

Chase registered 2.6m new accounts in the in first quarter of the year and, excluding the Commercial Card portfolio, the division's sales volume was $77.5bn – an increase of $8.1bn or 12%.

Merchant processing volume was $125.7bn on 5.6bn total transactions processed during the first quarter of 2011.

M-PAYMENTS

M-payments much more secure than cards

M-payments will become much more secure than card payments as payment via plastic is growing "riskier by the day" says a Federal Reserve Bank of Atlanta myth-dispelling blog.

Cindy Merritt, assistant director of the Retail Payments Risk Forum says the technologies that enable current payments are becoming increasingly obsolete and vulnerable to fraud as the US remains reliant upon mag-stripe technology.

Merritt claims that far from being less secure than card payments, mobile payments will be a "more secure payment device than the cards we use today".

"The ability to add passwords and GPS location functionality to the handset represents additional security controls to accessing payment instruments in the future mobile wallet," adds Merritt.

STRATEGY

FI 'wait-and-see' approach to m-payments

A survey commissioned by financial services technology provider Fiserv has revealed US banks and credit unions believe the m-payments market needs to further mature before they will make any sizeable investments in the technology.

'Very few' of the surveyed financial institutions have clear mobile payment strategies in place, which Fiserv claims leaves them at risk of falling behind other companies entering the space.

"While financial institutions are reluctant to invest heavily in mobile payments today, this is the right time to be developing a strategy for the future," said Erich Litch, Fiserv division president for digital channels.

"Waiting for all the pieces to fall into place before starting to think about mobile payments will leave the door open for third parties to take business away from financial institutions." ■

LATIN AMERICA

E-COMMERCE

Visa partners with Groupon Latin America

Visa has joined forces with daily deal discount website Groupon in Latin America to boost SME e-commerce in the region.

Under the agreement, Visa will become the preferred payment method for Groupon's online discounts on a wide variety of businesses.

"With this alliance, Groupon expects to increase its sales volume by offering additional benefits to all customers of the Visa network," said Oskar Hjertonsson, Groupon regional director for Latin America.

"This is an important landmark in the development of electronic commerce in the region, offering the opportunity to generate more business to small and medium businesses that Groupon promoted in Latin America."

Visa claims its cardholders in Mexico will receive $100 extra weights redeemable coupons on their Groupon accounts until June upon making their first purchase.

The network believes increased investment in technology platforms, products and services are necessary to promote the development of the e-commerce channel in Latin America.

DIGITAL PROCESSING

LatAm's Quepasa teams up with Tutudo

Latin America's online social network and gaming platform Quepasa has joined forces with eWallet and processing platforms provider Tutudo to further monetise its digital content.

The Tutudo eWallet solution enables customers to purchase game currency credits through a network of 70,000 points-of-sale in Brazil, including news-stands and internet cafes.

Tutudo credits are to be specifically targeted towards Brazil's middle-class game users – a demographic with low credit card penetration – and delivered via mobile SMS.

"Gaining access to Tutudo's POS, platform and eWallet solution in Brazil is an important step in Quepasa's strategy of monetising games and other content solutions on Quepasa.com," said Quepasa CEO John Abbott.

"The Tutudo solution complements the very large percentage of Quepasa game players with limited access to credit."

Quepasa will promote Tutudo as its exclusive POS payment solution in Brazil and Mexico.

PARTNERSHIP

Vesta partners with Mexico's Telcel

E-payments solutions provider Vesta has deployed a range of payment services for Mexican telecom company Telcel's prepaid mobile products.

Vesta's technology is said to remove the requirement for Telcel customers to visit a retail point-of-sale to purchase airtime, data plans and other services.

Customers will now be able to fund their prepaid broadband accounts via the internet using a credit card. Vesta will manage requests through a Telcel-branded website, validate cardholder data and deliver real-time account credits for successful transactions.

"Operators worldwide are responding to customer requests for convenient, flexible payment options for prepaid mobile services," said Rocky Scales, senior vice-president for Vesta Global Sales.

"Vesta's recharge solutions will enable Telcel to continue its tradition of providing innovative features that increase customer satisfaction and extend the customer life cycle."

During the next few months, Telcel claims it will extend Vesta-powered reloads to include prepaid wireless plus IVR, WAP, live agent and text-to-refill recharges. ■

ASIA-PACIFIC

E-COMMERCE

ReD looks to boost Japan's cross-border e-commerce

Payment fraud prevention provider Retail Decisions (ReD) has joined forces with Japanese product forwarding service Tenso, in a deal that is touted as a 'major step forward' for the country's e-commerce.

In collaboration with its Japanese partner, principal IT service consultant and provider NDS, ReD's payment fraud prevention system 'ReD Shield' will be deployed in a bid to screen all online sales through Tenso.com – a subsidiary of e-commerce service the NetPrice group.

"By using the ReD Shield platform, Tenso will now safely be able to expand its services and safely ship its products to over 50 countries outside of Japan," said ReD CEO Carl Clump.

Japan's e-commerce activity is expected to grow from $84bn in 2009 to $149bn in 2014, according to advisory firm Nomura Research.

Despite this optimism, cross-border trade has been restricted as most online retailers do not accept credit cards from overseas due to the fraud risks.

PROCESSING

Broadridge sets its sights on Japan

Technology services company Broadridge Financial Solutions has announced a software purchase agreement with Japan's Mitsui Knowledge Industry (MKI) in a bid to increase its processing abilities.

Under the agreement, Broadridge has acquired all intellectual property rights of MKI's B-Fund solution. The technology provides connectivity and associated processing for Japanese government bonds and Japanese yen payments that are cleared and settled through the Bank of Japan's BOJ-Net system.

The B-Fund solution will be renamed Gloss BOJ Processing Solution, effective immediately.

Through the deal, Broadridge claims to offer a full-function multi-language, post-execution clearing and settlement solution for equities, fixed income and related instruments with interfaces to both JASDEC and the Bank of Japan.

SURVEY

Malaysian consumers top online bill payers

Over half of the internet users in six emerging e-commerce markets in Asia-Pacific are going online to pay their bills with Malaysian consumers spending the most, according to the *2010 Visa E-commerce Consumer Monitor.*

Of those 3,156 surveyed from mainland China, India, Indonesia, Malaysia, Taiwan and Thailand, 60% said they have paid their bills online in the last 12 months and 97% said they would continue to do so over the next six months.

"Paying bills online is popular in these emerging e-commerce markets," said Paul Jung, head of Visa's e-commerce business across Asia-Pacific, Central Europe, Middle East and Africa.

Respondents paid on average of $74 worth of bills in a year. Malaysian consumers spent the most at $101 followed respondents in Indonesia ($88) and mainland China ($74). ■

EUROPE, MIDDLE EAST, AFRICA

DONATIONS

Charity giving via UK ATMs agreed for 2012

UK banks, building societies and cash machine operators have unanimously agreed to enable charity giving via UK ATMs by 2012.

All LINK-enabled payment cards and almost every debit and ATM card issued by a major UK bank will be able to donate through ATMs.

It is not currently specified what rules a card out from donating.

Donations will be offered in a separate menu item on the ATM screen, or as a post-transaction option, in a bid to create the minimal amount of interference for those who just want to withdraw cash.

It is expected customers will be able to choose a donation value from a range of pre-set value from £0.10 ($0.16) to £10, or enter a specific amount of their own choice.

STRATEGY

Visa boosts presence in Egypt with office in New Cairo

Visa is planning to expand its operations in Egypt to drive growth across North and West Africa.

The network will be opening new premises in New Cairo in a bid to keep up with the demands of the market, which is said to growing rapidly.

"After almost 10 years in the Egyptian market, Visa has seen a tremendous need for expansion as growth in card payments has increased five-fold to over 10m cardholders," said Tarek Elhousseiny, Visa's general manager for North and West Africa.

Visa has pledged to work with its clients, the banking authorities and regulators to enhance the infrastructure of the industry and to help increase the banked population to levels above the current 10% level in Egypt.

REVENUE

Generation Y prepared to pay for m-banking

A study by consultancy firm Simon-Kucher & Partners shows the 18-26 year-old segment, which makes up 12% of the UK population, considers a monthly fee of £5 ($8.27) a fair price to pay for mobile banking services.

As a result of the findings, banks are being called on to capitalise on the untapped revenue potential m-banking can bring.Three-quarters of 'Generation Y' UK consumers have said they are willing to pay for the services.

"Paid-for mobile banking can also play a long-term strategic role in customer succession planning," said Ben Snowman, the author of the report.

"If banks launch fee carrying mobile banking services, they will see consecutive generations of customers moving towards paid-for services and an increasingly lower portion of the customer base will use free banking." ■

ASIA-PACIFIC

FRAUD

Nonghyup back on its feet after crippling cyber attack

South Korea's National Agricultural Cooperative Federation (NCAF) is returning to normality after a cyber attack crippled its IT systems.

The bank's network, which was out of action for two days in mid-April 2011, has now been restored although there are claims that data is still missing from some customers' accounts.

The attack at the bank, known locally as Nonghyup or NH Bank, affected approximately 5m credit card accounts, leaving customers unable to use their cards, check their balances, make repayments or receive cash advances.

The system meltdown is thought to be a result of a malicious attack that was launched by a contractor at the bank.

Regulators and prosecutors have already launched an investigation, interviewing Nonghyup and IBM employees to find out who had access to the servers at the time of the attack.

For now regulators are keeping an open mind about the cause of the attack.

A spokesman for the Financial Services Commission (FSC) told Cards International that the main focus of the investigation is to establish whether it was an internal incident, or whether it was an attack by an outside hacker.

"We are currently open to all possibilities," the FSC spokesman said.

However, one source told *CI* that some data is still missing; meaning that some customers are still unable to find out how much money is in their account, and what card balances they need to pay.

TECHNOLOGY

Westpac restores services after IT meltdown

Australia's Westpac has restored its ATM, EFTPOS and online banking services following a 10-hour outage caused by an air-conditioning fault at one of its data centres.

It is reported that the bank decided against switching to back-up systems, deeming it to be quicker to reboot each IT platform.

A Westpac spokesperson told *The Australian* newspaper that activating the back-up system "would have been a slower process", due to it being an infrastructure rather than a banking systems issue.

The spokesperson was unable to say how much longer it would have taken, however.

"Westpac sincerely apologises to all our customers who have been impacted by the outage," said Rob Coombe, WestPac's group executive for retail and business banking.

ALLIANCE

Monitise Asia-Pacific teams up with JETCO

Mobile money solutions provider Monitise Asia Pacific has partnered with payments business and ATM network Joint Electronic Teller Services Limited (JETCO) to launch m-commerce services in Hong Kong and Macau.

Through the deal, Monitise and JETCO are set to provide a Mobile Prepaid Top-Up service for mobile operators in Hong Kong.

"This partnership is an exciting step towards bringing mobile payments and shopping to Hong Kong, by connecting people with their existing bank accounts or cards, anytime, anywhere, via their mobile," said Alastair Lukies, Monitise group chief executive.

JETCO operates more than 2,000 ATMs across Hong and Macau with more than 30 member banks including Bank of China, The Bank of East Asia and Standard Chartered Bank. ■

NORTH AMERICA

DELINQUENCIES

Citigroup and Discover delinquency rates drop

Late payments on credit cards issued by Citibank and payment cards on the Discover network hit their lowest points since 2008 and 2006 respectively during April 2011.

The credit card division of Citigroup said the number of payment late by 35 days or more fell from 4.21% of balances in March 2011 to 3.87% in April 2011.

This fall in delinquency rate almost brings Citi on a par with rates seen before the global economic crisis hit the financial services industry – which was 3.84% in May 2008.

The Associated Press news agency also reports Discover's delinquency rates also dropped to 3.15% on an annualised basis during the month of April from 3.42% in March 2011 – a figure not seen since well before the recession.

REGULATION

ViVOtech renews Hypercom offer

NFC software and systems company ViVOtech has said it believes the US' Department of Justice (DOJ) is justified in its block on VeriFone's merger with Hypercom, and has itself made a second play for Hypercom's US assets.

The DOJ has recently filed a civil antitrust lawsuit intended to block the $485m acquisition of Hypercom by rival VeriFone.

However, ViVOtech believes that by acquiring Hypercom's US assets, they would enable the VeriFone deal to do through, and keep the market competitive.

"We totally understand the DOJ's concerns, because the cosy deal would essentially create a collaborative duopoly in this competitive market inhibiting choice and innovation, just as the NFC mobile commerce market is on the cusp of becoming reality," said ViVOtech CEO Michael Mullagh.

"We believe our renewed approach to VeriFone if executed, will be good for consumers and merchants, and perhaps more importantly, is in the best interest and benefit of VeriFone and Hypercom shareholders."

In a joint statement, e-payments solution providers VeriFone and Hypercom have said they are considering the option of a divestiture to an alternative buyer.

STRATEGY

Visa announces digital wallet plans

Visa Inc will launch a cross-channel digital wallet open to all payment networks, in the US and Canada during the autumn months of 2011.

The wallet will store Visa and non-Visa payments accounts while supporting near-field communication (NFC) payments through Visa's payWave application.

It is also claimed it will deliver a range of transaction services such as e-commerce, m-commerce, micropayments, social networks and P2P payments in a bid to accommodate multiple commerce scenarios.

Visa is said to be working with a number of payment card issuers, community banks, credit unions, acquirers, payment processors and merchants, such as fashion retailer Nordstrom fsb, to get its digital wallet off the ground. ■

LATIN AMERICA

TRANSACTIONS

Online credit card spending still popular

Credit cards are still proving popular among Latin American online shoppers with the payment method accounting for 70% of all transactions on the internet during 2010.

Market research firm yStats's *Global Online Payments Methods 2011* study also shows e-commerce transactions using credit card accounted for 40% of online transactions in North America during 2010 but this figure is set to decrease slightly by 2015.

Online credit card payments continue to be the European choice for transacting on the internet, with a 40% market share. The payment method accounted for 60% of online purchases in the third quarter of 2010 in the UK and France, followed by micropayment services.

German consumers are still hesitant to use credit cards for online purchases (20%) and invoicing remains the country's most popular payment method.

PREPAID

Blackhawk adds brands to Gift Card Mall

Prepaid and financial payments products provider Blackhawk Network has expanded the issuance of its 'Gift Card Mall' prepaid cards in Mexico to include Office Depot and Comercial Mexicana stores.

Consumers in Mexico will now be able to purchase a variety of Blackhawk Network's prepaid cards for dining, entertainment, digital gaming, music and fashion.

"By bringing 'Gift Card Mall' to Mexico, we are meeting the consumer's demand for prepaid products," said Dan Dmochowski, Blackhawk Network's president of international.

"We have brought the most popular brands to one location, so consumers now have the convenience of a one-stop-shop for all their gifting and prepaid needs."

PRODUCT LAUNCH

MasterCard launches prepaid first in Brazil

MasterCard has joined forces with Brazilian bank Banco PanAmericano and payment solutions provider Rev Worldwide to launch the country's first general purpose reloadable prepaid card – the PanAmericano MasterCard Prepaid Card.

The product is said to offer an affordable cash alternative to Brazil's estimated 75m unbanked population as there is no proof of income or credit check required.

Customers who buy and load cash on the card can make purchases online and at the point-of-sale anywhere in Brazil or abroad where MasterCard is accepted.

They can also withdraw cash from ATMs worldwide, transfer funds between card accounts and use the integrated mobile features to check balances and confirm transactions from their mobile phones via text message.

"Besides facilitating purchases, including online, prepaid cards help consumers manage expenses and safeguard their funds," said Eliel Teixeira de Almeida, Banco PanAmericano's director of card products.

"The card is protected by a password and, in the case of loss or theft, the cardholder can lock the card's remaining balance to prevent unauthorised spending."

This is one of the first MasterCard launches in the prepaid segment in Brazil. ■

Detecting fraud abroad

Banks protect themselves against payment card fraud by shutting down transactions that look in any way out of the ordinary – and that includes when a customer tries to transact abroad. **Louise Naughton** investigates how banks can become more sophisticated in their fraud detection

It is the last thing a consumer worries about when preparing for two weeks in the sun but when it comes to using a payment card abroad, many consumers are left out in the cold.

Some consumers can have their holidays ruined by stopped POS transactions or ATM withdrawals, and although some view not being able to withdraw funds as a simple inconvenience, it can be a frightening and terrifying experience for others.

It is all too easy for banks to stop transactions on the grounds of suspicious activity and the practice is all too frequent. What's more, 90% of stopped POS and ATM transactions are, in actual fact, false positives – or in other words, genuine transactions.

Therefore in the vast majority of instances when a bank shuts down a customer's ability to make a payment in another country, it succeeds in only irritating its customers and losing out on interchange revenue.

Rather more worryingly is that it is estimated banks lose £10 ($16) to £15 per false positive, which must surely act as an added incentive for them to change outdated risk engines and claw back vital revenue.

Bringing false positives down

Telco-owned fraud prevention solutions provider ValidSoft has developed a tool that aims to bring false positives down on a dramatic scale – as long as consumers do not mind their mobile phones being used to locate, not where they are, but rather where they are not.

"There needs to be a focus on getting rid of the number of false positive because they are clogging up the system," says Patrick Carroll, ValidSoft's CEO. "Using ValidSoft's technology, a bank can strip away these legitimate transactions and free itself up to focus on what is really important – fraud discovery."

ValidSoft's VALid-POS solution comes in two forms – the cross-border model and the domestic model. In both instances the solution uses the company's telecommunication links to confirm or refute whether a customer's mobile phone is in the same country – or segment – as the ATM or POS location they are using. If ValidSoft confirms this information, the transaction is said to be genuine, but if not, the transaction will be deemed suspicious.

In ValidSoft's cross-border model, a correlation between an ATM or POS terminal and a consumer's mobile phone is not made on a particularly granular level. The lowest level the technology goes to is confirming whether or not the mobile phone is in the same country as the attempted transaction and does not show the handset's location if it is not in the country in question. This correlation level is said to be sufficient as the majority of payment card fraud occurs cross-border.

"With GPS and triangulation you can go down to a fairly low level, but in order to keep it quick and comply with data privacy laws, we stay away from doing so," says Jon Alford, VALid-POS product manager.

Learning model

ValidSoft's domestic model works in a slightly different way. As different mobile network operators have different segment sizes, the model has to learn and populate information as it goes along. A correlation for Mr Smith using an ATM in location A with his Vodafone mobile phone in segment B will be unconfirmed until Mr Bloggs uses the same or another ATM in location A and his Vodafone mobile phone is picked up as being in the same segment as Mr Smith. This will confirm both Mr Smith's and Mr Bloggs' transactions, and the domestic model will now know for future reference that ATMs in location A will correlate with Vodafone handsets in segment B.

ValidSoft signed an agreement with Visa Europe in November 2010 to allow the scheme to integrate and market VALid-POS to its 4,000 member banks as part of its European processing platform, and Carroll says talks with banks are going well. Yet one stumbling block that has become apparent from such talks centres on the issue of privacy.

European Privacy Seal

Thankfully for ValidSoft, it has the perfect answer to the banks' dilemma regarding privacy. It became the only security software company to be awarded a European Privacy Seal in March 2010 by German company EuroPriSe, certifying the VALid-POS solution to be data privacy compliant at an EU level. It was a rigorous process that took almost a year to complete and resulted in a lot of change for the company; data flows, contact points, what sort of information is passed to and from the bank were all areas modified by EuroPriSe.

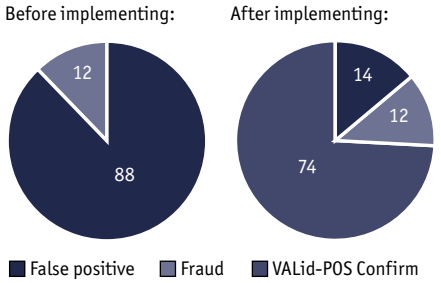
"We would not have been awarded the European Privacy Seal if there was any doubt whatsoever we were using the technology to track people," says Carroll.

Under the European Privacy Seal guidelines, banks that adopt ValidSoft's solution are obliged to update their terms and conditions informing customers of the new technology and allowing them to opt out if they wish.

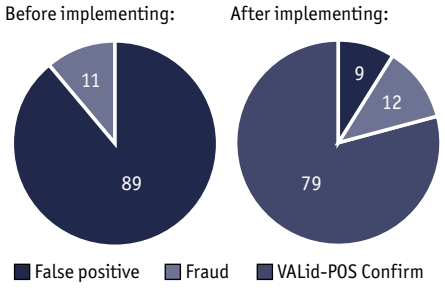
It is the responsibility of the banks to ensure consumers are properly educated as to how telco technology can be deployed in order for banks to rid them of the inconvenience of a declined transaction abroad. If they don't, and the solution gets labelled a 'Big Brother' type surveillance mechanism, it would spell the end for the technology before its potential is anywhere close to being realised. ■

CREDIT CARD FRAUD

ValidSoft pilot results for UK banks (%)



ValidSoft pilot results for Australian banks (%)



Source: ValidSoft

Banking the unbanked: who pays?

Prepaid can be an excellent tool to engage those who are excluded, or have avoided, the banking system and is one step on the road to financial inclusion. Yet, while the industry continues to endeavour to improve the prepaid business model, consumers are still feeling the pain of high fees, writes **Jane Cooper**

For the unbanked the prepaid card makes a great deal of sense. Prepaid puts plastic in the hands of those who are excluded, or have avoided, the banking system and is one step on the road to financial inclusion.

But the business model of prepaid means that all the costs are passed onto the user, and for the unbanked these costs are difficult to bear.

Prepaid cards on the one hand have been lauded for offering a product to a segment that has been neglected by banks, while on the other have been criticised for ripping of consumers who can least afford the fees and a case of the poor having to pay more.

The arguments often rest on what prepaid is being compared to, and prepaid issuers have to justify their fees in relation to other prepaid products, bank accounts and cheque-cashing services.

According to the Centre for Financial Services Innovation (CFSI), there are approximately 40m underbanked individuals in the US and more than one-third of them would prefer to use a prepaid card than a bank account, providing the costs were equal. And therein lies the challenge for the industry: the costs are not equal in the sense that it is difficult to make comparisons.

Navigating the various fees and charges can be confusing for the consumer. Suzanne Martindale, staff attorney at the Consumers Union says that the structure of prepaid fees vary widely from card to card.

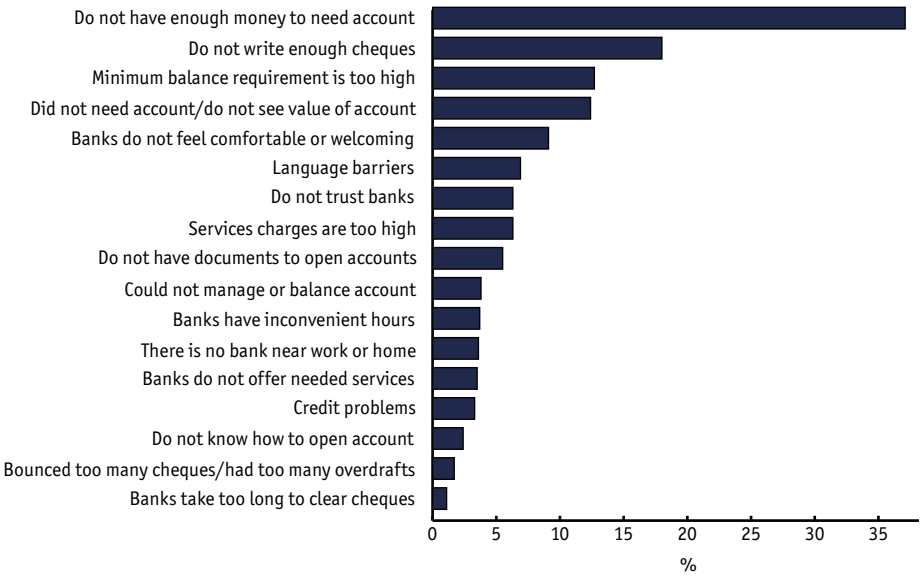
Consumers are confronted with a combination of reload fees, transaction fees, ATM withdrawal fees, monthly fees, a "nickeling and diming effect" that could end up being a rip-off. Martindale also says that the full fee schedule is often not made clear on the packaging of the card and in some cases consumers have to first apply for a card online to then be able to see the full extent of the fees.

The structure of bank account fees can greatly impact the success of the prepaid products in a particular market.

For example, in Italy, the success of prepaid has been put down to the dissatisfaction that many consumers had with the banking options that were offered to them.

UNBANKED

Reasons never-banked households in the US do not have a bank account



Source: Federal Deposit Insurance Corporation: *FDIC National Survey of Unbank and Underbanked Households 2009*

Whereas in the UK, consumers are used to 'free' bank accounts and are uncomfortable with the idea of paying for the various fees that prepaid cards entail.

While consumer advocates argue that prepaid fees are not transparent because it is difficult for the consumer to assess how much the card will actually cost them, others in the industry take a different view.

Advanced Payments Solutions programme manager CEO Rich Wagner argues that the prepaid industry is transparent and ethical because it is upfront about the costs.

He compares this to the stealth pricing in the UK, where banks use penalty charges – which typically affect the poorer customers – to cross-subsidise the 'free' banking for the majority.

The average cost of a bank account was estimated by the World Retail Banking Report to be in the region of €70.30 ($98.6). If these costs are hidden to the consumer, they are often shocked to be asked to pay a similar amount for a prepaid card annual fee.

Prepaid resources CEO Barry Kessler says the banking model is different because the bank anticipates that it will be able cross-sell other products once the customer is locked into a relationship.

"Those expectations do not apply to the underserved customer – they are unlikely to apply for a mortgage or deposit thousands with the bank," Kessler says.

The costs of prepaid cards can add up, but in the case of the prepaid card the only revenue for the issuer is from the fees, unlike banks which have other sources of income.

The challenge for prepaid issuers and programme managers, says Kessler, is it to hold onto its cardholders and to encourage them to keep using the card. In an ideal world prepaid issuers would find a way to build volume and offer a cheaper product on a wider scale.

For now, while the industry finds a way to improve the economics of its business model, many unbanked consumers will continue to feel the pain of the prepaid fees. ■

LATIN AMERICA

MERGERS & ACQUISITIONS

Morpho signs deal with Carvajal Group

Security services provider Morpho is set to acquire banking card manufacturing and personalisation centres in Colombia and Peru.

The deal with Carvajal Group, subject to regulatory approvals, is expected to close before the end of the year.

The move is aimed at deploying secure payment transactions based on chip and card technology, in response to the South American banking market's ongoing chip migration to EMV.

"This transaction is part of the transformation process currently underway at Carvajal Group, which is geared toward sharpening our business focus," said Carvajal CEO Ricardo Obregon.

With the closing of the agreement, Morpho will strengthen its reach in the Latin American region with its presence felt in Brazil, Peru, Colombia, Argentina and Mexico.

PREPAID

Grupo Marcatel strengthens prepaid

Mexican telecommunications company Grupo Marcatel has acquired a 50% share of a US prepaid company.

Grupo Marcatel completed the deal between Vivaro Corporation, its subsidiary in the US, and STX Communications – a New York-based prepaid phone cards distributor.

"This synergy brings decades of experience and a global carrier infrastructure, securing our place as the best provider of prepaid calling products from the US to more than 130 countries," said Gustavo M de la Garza Ortega, founder and president of Grupo Marcatel.

The move is an effort to strengthen Grupo Marcatel's business structure.

ATM

Itautec unveils innovative 3D ATM

Brazilian electronics equipment manufacturer Itautec has developed the world's first 3D image projecting ATM in a bid to reduce fraud.

Itautec claims self-service technology is most often compromised when thieves are able to touch machines.

The patent-pending Adattis Touchless 3D ATM removes this opportunity by controlling transactions through contactless cards and gestures.

The innovative ATM also includes 'face tracking' technology that recognises if the person at the ATM has changed or left, resulting in a termination of the session and a safeguarding of customer information.

"We have developed a new and safer way for customer interaction," said Denise Damiani, vice-president of Automation Itautec.

"The Adattis Touchless 3D ATM meets the global demand for secure self-service banking equipment.

"Our products elevate the image of any financial institution via an innovative customer experience."

Itautec's Adattis Touchless 3D ATM's are modular and as such can be tailored to meet a client's needs. ■

NORTH AMERICA

MERGERS & ACQUISITIONS

eBay acquires Zong in $240m deal

eBay has signed a cash deal worth $240m to acquire mobile payments platform Zong to strengthen its wholly owned alternative payments service PayPal's position in the m-payments game.

Zong leverages connections with more than 250 mobile network operators around the world and offers localised payments capabilities through direct carrier billing for digital goods and services in 21 languages and 45 countries.

"We believe Zong will help strengthen PayPal's leadership position in digital goods and mobile payments," said PayPal president Scott Thompson.

"It brings technology and employee expertise that will help us grow the business."

PayPal expects to process $3bn in m-payments by the end of 2011, a sharp rise of $1bn from previous estimates.

The increase in mobile transactions is down to the adoption of more smartphones and a growing familiarity with PayPal, said head of mobile Laura Chambers.

The service now has 8m users and is seeing up to $10m a day in total m-payment volume.

eBay does not expect the acquisition of Zong to have a material impact on its financial guidance as issued in conjunction with its first-quarter earnings release. The transaction is subject to customary closing conditions, including regulatory approval, and is expected to close in the third quarter of 2011.

CONTACTLESS

McDonald's Canada adopts contactless

McDonald's Canada has joined the growing list of companies adopting contactless payment technology in a bid to speed up transaction times.

The fast food giant has installed Visa PayWave and MasterCard PayPass-enabled POS payment terminals at more than 1400 restaurant locations in Canada.

"We are excited to be able to offer our customers the convenience, speed and security of contactless payments in our restaurants," said Jacques Mignault, chief operating officer, McDonald's Restaurants of Canada Limited.

Under the new payment method, customers can either 'tap' their MasterCard or 'wave' their Visa Cards at the POS, thus reducing queuing times.

RESULTS

Chase announces Q2 2011 results

JP Morgan Chase has revealed improved net income results for its cards services division during its second-quarter 2011 report.

Lower provision of credit losses – offset partially by lower net revenue – resulted in net income of $911m, an increase of $568m from the same point in 2010.

Card services net revenue stood at $3.9bn for the quarter, a 7% decrease from the prior year.

Lower average loan balances, legislative changes and decreased level of fees led to a 13% decrease in net interest income to the current $2.9bn.

The provision for credit losses decreased from $2.2bn in the prior year to the present $810m. The firm also reported lower estimated losses which led to lower net charge-offs and a $1bn reduction to loan losses allowance.

"We are pleased to report our results for the quarter reflected continued improvement in credit trends across our consumer and wholesale portfolios," said JP Morgan Chase chairman and CEO Jamie Dimon. ■

EUROPE, MIDDLE EAST, AFRICA

CONTACTLESS

Ireland begins move to contactless

The Bank of Ireland has become the first bank in the Emerald Isle to introduce contactless technology, as it looks to wrestle paper-based payment methods out of the hands of consumers.

The bank will issue one million contactless-enabled Visa debit cards from late 2011, allowing consumers to pay for purchases of up to €15 ($21.38) by waving their card next to a contactless reader.

The move to contactless is aligned to the Irish government's National Payments Plan to reduce cash and paper-based transactions and promote e-payments.

"This new technology has been firmly embraced in Europe with over 20m cards in circulation and we are delighted to be the first in Ireland to issue Visa Debit cards with contactless payment capability," said Bank of Ireland head of consumer segments Quentin Teggine.

"Contactless technology is a key development in promoting electronic payment methods for low-value transactions."

The consumer and retailer appetite for contactless is seemingly evidenced by the fact Visa Europe recently announced Visa contactless card numbers in issue in the UK are predicted to increase from 13m to 20m by the end of 2011.

Furthermore, Visa Europe has reported weekly spending on contactless cards has doubled in the past six months.

This is expected to more than double again by the year-end.

REGULATION

'Don't fix what isn't broken' – MasterCard

Government intervention "threatens the continued development of payments" in the EU, according to MasterCard Europe president Javier Perez.

Perez voiced his concern following Mastercard's appeal against the European Commission's 2007 decision on the company's cross-border consumer interchange fees in the EEA.

"Why is the commission trying to fix what isn't broken? The market is moving fast and in ways that no one, including regulators, can easily predict," said Perez.

MasterCard's multilateral interchange fees (MIF) is a charge levied on every payment processed at a retail outlet.

In 2007, the European Commission ruled out the MIF, citing violation of EC Treaty rules on restrictive business practices (Article 81).

LEGAL

WikiLeaks to sue Visa and MasterCard

WikiLeaks will sue Visa and MasterCard over their continued refusal to process donations to the whistle-blowing website following 'Cablegate'.

In June, Bender von Haller Dragested in Denmark and Reykjavik Law Firm in Iceland, acting on behalf of WikiLeaks and its credit card processing partner DataCell, warned Visa and MasterCard if the financial blockade is not removed they will be litigated in Denmark.

Also, a request for prosecution will be filed with the European Union Commission.

Visa Europe, MasterCard Europe, and Teller (a Danish company licensed to process transactions on behalf of the card companies) are the subjects of the complaint on the grounds they are "engaging in an unlawful, US influenced, financial blockade" to WikiLeaks.

WikiLeaks argues the co-ordinated action of Visa and MasterCard on 7 December 2010 to block all credit card transactions to WikiLeaks and DataCell constituted a serious violation of the Competition Rules of the EU – specifically Article 101(1) and 102.

While Teller has acknowledged it is ready to reinstate the services as due diligence, Visa and MasterCard has ordered the processor to keep the payment services closed.

Neither Visa nor MasterCard have answered WikiLeaks' demands or shown willingness to negotiate a settlement. ■

ASIA-PACIFIC

PRODUCT LAUNCH

HDFC unveils limitless credit card for India

Indian private sector bank HDFC has announced the launch of an ultra-premium credit card targeting the upper class in the country.

The INFINIA card will be promoted as a 'no limits' credit card – a first for the country – and will initially be offered to a select 5,000 customers.

"INFINIA is a super-premium offering from us to rich Indians," said HDFC managing director Aditya Puri.

"It is the culmination of a very successful journey that began in 2003 with the launch of our first card. What prompted us to conceive INFINIA was the need our clients felt for such a product."

The card will be available on both Visa and MasterCard platforms.

PARTNERSHIP

BOCI and JCBI sign acquiring agreement

The credit card arm of Bank of China and Hong Kong (BOCHK) has signed an agreement with Japanese payment network JCB's subsidiary JCB International (JCBI) to begin acquiring e-commerce merchants in China.

The e-commerce market is growing rapidly in China, almost tripling in sales volume from 2007 to 2010.

BOC Credit Card International (BOCI) and JCBI are aiming to further strengthen their alliance by enabling JCB card acceptance at major e-commerce merchants in China for about 69m JCB cardholders worldwide.

BOCI and JCBI will continue to expand JCB card acceptance at China's retail merchants as well as in the e-commerce space to meet the growing needs of JCB cardholders for wide card acceptance coverage in the country.

E-COMMERCE

UnionPay, MasterCard extend relationship

MasterCard has struck a Payment Gateway Service Agreement with China UnionPay allowing the network to accept UnionPay cards via its e-commerce platform.

Under the agreement, both parties will co-operate to configure their systems to equip the MasterCard's Payment Gateway with the ability to process UnionPay e-commerce transactions for merchants outside of mainland China.

UnionPay and MasterCard have also signed an addendum to extend the term of their existing memorandum of understanding, the aim of which is for the establishment of a mutually beneficial relationship to explore future business development.

The areas of co-operation included within the addendum and the payment gateway service agreement are related to cross-border transactions and not domestic transactions. ■

EUROPE, MIDDLE EAST, AFRICA

REGULATION

Surcharging rise in entertainment sector

Cinema chains in the UK are coming under fire for continuing to levy "misleading and unfair" surcharges on online card payments, a practice which is gaining increasing popularity within the entertainment sector.

Despite an earlier ruling by the Office of Fair Trading (OFT) that dismissed surcharges as being detrimental to consumers, new research by consumer watchdog *Which?* has revealed that as well as tourist attractions, the practice of adding inflated card surcharges is also popular among cinema chains.

According to the research findings, Merlin Entertainments, owners of Alton Towers, Chessington World of Adventures and Thorpe Park, charge a fee of £1 ($1.63) to £2.50 for online payments on debit and credit cards and cinema chains Vue and Odeon charge £0.70 and £0.75 respectively per ticket.

"We think card surcharges are completely misleading and unfair, and make it hard for consumers to see the true cost of their purchase," said Richard Lloyd, executive director of Which?.

"The Treasury must act quickly to put an end to debit card charges for good. While budget airlines may be the worst offenders, excessive surcharges are widespread."

The treasury has yet to respond to recommendations by the OFT that debit card surcharging should be ended for good.

MERGERS & ACQUISITIONS

BMI Bank signs agreement with Sinnad

Bahraini retail and commercial banking institution BMI Bank has signed an agreement with Sinnad to manage the bank's ATM network as well as issue its chip-enabled debit cards.

Sinnad, a joint venture between Bahrain Electronic Network for Financial Transactions (BENEFIT) and Network International, will also manage the risk associated with electronic transactions.

"We are pleased to sign this agreement with BMI Bank," said Ebrahim Janahi, Sinnad's general manager.

"The management of the ATM network and issuing the chip-enabled debit cards will offer the Bank's customers a secure environment on all their electronic transactions which is accepted within the GCC and international networks enabling the Bank's customers to conduct their transactions from any place in the world."

BMI Bank and Sinnad previously signed an agreement in May 2011 allowing Sinnad to issue and manage the Bank's EMV credit cards in addition to monitoring risks related to transactions.

TECHNOLOGY

Austria goes contactless

Raiffeisen Bank has joined forces with payment technology company SIX Card Solutions to launch the first contactless credit card in Austria.

The product uses MasterCard's PayPass technology.

"We were able to set up this new product very easily on our modern processing platform," said Luc Holper, vice-president of issuing at SIX Cards Solutions.

"We are pleased to have been of assistance to Raiffeisen with the issuing of the first contactless credit card in Austria."

The dual-interface technology on the contactless credit card means secure payments are also possible for larger amounts and the chip and PIN functionality ensures the cards are compatible with ATM machines.

This venture follows the partnership's launch of a prepaid card programme in Austria and Germany allowing cardholders to benefit from PIN selection, card design and secure payments on the internet. ■

LATIN AMERICA

MERGERS & ACQUISITIONS

Brazil to see major ATMs roll-out

Brazil's Banco Bradesco has signed an agreement with global technology company NCR to widen the ATM market in Brazil.

Under the preferred ATM provider agreement NCR will provide its services over the next five years. Banco Bradesco subsidiary Scopus will also acquire a 49% equity stake in NCR Manaus – NCR's manufacturing and development arm in Brazil.

The initial order of 6,000 ATMs will be deployed at Bradesco's existing and new branches. Scopus will provide services support after termination of the warranty period.

The agreement, subject to approval, aims to roll out 30,000 ATMs in the next five years. A Retail Banking Research report has revealed that Brazil's ATM market is expected to grow by 27% by 2015.

STRATEGY

Prosa switches to ACI

Prosa (Promoción y Operación SA de CV), a card and payments service provider to Mexico and Latin America, is switching to a new payments processing system in a bid to increase its market offering.

Prosa has selected payment systems provider ACI's BASE24-eps solution which acquires, authenticates, switches and authorises financial transactions across multiple channels.

"BASE24-eps gives us a solution for the future, to handle whatever changes the markets need from us," said Jose Molina, CEO of Prosa.

"We would not be able to deliver value of this scale without the product expertise and strategic support of ACI Worldwide for the next ten years at least."

Prosa are predicting a return of over $20m over the next five years and are currently processing transaction volumes of 1.2bn per year and drive 37,000 ATMs.

COMPANIES

EVERTEC announces Q2 2011 results

EVERTEC, the processing business headquartered in Puerto Rico, has announced an increase of 11% in total revenues to $76.2m it its second quarter 2011 release.

The company's operating costs and expenses decreased by less than one% compared to the same point last year with the total debt for the end of the quarter standing at $546m.

EVERTEC's liquidity stood at $81.7m, with $31.7m unrestricted cash and $50m of borrowing capacity available.

Félix M. Villamil, president and CEO of EVERTEC, said each of the three business segments produced strong revenue growth in the company's local and international markets.

"Our results continue to be driven by the growth dynamics related to electronic payments as well as an increase in demand for our services," he said.

EVERTEC operates within six countries throughout the Caribbean and Latin America. A 51% stake was recently acquired by Apollo Global Management and 49% is owned by Popular Inc, the largest financial institution in Puerto Rico and the Caribbean. ■

ASIA-PACIFIC

REMITTANCE

India to launch prepaid remittance scheme

India Post, the country's post office, is awaiting regulatory approval for a nationwide prepaid card-based remittance system.

According to an source familiar with the plan, India Post wants to offer MasterCard-branded prepaid cards to speed up its remittance services at more than 155,000 branches across India.

The programme will be administered by three banks, HSBC, ICICI and IDBI. Atos-owned Indian processor Venture Infotek will provide processing services.

The remittance card product is aimed at India's internal money transfer market, valued in gross dollar volume at $2.2bn per year.

Once up-and-running, the MasterCard-branded prepaid card scheme should allow funds to be transferred from cities to rural areas on a same day or next day basis. Users of the service will be issued two cards – a parent and beneficiary card – one of which is kept with the remitter and the other sent to the recipient.

Both cards will be fully functional open-loop prepaid cards, allowing ATM withdrawals at bank and post office branches and point of sale spending.

They can be loaded at India Post branches.

Three pilot programmes are to be launched for the service initially, with India divided into three zones.

COMPANIES

China UnionPay overtakes Visa

China UnionPay has usurped Visa's top rank to become the world's most prolific payment card scheme, according to a new research.

A new study by Retail Banking Research says China UnionPay's logo can now be found on three in every ten cards worldwide. However, Visa cards still dominate in terms of usage and spending.

While revealing a decline in the number of China UnionPay-branded cards in North American and Western European regions, the research predicts growth of the global market from 8bn in 2010 to 10.1bn by 2015.

Other findings reveal the credit card sector registered a 6% decline but a 10% growth in the prepaid and debit cards sector in 2010, with a rising trend in prepaid cards issuance in countries with high bank account holdings shows more promise. The share of prepaid cards is expected to rise 5% by 2015.

MERGERS & ACQUISITIONS

Citibank and JCB Intl extend partnership

Citibank is to extend its partnership with JCB, bringing the network to Citi's nine Asian acquiring markets.

JCB will be accepted in all of Citibank's acquiring markets in the region enabling the bank's merchant base to accept JCB cards including those in Hong Kong, Vietnam and Indonesia.

"South-East Asia, Hong Kong and Taiwan are some of the most important markets for JCB because of the strong growth and increased retail spending," said Kimihisa Imada, deputy president of JCBI.

"We are delighted to commence a business tie with such an influential institution as Citibank, which has strong networks across these important markets."

The alliance means Citibank will be the only provider of acquiring services to merchants for all major credit card brands in the world in the markets across Asia-Pacific. ■

NORTH AMERICA

COMPANIES

HSBC sells its US credit card portfolio

Capital One has agreed to buy HSBC's US credit card business for $32.7bn. The sale includes HSBC's MasterCard, Visa, private label and other credit card operations.

The sale came after HSBC announced that a strategic business was underway where the business has shown a strong performance throughout the financial cycle but is not aligned with HSBC Group strategy.

HSBC Group CEO Stuart Gulliver announced his intention to divest the bank's US credit card portfolio in June.

He said: "This transaction continues the execution of the strategy to focus our US business on the international needs of customers in Commercial Banking, Global Banking & Markets, Retail Banking and Wealth Management and onshore Global Private Banking.

"Although dilutive in the short term, this transaction will reduce group risk-weighted assets by up to $40bn which, together with an estimated post-tax gain on sale of $2.4bn, will allow capital to be redeployed over time."

MERGERS & ACQUISITIONS

Ebay wraps up $240m Zong deal

The online auctioneer Ebay has announced it has completed the acquisition of mobile payment platform Zong in a deal worth at $240m.

The completion of the agreement that was first announced in July 2011 means Zong has now become part of PayPal.

Scott Thompson, president of PayPal, has previously commented on the acquisition noting Zong will help strengthen PayPal's leadership position in digital good and mobile payments.

He said: "Zong brings complementary technology and employee expertise that we expect will help us grow the business even faster."

CEO of Zong, David Marcus, further added most of e-commerce will shortly become m-commerce.

He said: "I genuinely believe that PayPal, hand-in-hand with wireless carriers around the world will win in a big way. We'll be working very hard on things that will blow your mind."

PayPal expects to process more than $3bn in mobile payments this year.

COMPANIES

Visa fears Dodd-Frank aftermath

Visa is set to introduce a network participation fee in the US for its entire debit, credit and prepaid card services.

The new policy, and shift from per-transaction fees, comes after Visa's quarterly profit rose by 40% in advance of the new fees caps that will take effect later this year as part of the 2010 Dodd-Frank financial reform law.

In a conference call with analysts following the scheme's Q3 2011 results, Visa's CEO Joseph Saunders confirmed the shift in strategy but did not disclose the merchant's participation.

Visa said it will be dependent on the merchant's size and the number of locations the company holds. However, future price changes have not been ruled out. Visa will also lower the variable rate charged for transactions as part of the new policy.

Due to the interchange cap imposed by Dodd-Frank, Saunders has predicted 2012 to be a "low point" for debit card processing fees.

"We won't do as well as we have," he said. ■

■ PREPAID

Banks falling behind in prepaid

Banks are failing to innovate and are falling behind in the race to seize the prepaid cards market, according to MasterCard global prepaid solutions group executive Ron Hynes.

Hynes, addressing the MasterCard Europe conference in Barcelona, hailed the innovations achieved by organisations in the telecommunications sector and warned they pose a threat to the status of banks.

Hynes warned the traditional financial services model needs to change in order to take advantage of the prepaid market, which some forecasters have said will exceed $100bn before the end of the decade.

At the conference, MasterCard announced a new digital product aimed at helping its customers bring prepaid to market quicker.

Global Payout, Mi Adelante, MasterCard: Mexico prepaid deal

Global Payout and Mi Adelante are to offer prepaid debit cards on the MasterCard network in Mexico.

Prepaid cards have already started to take off in Mexico. A recent report by Speer & Associates predicted that Mexico would account for 25% of the estimated $160bn Latin American prepaid card market by 2015.

The deal also includes a cross-border money transfer service via US-issued debit cards to Mexico and Global Payout's eWallet payments platform.

Other prepaid card initiatives in Mexico include the partnership between the Mexican government and Banorte.

Banorte issues prepaid Visa cards to distribute benefits and funds the 'Prepa Sí' and 'Niños

Talento' scholarship and education programmes.

Ryanair to issue MasterCard cards

Ryanair is to issue MasterCard prepaid cards, managed by Access Prepaid Worldwide, in the UK.

The Ryanair Cash Passport will also work on ATMs, online and for purchases at merchants.

For the airline carrier, the introduction of the Ryanair Cash Passport is another means to charge consumers a £6 ($9.2) administration fee for bookings made on any other card, including any other MasterCard prepaid card.

UK consumer watchdog *Which?* found that while the actual cost to a merchant to process a debit card transaction is usually no more than £0.2 and 2% of a credit card transaction, numerous examples of companies charged far higher fees.

Ryanair was identified as among the worst offenders of this practice, with a family of four being charged £40 in booking fees for a return flight with the low-cost carrier.

The positive side is that, as with any other prepaid card, the Ryanair Cash Passport does not require any credit checks or a current account.

There will be no transaction fees on purchases on the Ryanair website and none on any other UK purchases until the end of March 2012. ■

■ CONTACTLESS

Visa grants licence to Google

Visa has granted Google a global licence to use its NFC-based payment technology payWave. This license will thus allow Visa card issuing banks to link debit, credit and prepaid cards to Google Wallet.

Visa Europe CEO Peter Ayliffe, called this step "revolutionary".

"The convergence of payment applications on the mobile handset presents an exciting opportunity for banks, mobile operators and manufacturers to work together to offer consumers choice in the way they make and manage their payments," Ayliffe said.

Ayliffe forecast that payment technology that is still considered innovative and new, such as contactless and mobile payments, would become mainstream in 2012.

Visa Europe CEO Peter Ayliffe

He added that Visa would announce "further new products and services" in the near future.

Contactless will increase 'electronic pick-pocketing'

The roll-out of contactless cards by banks will increase the risk of fraud from electronic pick-pocketing, according to Identity Stronghold.

A study by the security sleeve provider showed that the issue of radio frequency identification (RFID) chip-enabled contactless cards would increase the risk identity and financial theft.

Other forms of contactless payments such as mobile wallets will also increase this risk, the study found.

A quarter of mobile banking programmes analysed received a fail rating, often due to the tester's ability to recover sensitive data or passwords.

The card industry is working towards a roll-out of one billion contactless cards by 2016.

Orange, Barclaycard launch second NFC phone

Orange and Barclaycard are to launch the second handset in their Quick Tap range.

The Samsung Wave 578 has NFC capabilities allowing users to make contactless payments for purchases of up to £15 ($23.3) at highstreet merchants such as EAT, Subway and McDonald's.

The Quick Tap app is a prepaid account within the phone which enables users to load funds onto the app from their bank account.

The app also has electronic statement capabilities.

MasterCard will provide the payment capability for the contactless mobile transactions. ■

■ SECURITY AND FRAUD

NCR tackles ATM crime

NCR is rolling out a new ATM and branch security solution for financial institutions across Europe.

NCR and ObjectVideo have entered into an original equipment manufacturer agreement which enables NCR to incorporate ObjectVideo analytics technology to create automated alerts for potential security risks.

According to the European ATM Security Team, eight out of 20 European countries reported an increase in ATM skimming over the last year.

ObjectVideo's analytics software alerts a bank's security personnel about potentially suspicious activities, including people or vehicles loitering near an ATM or bank, possible skimmer insertions, vandalism or graffiti and camera tampering.

Businesses yet to comply with PCI DSS

Most businesses that accept credit card or debit cards are still struggling to comply with PCI DSS, a report by Verizon has revealed for the second year.

The *Verizon Payment Card Industry Compliance* report, shows only 21% of organisations were fully compliant during the audit.

The Verizon report is based on findings from more than 100 PCI DSS assessments and data gathered by Verizon.

Findings also suggests the lack of PCI compliance continues to be linked to data breaches. ■

■ SMART CARDS

Chinese social security cards to include banking function

China plans to integrate banking functionality into social security cards to enable the Chinese population to withdraw money from their bank accounts and transfer funds.

The initiative was announced by minister of human resources and social security Hu Xiaoyi. Chinese citizens are thought to have had 145m social security cards by the end of July.

China aims to issue 800m social security cards by the end of 2015, covering 60% of the country's total population, according to the country's 12th five-year plan (2011-2015).

Social security cards are mainly used to pay for medical expenses in China.

Hu reportedly said that, in future, the services will be expanded to allow cardholders to draw pensions and pay for social insurance programmes.

mPay, MasterCard to extend health care payment acceptance

MasterCard and mPay are to extend health care payment acceptance in the US.

mPay Gateway develops financial technologies for health care providers to support a complex payment environment.

mPay Gateway's point-of-care patient payment software calculates what the patient owes, authorises payment at the time of service and collects the outstanding patient obligation after the insurer has settled the claim.

This eliminates the expensive and laborious statement process.

Electronic payments made on a MasterCard card enables health care providers to track improved cash-flows with more timely payments, while reducing overhead and billing-related expenses, MasterCard said. ■

■ CREDIT CARDS

Thai government launches agricultural credit card

The Thai government plans to issue credit cards to farmers from 1 November.

Thailand's Bank for Agriculture and Agricultural Co-operatives (BAAC) had previously set up a committee which agreed to the plans.

The BAAC's committee has agreed to authorise a service provider with a budget of THB1bn ($33.3m) over three years. The plan is to issue 3m credit cards

For authentication purposes, there will be a smart card system.

The committee is now looking for the right service provider to roll out the credit card system.

The credit cards will be limited in that the payments on these cards will have to relate to agricultural goods bought from BAAC-affiliates, a number that currently spans 3,000.

There will be a 70% loan limit, depending on the value of the products that a farmer will sell.

The card will have a 7% interest rate unless the government subsidises the card, in which case there will be zero interest rate.

Barclays' India credit card divestment: StanChart, SBI Card interested

Barclays Bank may soon announce another retreat from another country.

After its exit from retail banking in Russia, the bank is now rumoured to be in talks with Standard Chartered and State Bank of India's Card business SBI Card to divest its cards business unit in India.

Barclays head of global media relations Daniel Hunter told *Cards International*: "We are reviewing options for cards, a business which requires scale and we may be able to achieve that scale under new ownership."

Foreign banks in India have struggled to claim success in retail banking, especially the credit cards business in India.

ICICI rolls out EMV credit card

India's largest private sector bank, ICICI, has launched its first EMV chip-based credit card – the ICICI Bank Coral Credit Card.

ICICI Bank executive director Rajiv Sabharwal said: "The launch of the Coral Credit Card on the chip platform is an affirmation of our commitment to leveraging technology to enhance card member experience.

"The Coral Credit Card offers our customers the best of both worlds – a compelling value proposition coupled with the assurance of enhanced security while transacting on account of the smart chip feature."

As well as enhanced security provided by EMV-certified chip, the Coral Card also brings benefits of rewards on purchases powered by PAYBACK, double rewards at supermarkets and a 15% savings at restaurants across India, among others. ■

ANALYSIS

40% of e-tailers reluctant to use 3D Secure

Some UK retailers fear the extra step will lead customers to cancel purchases, writes **Dursaff Ibrahim**

The second e-business benchmark report by Sage Pay surveyed over a 1000 businesses that run e-business operations and found that e-tailers were spending £430 ($688) each on average in fraud prevention, with 63% using 3D Secure as a fraud prevention tool.

Other figures revealed that 88% of retailers offering their services online are worried about internet security.

More than a third of e-tailers said they had lost revenues in the past. With the continuing rise of online sales volume, having a simple but efficient payment mechanism is therefore essential.

This is what 3D Secure, the online authentication that is verified by Visa and MasterCard providing fraud screening, aims to achieve. 3D Secure, introduced in 2001, adds another stage to the payment process, leading merchants to resist implementation for fear of losing online sales.

Secure, yes, but merchants worry about sales reduction

The additional check-out step with 3D Secure may lead to drop-outs because consumers may get distracted and forget what they were doing when making the purchase, resulting in an uncompleted or cancelled transaction.

According to Simon Black, managing director at Sage Pay, this is the reason why 37% of e-tailers still do not use 3D Secure. In fact, 80% of e-tailers said they used CV2 as the main tool of preventing fraud.

But he argues that 3D Secure can almost eliminate fraud for businesses. The password and PIN code for 3D Secure is not written anywhere on the card. Therefore, it provides greater security than the CV2 Code because it is not printed on the card. Businesses are slowly but steadily realising the effectiveness of 3D Secure.

"If there are a lot of steps in the check out process it may stand in the way of completing a transaction because there are more opportunities for something to go wrong," Black says.

"When 3D secure was introduced it was an additional step that popped out in a new window since then some companies have managed to embed the stage into the same checkout."

Simple, efficient check-out process essential

Making online sales and purchases simpler for customers and more secure for merchants is essential- especially considering the value of online purchases has risen by 14% to £5.2bn in the 12 months to August, according to research by Capgemini.

Therefore, Black argues, the 37% of e-tailers that do not use 3D Secure are not seizing opportunities to improve customer experience – such as making sure the payment type are presented clearly and ensuring there is a flow from putting goods in your basket to entering your bank details to make the purchase.

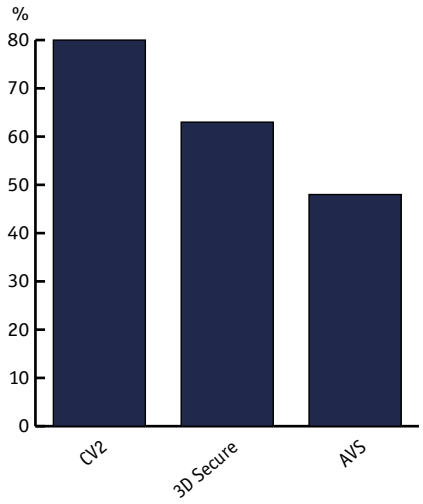
"High-performing businesses do focus on customer experience including the payment pages and that there are things that can be done to make it much clearer to the consumer what they need to do next," Black argues.

"Depending on what budget you have got and what your payment provider can offer you, you can fully still integrate the web pages but still outsource your whole process."

Fraud is a big issue for many online businesses, which explains the emphasis that is placed on security strategies by payment gateways. With the introductions of the fraud prevention tools, it seems there is yet to be a single, successful method of providing a complete protection against fraud. ■

FRAUD PREVENTION TOOLS

Which fraud prevention tools do you use?



Source: Sage Pay, *e-business benchmark report*

REGULATION

Verizon: Most businesses yet to comply with PCI DSS

Most businesses that accept credit or debit cards are still struggling to comply with PCI DSS, a report by Verizon has found for the second year in a row.

The *Verizon Payment Card Industry Compliance Report* shows only 21% of organisations were fully compliant during the audit.

The findings also suggests that the lack of PCI compliance continues to be linked to data breaches.

Wade Baker, director of risk intelligence, Verizon said: "We believe that compliance with PCI standard will ultimately improve the security posture of all organisations and, in all likelihood, lead to much fewer breaches." ■

SECURITY

Green Dot joins PCI SSC

Green Dot, a prepaid financial services company, is the latest member to join PCI Security Standards Council (PCI SSC).

PCI requires the involvement of merchants and service providers that process or transmit payment card data to adhere to information security controls and processes that ensure data protection.

John Coffey, chief information security officer of Green Dot, said: "Green Dot has always made security a priority.

"We see our membership in the PCI Security Standards Council as a way to further demonstrate our leadership in the industry.

"We are a company fully committed to implementing critical information security policies." ■

REPORT

FICO: UK credit card repayments hit 2-year low

Payments for outstanding credit balances have dropped to a two-year low, the latest FICO *Benchmark Reporting Service* has found.

According to the data shared with *Cards International* before official publication, the majority of UK cardholders are paying less of their outstanding credit balance than at any time in the past two years.

Conversely, the number of UK cardholders using cash advances on credit cards has hit a two-year high, FICO said. The data refers to classic card accounts, which do not include student, Irish and premium credit cards.

FICO vice-president and managing director, EMEA, Mike Gordon told *Cards International* the analytics and decision management technology provider was "a bit surprised" to see the downward trend.

"We had found the data [payment-to-balance ratio] was improving over the last six to 12 months," Gordon said.

"This [new data] took us by surprise. But when you take into account the macro-economic factors, then it is understandable. While the economy hasn't undergone a double-dip recession, every body is concerned.

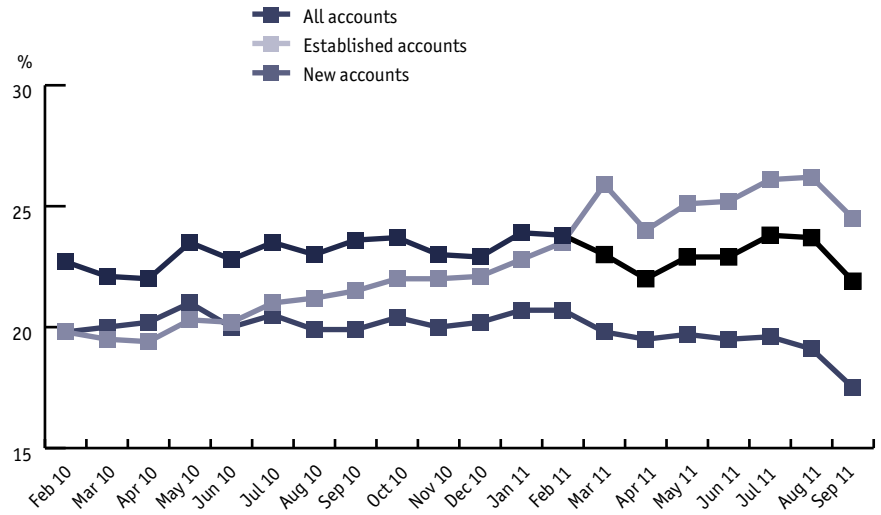
"There is a lot of angst among consumers – that angst comes from the eurozone crisis. We also see that angst from the purchasing managers we deal with, from the credit demand; we see it from the amount of hits the credit bureaus receive. The angst is very heavy."

The data is in contrast to delinquency rates data by Equifax, which had shown that delinquency rates and credit lines were improving.

Gordon agreed the US credit card market "is very different" and, unlike in the UK, there is a rebound trend, he said.

■ UK CREDIT CARDS

Payments to balance percentage ratio, February 2010-Sepetember 2011



Source: FICO

Uncertain outlook

So what is FICO's outlook? Are we heading for bad times again?

"That is an outstanding question," Gordon admitted. "Whether this improves or not depends on how the economy moves.

"We may see more of the same trend, maybe for the next six to nine months. Consumers cannot get access to credit. So it puts pressure on them to increase spending in any way.

"Until the debt crisis and banks' risk exposure is improved, their credit lines will be limited.

"There is no doubt there will be an increase in the volume of transactions over Christmas.

"But if consumers have less flexibility with their cards, then, while transactions will go up, I doubt it will be at the levels of what retailers would consider a successful Christmas season.

"There is no doubt that in January, February, March of next year, consumers will try to drive down their 'overspending' over Christmas.

"There will be drop off in the transactions, so you will see the same as before. But I think it will be muted, it will not be as high as in the past." ■

■ NEWS IN BRIEF

ACQUISITIONS

Euronet acquires ATMs from Diebold Poland

Euronet has acquired Diebold's Polish ATM network.

The network spans 535 machines and over 350 retailer contracts.

This venture increases Euronets total owned and managed ATM network in Poland, amounting to more than 3,500 devices.

This is the first time that a network of independently deployed ATMs has surpassed the ATM network size of any bank in the market in Poland, Euronet said.

The network includes agreements with 18 Polish banks.

TECHNOLOGY

Proxama launches contactless testing kit

Proxama has launched a MasterCard NFC mobile contactless reference kit, designed to enable vendors and issuers to run a number of different tests on new payments products.

Users of the kit will be able to run a number of different tests to view typical payment journeys, understand how a payment application behaves and test compatibility.

They will be able to test variants of payment procedures, including the different levels of payment authentication.

SECURITY

Intel develops NFC to combat online fraud

Intel is working with MasterCard on a mechanism to deploy NFC technology as a means of improving online shopping security.

Consumers using Intel's Ultrabook device and "future generations of Intel-based PCs" will be able to purchase items online by simply tapping an NFC-enabled card, tag, or smart phone onto their computer.

The solution has the potential to progress with Intel being a dominant player in Microsoft-based computers while it offers an alternative to more cumbersome payment solutions such as tokens. ■

MOBILE PAYMENTS

Visa makes major moves in mobile payments

Fundamo's service rolled across Africa with mobile giant MTN, Visa Europe announces Monitise investment

Visa has launched a new mobile wallet service, through its Fundamo subsidiary, aimed at the un- and under-banked in developing countries.

The African mobile network MTN – which has services in 21 countries and 5m registered mobile money customers – has already signed up to the service, which is being run by Visa's recently-acquired mobile payments subsidiary Fundamo.

Fundamo, bought by Visa Inc earlier this year for $110m, already has some 10m customers on closed-loop carrier-bound mobile payments platforms.

Access to Visa's open loop network means that existing and new Fundamo customers will have full interoperability with other mobile financial services, as well as full POS and ATM functionality.

Jim McCarthy, head of product at Visa Inc, said: "Mobile technology has become the single most important driver of financial inclusion that is enabling financial institutions, mobile network operators and Visa to connect unbanked consumers to each other and the global economy."

Aletha Ling, chief operating officer of Fundamo, told *Cards International:* "A number of banks and mobile networks are currently considering the service and we expect a rapid uptake. African markets are moving quickly, and we are seeing a good response from markets in Asia – particularly Pakistan, Indonesia and Bangladesh – where we expect to see significant activity in the next 6 to 12 months.

Monitise launches Simply Tap

Visa's investment in mobile payments for developed markets has also taken a big step forward.

Monitise, in which both Visa Inc and Visa Europe hold significant stakes, is launching a mobile checkout service called Simply Tap.

Carphone Warehouse is one of the first major retailers to integrate Simply Tap into its customer experience, allowing shoppers to buy directly from its advertising, direct marketing, website and buyer's guide.

Customers go through a one-off registration process, which will subsequently enable them to use the service on their mobile phones to order products they see anywhere.

The announcement of the launch came shortly after Visa Europe confirmed that it will invest £24.7m ($40m) in the mobile payments provider. The deal makes Visa Europe an 8.8% shareholder in the company and will see CEO Peter Ayliffe join the Monitise board as a non-executive director.

Monitise Group CEO Alastair Lukies said: "Visa Europe's investment in Monitise, coupled with a deepening relationship eight months after our two companies first entered into a partnership, establishes our role as the platform of choice for mobile money services in Europe" ■

■ TOP 5 MOST-READ ARTICLES THIS MONTH AT WWW.CARDSINTERNATIONAL.COM

Salans' Robert Courtneidge moves to Locke Lord

He was recently named as the Best Contributor at the Prepaid Awards – and now lawyer Robert Courtneidge, until now banking consultant and global cards and payments head at UK-based Salans is moving to Locke Lord. With Courtneidge, six other Salans partners and two consultants are moving to Locke Lord's London branch.

Courtneidge, a member of the Cards International editorial advisory board will join BLG as a consultant.

Courtneidge specialises in e-money legislation and has over 20 years' experiences in the cards and payments sector.

Paula Howard and Bill McCaffrey, Salans' consumer partners, are also moving to Locke Lord.

Locke Lord is a Texas-headquartered law firm that has been expanding its reach in Europe.

Wells Fargo launches corporate payment app

Wells Fargo has launched a Commercial Electronic Office (CEO) Mobile Deposit service that is designed to enable executives to track corporate payments via their smartphones.

The new service is an extension of the bank's existing CEO portal. The app allows customers to initiate and approve payments, receive alerts about critical transactions, review account balances and transactions, manage commercial card expense reporting and deposit cheques and money orders, using an iPhone.

The app links to the Wells Fargo commercial and corporate bank accounts and has the facility to process cheques and money orders via image capture

BofA makes U-turn, drops debit card fee

Bank of America (BofA) has bowed down to pressure by customers and decided to drop its debit card usage fee after the bank had come under pressure.

On 17 October, *Cards International* had reported that BofA, alongside other banks that had decided to implement the debit card fees, were under facing an antitrust investigation following the introduction of monthly debit card usage fees.

The investigation was called by five US Democrats who claimed the banks may have worked together improperly to charge their customers monthly fees for using their debit cards.

RSA, Edenred launch prepaid insurance card in the UK

Royal Sun Alliance (RSA) is collaborating with Edenred to launch a prepaid insurance card in the UK.

Customers of RSA will now have the option to receive a prepaid insurance card or a cash settlement when settling a claim.

The card is redeemable at many of the UK's major high street retailers, including Debenhams and Argos, and can be used anywhere within the Mastercard/Maestro network.

RSA said the card can be issued more quickly than a banked cheque, allowing the customer to replace the insured item in a shorter period of time. ■

TOP STORY THIS MONTH

Success of Google Wallet and Apple to force MNO cooperation in mobile wallets

The use of mobile wallets is increasing and while mobile network operators (MNOs) provide the majority of NFC-based mobile wallets, their market share will decrease between 2012 and 2016 as Google and Apple claim loyal users, new research suggests.

ABI Research found that MNOs will provide 75% of all mobile wallets in 2012 – but this will fall to 63% by 2016.

The operators hope Google Wallet will succeed in markets where MNOs prefer not to spend capital to develop and support mobile wallet infrastructure.

MNOs will then partner with Google and benefit financially from the ventures.

Mark Beccue, senior mobile commerce and NFC analyst for ABI, also predicts that Apple will contribute to the erosion of MNO mobile wallet market share.

"Apple will launch a mobile wallet product in 2012. Apple's MNO partners will allow Apple to offer their mobile wallet to consumers who have iPhones, regardless of whether or not the MNO has a competing mobile wallet," he said.

The growth of NFC-based mobile wallet users will be fueled by MNOs and OS players flooding the marketplace with NFC-capable mobile phones, particularly in the US, Japan, Korea and Western Europe.

Another factor involves the business cases around merchant offers and interaction which will be compelling enough to pull mobile wallet ecosystem players in alignment.

ABI forecasts that over-the-top (OTT) mobile wallet providers will struggle to establish a critical mass for their offerings, though they will find success for niches purposes.

MNOs will incorporate OS and OTT mobile wallets into their umbrella mobile wallets by 2014 – slowing down the growth of independent mobile wallets from OS and OTT providers. ■

■ RELATED ARTICLES

Adyen, Pathé offer mobile payment to Dutch cinemas

Adyen has signed a contract with Dutch cinema chain Pathé to supply online and mobile payments for its 21 cinemas across the Netherlands. The new service means online and mobile payments can be processed on a single screen with a single click.

The Adyen payment facility uses skin technology, enabling merchants to adjust everything related to the look and feel of the page, the logo, colours and the fields into which customer data is put in.

Clear2Pay launches mobile test tool

Clear2Pay has launched a new Mobile Payments Application (MPA) testing solution, designed to enable vendors and issuers to test mobile payments products against interoperability and security standards.

The launch of the MPA Test Tool follows Clear2Pay's acquisition of Lexcel Solutions in June, and its announced intention to boost investment in testing products and services.

Clear2Pay said the new product alleviates the process of certification required by card schemes, and replaces the time-consuming process of sending mobile phones back and forth to certification laboratories.

Oberthur, AuthenTec launch SIM-based NFC mobile payment

Oberthur Technologies and AuthenTec have collaborated to provide a device that makes NFC mobile payments faster and more secure.

The companies will combine their expertise in SIM/UICC security and fingerprint identity to create solutions that enhance the speed and security of mobile payment transactions.

The device comes after Oberthur and AuthenTec worked with Inside Secure, a provider of NFC technology, to implement control of NFC functions using the fingerprint/FlyBuy – the SIM-centric solution offering mobile network operators the capability to host, manage and control contactless services.

The process works by swiping a finger over AuthenTec's smart sensor on a fingerprint-enabled smartphone. Users will then be able to access a credit or debit card of their choice by associating different payment methods with different fingers.

They will then be able to choose a payment method, authenticate and activate the desired payment card and then complete the NFC transaction.

Telia, Tele2, Telenor join for offer m-payment service in Sweden

Mobile operators Telia, Tele2, Telenor and 3 have become the latest carriers to collaborate on a mobile payments service, which will be available in Sweden.

The venture, will go live next year, and aims to expand the range of transactions consumers carry out via mobile.

The partners are planning to develop and market one service offered to both contract and prepaid consumers.

The operators indicated that a joint company for all types of mobile payments would make payments easier and safer for consumers, while enabling users to change operator at greater ease.

Merchants and partners, through a single cross-operator party, will be granted greater security and less administrative cost, they said.

It remains to bee seen how 3's Swedish strategy sits with the rest of the group. 3 has recently protested against a similar m-commerce joint venture in the UK involving Vodafone, O2 and Everything Everywhere – but 3 UK was not involved in the venture.

Samsung launches mobile payment efficiency solution

Samsung has launched its SIP-NFC chip, the SENHR1, which combines an NFC controller and a secure element storing personal information and security keys, vital for reliable and efficient mobile payment on NFC enabled mobile devices.

Users will be provided with a device that can sufficiently store one's choice of diverse mobile services, such as credit card codes, e-money and transportation transaction/payment services – at the required capacity.

The NFC controller includes a feature that allows payment transactions to be made when the device is discharged. ■

Pay masters

A gala dinner in Frankfurt last month saw the most innovative and highest-achieving businesses in the global payments industry recognised for their success. Here, ***Cards International*** outlines the qualities each of the winning companies bring to the market place

This year's **Cards International Awards** was a world tour of payments innovation. From ground-breaking Jamaican debit schemes to wide-ranging Italian loyalty programmes and exciting new virtual currencies, there are some impressive stories behind this year's winners.

Best New Prepaid Product

Regalocard

Regalocard has successfully developed a remittance product based on gift cards. The system allows senders to purchase a prepaid gift card in the US for use at a specific retailer in Central America.

The card is tracked and activated by the name and the mobile number of the recipient through which he/she received the redemption PIN number needed to redeem the funds.

Aktif Bank's Aktif38 City Card

Serving the city of Kayseri in Turkey, Aktif38 is considered the most versatile prepaid city card in Europe.

The contactless card handles micropayments quickly and efficiently and can be used for shopping, on public transport, at vending machines, bill payment, parking, and even for opening and closing doors.

Best Commercial Credit Card Issuer of the Year

Citi corporate incentive prepaid

After Poland, the Czech Republic and the Middle East, Citi is making a major push with prepaid corporate incentives in Australia.

The programme has proven to be very effective and commercially attractive to Citi and in line with the continued push into corporate and government prepaid programmes.

First Data

Mastercard


Citi


Post Italiane

Best New Debit Card of the Year

Capital and Credit Merchant Bank of Jamaica

Judges commended the bank for fighting the odds. CCMB is the only one of the three commercial banks in Jamaica to have launched its own debit card while the rest of the country relies on the Multilink network for domestic debit transactions.

Merger or Acquisition of the Year

MasterCard acquisition of Travelex prepaid

While many acquisitions have very clear strategic benefits for the buyer, the judges felt that this deal gave Travelex funds to invest in growth regions as well as providing MasterCard with a strategic boost.

Best New Co-branded, Affinity or Loyalty Card

Poste Italiane/Banco Posta

This loyalty scheme has some 20,000 merchants on-board, offering a wide range of goods and services from petrol, to electronics, through to health care. The judges said the programme is a straightforward and distinct proposition.

First National Bank of Omaha

First National Bank of Omaha has built a significant portfolio of co-branded relationships by exploiting the untapped market between large national retailers and the local brands.

FBNO has not only exploited a commercial opportunity but done so through innovation with a customised reward programmes.

Editor's Award for Consumer Focus

eWise

The eWise payo mobile app enables consumers to initiate payments for goods, services and bills online or face-to-face, without having to provide personal financial information to any third parties.

Apps like these could have a similar transformative effect as ATMs had in the 1970s and 80s.


Aktif Bank


SIA


eWise


American Express


General

Editor's Award for Business Focus

Poste Italiane/Banco Posta

The Sconti Banco Posta loyalty scheme is hugely ambitious and wide-ranging.

The bank's strategic approach to engaging merchants is worthy of high praise and the results are already showing, with a number of retailers seeing significant results from the scheme.

Most Promising New Entrant

Facebook Credits

Facebook has been looking to the payments business as a way of diversifying its revenue stream, introducing its own virtual currency, Facebook Credits, in a bid to tap the fast growing social gaming market.

It has been a matter of months from the initial launch to the establishment of a payment unit and potentially of a new web currency.

Merchant Acquirer of the Year

Elavon

The judges commended Elavon for its joint venture with Credicard becoming the fourth merchant acquirer in Brazil, extending the reach of its multi-currency dynamic currency conversion platform into a high GDP growth country.

Best New Credit Card

Banco Popular for its MasterCard Platinum XTRA Card

In 2010, Banco Popular North America (BPNA) launched its MasterCard Platinum XTRA credit card programme. This product included a comprehensive, enhanced rewards scheme, which imposes no restrictions on purchases.

Designed for those consumers who use credit products in a 'responsible' manner, BPNA claims the Platinum XTRA card allows clients to earn awards in a quicker fashion.

Best Innovation or Cross-Industry Innovation

American Express/SAP NetWeaver

American Express extended the use of loyalty points to buy limited edition virtual goods as well as physical and virtual game cards from Zynga, the world largest social game community.

Best Card Processor

First Data

FirstData received the award for the development and extension of its TransArmor payment processing solution, which represents a significant step forward for payment processing security as it removed payment card data from the merchant environment as part of the processing of a transaction.

This not only reduces risk but also significantly lowers the complexity for the merchant to achieve PCI/DSS compliance.

SIA Group

SIA has been following an extraordinarily successful business strategy that has seen them reverse their fortunes and rejoin the world's leading processors.

The business's recent reorganisation was designed to focus more clearly around their clients, with three business units – FI, Central Institutions, and corporate and public – focused around meeting the specific needs of each group.

SIA is looking to expand, particularly in central and eastern Europe, by growing the operations of its Hungarian subsidiary GBC. ■

Making debit work

Debit card strategy dominated the agenda of this year's Cards & Payments Europe Conference. **James Ratcliff** looks back at the days discussions and finds that there are clear ways forward for banks looking to increase revenues from current accounts

Frankfurt – the centre of European finance and the spiritual home of the Euro – played host to this year's Cards & Payments Europe conference. And the town that has been the backdrop for some the banking world's boldest moves saw the European payments industry gather to discuss the significant changes the industry is undergoing.

On the agenda this year were mobile payments, e-commerce, and social media listening. In addition, speakers looked at how to drive profits from debit as more consumers turn away from credit.

On this subject Luke Olbrich, head of debit for MasterCard Europe, encouraged banks to revisit the way they look at their portfolios. "We need to look beyond the device, and beyond the account," he said. "Credit, debit, prepaid, deferred debit, decoupled debit – the channel to access the account needs to be flexible. We need to offer a more adaptable set of platforms that will allow bank customers to choose exactly what it is they want to use."

The economic crisis changed the needs of both banks and consumers. According to Olbrich, MasterCard responded to this change by commissioning a number of consumer surveys that continue to inform their product development work.

"When we undertook these consumer insight studies we focused on speaking to consumers and understanding how their needs have changed – what their attitudes are towards mobile and towards the different channels," he said.

The results of those studies, he explained, highlight four areas in which consumers expressed concern.

Consumer concerns

Unsurprisingly, security and fraud was at the top of the list of consumer concerns. "We are not in a remarkably glamorous industry unfortunately," Olbrich said. "When people think about payments – if they think about payments at all – they want their money to be safe. This is one area that we as an industry have not sufficiently communicated."

And it is communication that's key here, particularly in Europe, where EMV implementation has seen card fraud levels plummet.

"But if you look at consumer attitudes, and read the mainstream media, that is not clear," he said.

The other issue very high on the consumer's agenda, when it comes to payments is, of course, the convenience aspect.

Naturally, debit cards create an easy way of accessing bank accounts but a step-change still needs to be made when it comes to making debit "the new cash", said Olbrich:

"People want the ubiquity of cash – they want to know cards are accepted everywhere. But many merchants still do not offer card payments, when they could."

There are a number of possible reasons for this.

"It could be a problem of location: transit systems, for instance, or it could be problems around speed of through-put. There is also the problem of how to process low-value payments efficiently."

While those are all problems that mobile payments and NFC professes to solve for retailers, it is not an easy sell. Retailers still remain to be convinced that investment at the point of sale will see solid returns. So what would drive retailers to invest? One answer is customer information – marketing and loyalty – the other is consumer demand. We do not always have to be led by the consumer, said Olbrich.

"We are in a push industry to a great extent. If someone had asked me 20 years ago if I would be interested in buying good through a television, I would have said 'no'.

"Now the technology is in place, we are able to present the consumer with a mobile payments capability. And the consumer will start to look at their phones differently."

Improving profitability

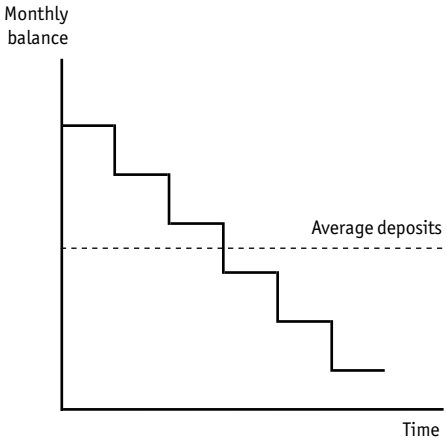
Debit card portfolios is a particular area banks are being encouraged to look at very differently. Return on investment in debit is hard to gauge but banks' credit-wary customers are encouraging banks to build on their debit offer. But where are the profits?

Francesco Scanera, director of international business at Bluerock Consulting, spent some time looking at the specific area of driving profit from debit. While the profit is not a clear as it is on credit portfolios, there is still a clear revenue stream.

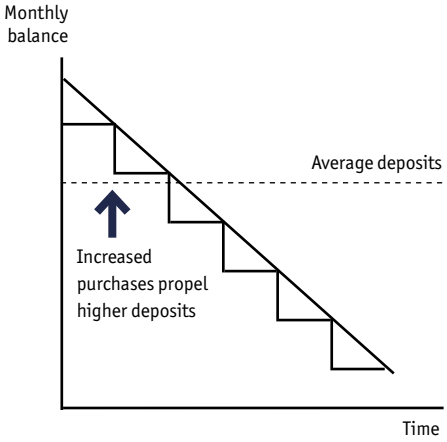
"You cannot consider income streams simply as revenue from product fees and interchange alone," he said. "When you are looking at profits from debit, you need to consider the fact that it encourages higher customer deposits.

"It has been shown that account balances are generally larger where the account hold-

'CASH ADDICTS' PAYMENT BEHAVIOUR
High ATM, low POS usage



'DEBIT LOVERS' PAYMENT BEHAVIOUR
Low ATM, high POS



Source: Bluerock Consulting

Clockwise from above: Michaelis Michael, managing director, Digital MR; Dr Niklas Bartelt, managing director, DZ Bank, John Schratz, and Gianluigi Rocca, head of product development, financial institutions division, SIA; Gianluigi Rocca; Luke Olbrich, head of debit, MasterCard Europe; Siobhan Moore, senior associate, Salans

er is using debit cards over cash. The other thing to consider when looking at debit in comparison to credit is that a debit offering targets a bank's entire base of account holders, unlike credit."

In addition, even when carefully distributed credit has obvious risk and insolvency issues that debit does not. And those factors, while harder to quantify, do add up to real value.

Olbrich concurred and added: "We try and get banks to invest in debit and we have a business model for banks that clearly shows the average balance on a current account increasing where ATM transactions are replaced by POS transactions.

"The fact is that debit card users' money stays in the bank longer – and that's right to the banks' bottom lines in terms of interest income."

So the value of debit needs to be judged by the bank account's profitability, not that of the cards themselves. And when multiplied across many current accounts, that income is very significant. "It's not just about the six euro cents the bank earns per transaction," said Olbrich.

Loyalty counts

Encouraging increased use of debit cards at the point of sale, as opposed to ATM usage is something that all the morning speakers agreed was important to portfolio revenues. But achieving this is not easy.

Having already heard that margins on debit are small and tricky to define, finding space to add value for customer (thereby increasing use) is itself difficult to justify.

Loyalty programmes are certainly not easy to implement on debit portfolios, but Banco Posta, the banking division of the Italian post office (Poste Italiane), is one organisation that has looked at this area very creatively.

Luca Leoni, head of market intelligence for Poste Italiane used his afternoon session to outline the innovative approach to loyalty that his organisation is implementing across both debit and prepaid portfolios.

"We decided that a traditional points-based reward scheme was not showing good results," he said. "So we chose to offer cash back. Our problem, however, was funding the cost of that cashback."

The Italian bank then entered into lengthy negotiations with retailers. They emphasised the importance of loyalty in terms of customer relationship management and marketing, and eventually retailers began to agree to funding the cash back scheme.

"We have now developed a network of 20,000 retailers, all of which were prepared to fund the cost of the loyalty programme as a way of building their relationship with customers."

The main thing that convinced such a large number of retailers to join the scheme, Leoni said, was Banco Posta's very large customer base.

"It was not easy to convince retailers that they would see a return on their investment," he said. "But the key was the fact that we brought 13.5m card-holders to the table.

"Every loyalty scheme needs a large amount of regular spend to succeed, and around 60% of card activity comes from everyday spending."

And this brings us back to debit. High volumes of everyday spend has, Banco Posta has proven, a significant value to retailers. Admittedly, there are few banking markets quite like Italy, but there are clearly opportunities for banks with large debit portfolios to approach retailers to drive profit from card usage, and see the increased interest income that comes from larger volumes of POS transactions. ■

Mobile presents major prepaid opportunity

This year's Prepaid Summit Europe saw a number of discussions around the role of prepaid in the emerging mobile payments landscape. The position of prepaid as a payments tool driven by online spending, and easily adapted to suit mobile wallet technology, means that the future looks very sure, writes **Duygu Tavan**

Exclusive research presented at VRL Financial News' Prepaid Summit Europe indicated that mobile payments are still facing serious barriers to consumer adoption, but discussions at the event concluded that prepaid could play a key role in overcoming them.

The research, carried out by consumer research specialists TNS who questioned 600 smartphone users across Italy, found that despite efforts from all parties in the payments value chain there is still a general lack of awareness among consumers. Moreover, many of those who were aware of mobile payments expressed serious security concerns.

"This suggests that investment in consumer education is key to banks and payments providers wanting to capitalise on the opportunity," says *CI* editor James Ratcliff, who chaired the conference.

"It is not good enough to simply offer consumers the facility to make payments on their phone. Mobile payments providers need to clearly demonstrate the benefits of the service in order for it to truly take off."

In practice, this means industry stakeholders such as banks, telcos and retailers have to pool their expertise to offer incentives to drive mobile payment adoption.

The desire within the industry to drive this is clear: data collected by the event's Gold sponsor, Visa, who used audience voting technology to gauge delegates' opinion.

That research found that the vast majority of delegates recognised that partnerships between the banking and telecoms sectors was the best way forward.

Prepaid Summit Europe 2011

The mobile opportunity quantified

The rewards for doing so are clear. A White Paper, commissioned by Vesta and compiled by Informa Telecoms & Media, recently proposed that it is remote payments and not NFC that provide the richest business opportunity for mobile operators.

The White Paper estimated that mobile commerce services such as mobile banking, remote mobile payments, local mobile payments and mobile money transfers would turn into an industry with revenues of more than $22.5bn within the next three years.

Money transfer services alone will account for $6bn in revenues by 2014 – a business case that presents better and more lucrative opportunities than NFC alone.

Mobile wallet is the key word here. Mobile operators can use their existing expertise in prepaid top-up, content purchases and bill payment services to drive the adoption of m-wallets.

And because consumers are familiar with these services, operators can increase their subscribers' comfort levels with m-commerce transactions.

This will enable operators to position themselves at the heart of the m-commerce value chain, ahead of over-the-top players and in pole position to claim a significant share of the projected revenues, Vesta and Informa argued.

At the summit, Milind Kangle, CEO of MVNO Lyca Mobile, explained how his business had developed from selling international phone cards, to becoming a telecoms network, to launching a payment card programme.

As a prepaid mobile network, Lyca is very well positioned to capitalise on the use of prepaid for international remittance. And according to Marshall Behling, vice-president of international business development at Vesta, and Shailendra Pandey, senior analyst at Informa, Telecoms and Media, this is the biggest opportunity in m-commerce.

"If you consider cross-border remittances, then there would of course be legislation to comply with," argues Pandey.

"The biggest opportunities operators have is reducing the cash-out option on prepaid cards. If you have transferred money to someone – if you can keep that amount on the mobile by buying digital content or physical goods and services, as long as they do not cash-out, there will be fewer regulations to worry about.

"Four or five years ago, there was the view that emerging markets were where prepaid had the biggest potential to be a substantial business case.

"That has changed – now prepaid users are also growing in developed markets."

Consumer relationships

According to Pandey and Behling, the biggest advantage mobile phone operators have is the existing relationships they have with their subscribers.

"They've got this good prepaid infrastructure already, which they can use to offer advanced m-commerce services," says Pandey. "I think that's the best way operators can compete with Google and Apple. I do think the business models for operators are changing, and the they need to look for forming partnerships at other places in order to generate revenues."

This is the key message of the White Paper: Vesta and Informa found that operators have begun to focus on their existing strength – the prepaid infrastructure they have in place to drive remote payments.

Merchants themselves may continue to be reluctant to invest, but the point the White Paper makes is that there are areas other than the POS mobile operators can get very aggressive around, such as pricing and business models that do not have to deal with the complexities and the problems that the POS environment in the physical retail environment produces.

But operators need to partner with specialist companies to develop a valuable m-commerce service.

Pandey and Behling say that for physical purchases, operators do not actually need to partner with other players, such as Amazon or eBay, to launch a payment app. Instead, they argue, operators should partner with the likes of Amazon or eBay and offer e-billing services.

The operators seem to finally begin to get the point – according to Vesta's White Paper they consider prepaid the number one application in the m-commerce industry because that is all of the money that goes through some kind of virtual wallet. And now companies are beginning to realise that this actually is a form of m-commerce – it is one that consumers are already using. ■

PSE 2011 was sponsored by Visa

VISA EUROPE

Online spending drives prepaid, but it doesn't end there

Research by Visa Europe into Italian consumers' attitudes to prepaid revealed that while the vast majority of cards are purchased to facilitate online spending, most people go on to use it for offline purchases as well.

Visa added to this research by polling conference delegates on the day. While attendees also identified online spenders as the main driving force, the network warned that this was too simplistic a view.

"The fact that most people buy prepaid cards in order to shop online is only one part of the picture," said Greg Sheppard, head of Visa Europe's Prepaid Centre of Excellence.

"Our research clearly shows that people regularly use their cards in shops.

"In fact, only 7% of people we questioned said they do not use their prepaid cards in shops at all," he added.

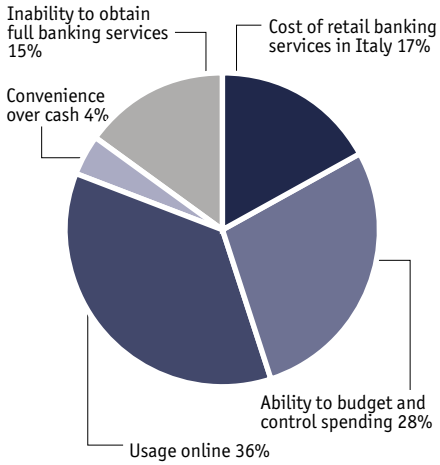
Sheppard argued that this should inform the marketing strategies behind prepaid products.

"While it is important to promote the benefits of prepaid as a way of spending online, it is essential to recognise the wider capabilities of the cards, and ensure that consumers are able to take full advantage of the diverse range of benefits they can offer." ■

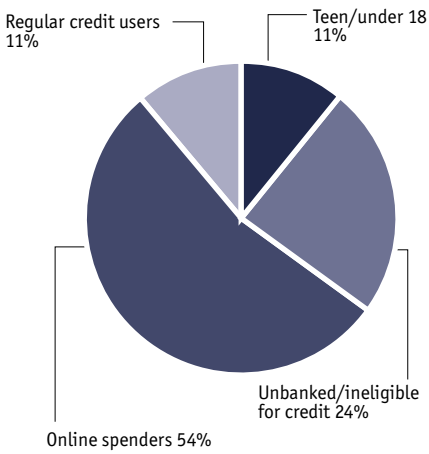
WHAT THE CONFERENCE SAID

Visa polled delegates on the day who identified online spending as the principle driver of prepaid in Italy.

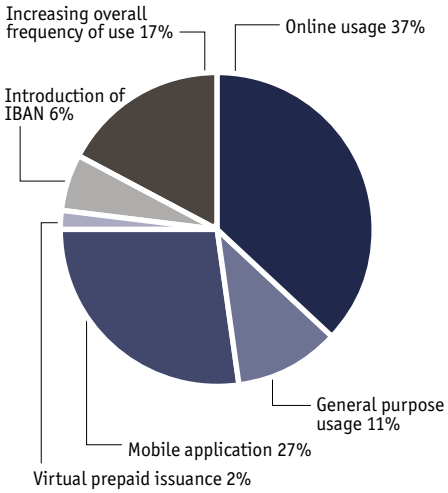
What is the most important reason for consumers to take up prepaid in Italy?



Which is the demographic most receptive to prepaid?



Growth in prepaid in Italy will come from...



Source: Visa, *CI*

All change in the US

The Federal Reserve Board's new interchange rules promise to reshape the US payments landscape. **Charles Davies** looks at the wide-ranging impact of the decision, the winners and the losers, and considers the new restrictions and opportunities that are opening up as a result

The Federal Reserve Board's new interchange rules usher in changes to debit rewards, current account products and an era of tighter margins for issuers.

An amendment in the Dodd-Frank Act gives the Fed the duty of establishing interchange rates that are "reasonable and proportional" to the costs that issuers incur on transactions. Financial institutions with less than $10bn in assets and prepaid cards are exempt from the provision.

Depending on what the Fed does, the provision could result in the loss of up to $9.1bn in yearly revenue for issuers, according to a recent study by CardHub.com, a website that tracks card products.

Issuers' debit portfolios already took a hit from the overdraft rules that took effect in July, requiring banks to obtain customer consent before charging fees to cover certain overdrafts.

That, combined with the debit interchange provisions of the Dodd-Frank Act signed into law in July, has issuers considering adding account fees, raising minimum balance requirements and reducing rewards to recoup revenue losses.

JPMorgan Chase & Co was the first to disclose its plans when an executive said at a conference in December 2010 that it would stop issuing debit rewards cards in February.

Then, US Bancorp announced it will begin instituting a combination of ending debit card rewards, instituting debit card annual fees and ending free checking in the next six months.

Industry representatives objected loudly to the plan, warning it would set precedents for government price controls in other industries and describing the rules as anticompetitive.

A key question is who will ultimately benefit from the savings? The Federal Reserve's proposal to cap interchange fees at 12 cents per transaction would enable retailers to pass on annual savings of $10bn to $13bn to consumers – if they ever get to the consumers.

Banks and card networks maintain that retailers will pocket the savings, leaving consumers with little more than higher costs for banking and reduced rewards programmes.

In releasing its proposal in January, the Fed said it found the cost to banks for processing is between 7 and 12 cents per transaction. On the average debit card transaction of $40, for example, the fee is around 24 cents. Wall Street and the banking industry were expecting that the proposed cut would call for fee cuts of no more than 60%. The proposal is close to a 73% cut.

What alternatives?

The proposal left plenty of room for the Fed to manoeuvre as it works on a final rule but suggested the central bank is seeking to cap such fees at closer to the 12-cent mark.

The proposal would also seek to limit network exclusivity. Under one alternative, a card issuer or payment card network would have to ensure a debit card transaction could be carried on at least two unaffiliated networks.

The Fed said that could include one signature-based network and one PIN network as long as those networks were not affiliated.

Under another alternative, an issuer or card network would have to ensure a debit transaction could be processed on at least two unaffiliated signature-based networks and two unaffiliated PIN-based networks.

Fed staff noted that banks use revenue from interchange fees to offer reward programmes and cut costs on deposit accounts, and noted that they realise that as a result, banks could trim reward programmes and raise fees on consumers if the proposal is finalised.

Fed officials indicated they would listen very carefully to comments on the plan, noting that this is a new area for the central bank.

"Sometimes when we put out a proposed rule, we're pretty convinced that we basically got it right absent something we didn't expect getting in," said Fed Governor Dan Tarullo.

"The difficulties in implementing this legislation, the subtleties the staff have had to deploy trying to come up with a proposal both suggest that we should be more than perhaps usually open to a variety of comments."

Fed staff also made it clear the impact of the proposal would depend largely on how merchants and banks implemented the new rules. The Fed voted to open the proposal up to public comment and set a target date of 21 April 2012 by which a new rule must be hammered out; banks will then have another three months before it goes into effect on 21 July.

■ US
Interchange proposals

Interchange fees paid by merchants to large banks	$22.8bn
Maximum potential amount affected by Durbin Amendment	$18.2bn
Fed drops fees by 20%	Interchange fees decrease by $3.6bn Decrease per card: $7.30
Fed drops fees by 35%	Interchange fees decrease by $6.4bn Decrease per card: $12.84
Fed drops fees by 50%	Interchange fees decrease by $9.1bn Decrease per card: $18.35
Fed drops fees by 65%	Interchange fees decrease by $11.8bn Decrease per card: $23.85
Fed drops fees by 75%	Interchange fees decrease by $13.6bn Decrease per card: $27.52

Source: CardHub.com

Visa declined to comment on the proposal. MasterCard issued a press release that said the Fed had failed to follow Congress' "statutory directive to consider the full range of costs incurred by issuers".

Tien-tsin Huang, an analyst who covers the payments networks for JPMorgan Securities, said in a research note that the Fed's proposal did little to clear up the potential negative results that Visa and MasterCard face from a lower interchange environment.

According to Huang, under the proposal, the Fed said banks could receive a potential safe harbour for rates of seven cents or below but would be allowed to set them up to 12 cents to pay for processing costs of the transaction. Under another option, the Fed would not offer a safe harbour but would still cap rates at 12 cents.

A rate of 7 to 12 cents per transaction represents an 80% to 90% cut in the "blended average" for current signature and PIN rates,

Huang said.

Jaret Seiberg, an analyst for the Washington Research Group, said in a note to clients that "we have trouble seeing much that is positive here [for banks]".

"Issuers will lose more on higher cost purchases and may gain on very small purchases," Seiberg said.

Retailers, who had successfully pushed Congress to adopt a provision in the regulatory reform bill that required the Fed to set debit card rates that were "reasonable and proportional" were ecstatic.

"Today's announcement is a step forward for the effort to bring relief to merchants and consumers who for too long have faced excessive fees and unfair rules imposed by big banks and credit card companies," said Katherine Lugar, executive vice-president for public affairs for the Retail Industry Leaders Association. "Proposed cost reductions will undoubtedly result in savings for consumers."

The Fed acknowledged its proposals still let banks profit from interchange fees, since the financial reform legislation that led to this round of rule-making only specifies that fees have to be "reasonable and proportionate", not that banks cannot still earn profits.

Supporters of lower fees say the loss of debit rewards won't be too painful. The programmes are not that widespread. Only about 16% of checking accounts have programmes, and an estimated 30 to 50% of rewards are unused.

As an early mover on debit rewards, JPMorgan Chase offers a potential blueprint for how US banks will deal with the reduced interchange. From February the bank will no longer issue debit rewards cards to new customers, Chase CEO of retail financial services Charlie Scharf told analysts at the Bancanalysts Association of Boston Conference.

Scharf told the analysts the legislation will likely result in "a transfer of value from lower mass-market consumers to merchants" and will force banks to increase account fees for most customers in order to compensate for operational costs that debit interchange fees help to offset.

Chase is developing several new current account products, it plans to introduce in February 2011 that will require customers to maintain a specific balance and have multiple accounts in order to avoid fees, Scharf said.

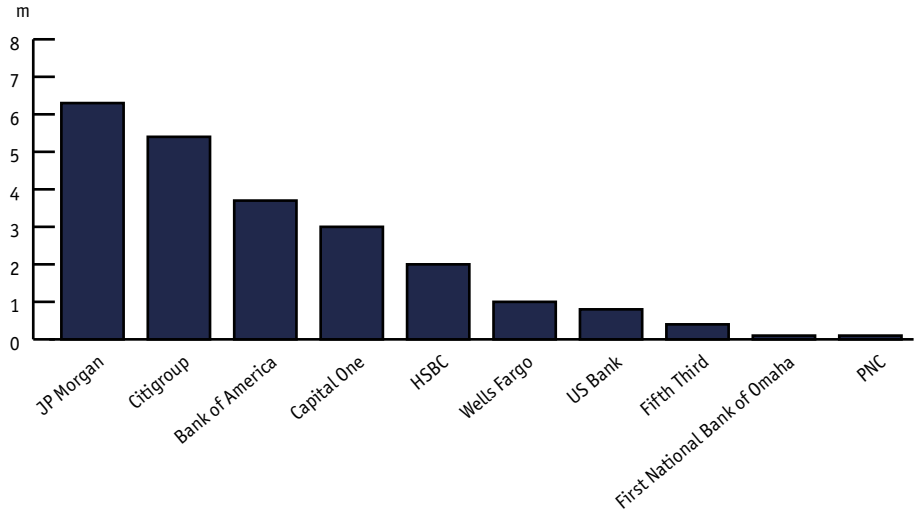
Issuers could also explore explicit fees for debit cards, maintenance fees on the checking accounts the cards are linked to and the elimination of debit rewards programmes, among other options.

New rewards

Options are emerging, including Bling Nation FanConnect, Clovr and Cardlytics, among others.

■ US

Number of cardholders taking advantage of monthly merchant-funded rewards at selected banks



Source: Aite Group

Bling Nation is using NFC-enabled stickers that turn cell phones into mobile wallets and has added social networking capability. With the help of Merchant360 to supply targeted rewards and discounts, BlingNation allows customers to 'like' merchants on Facebook at the point-of-sale. Merchants, meanwhile, can use FanConnect to track buying behaviours.

Cardlytics also offers merchant-funded rewards to debit card users in the form of discounts based on their transaction histories.

Cardlytics uses the data feeds of its bank partners to analyse the debit card activity of online banking customers, and then matches retail merchants up with customers based on their purchase behaviours. The merchants then can direct loyalty offers to customers who spent a preset amount at their stores.

Clovr, a rewards start-up based in Massachusetts, offers merchant-funded rewards targeting customers based on their purchase histories, but by making the card-linked offers mobile, moves banks and merchants a step closer to the ultimate in rewards: a location-aware, POS-targeted solution.

Clovr enables card issuers to send text-based rewards based on the transactions of bank customers that opt in to the programme. Users click on web-based ads, then link the offer to the credit or debit card they agreed to use in the system. Card accounts are credited with discounts after the purchase, with confirmation coming via text.

Though many issuers will cut debit rewards across the board, others may offer the programmes to "premium customers" who maintain high balance levels or use multiple products. The changes could also usher in a renewed emphasis on the use of merchant-funded rewards programmes as a way for banks to continue offering programmes without having to pay their full cost.

But even with the uncertainties surrounding future funding of debit rewards programmes, there can still be a positive business case for many issuers supporting debit rewards because of the popularity of debit payments and the product's central role in customers' relationships with banks.

To date, US banks have largely failed to adequately promote their existing debit card rewards programmes to consumers, according to data from Discover Financial Services' *2010 Debit Issuer* study.

Pulse recently released additional findings of its *2010 Debit Issuer* based on a survey by Boston-based consulting firm Oliver Wyman Group conducted among issuers in February and March last year.

Pulse says 58% of issuers in 2009 still offered some type of rewards programme, up from 53% in 2008. However, only 17% of survey participants said they are considering launching a debit rewards programme in 2010, down from 24% last year.

The data shows that, in programmes where as many as 75% of bank customers were automatically enrolled in a debit rewards programme, as few as 9% actually registered on the rewards programme's website. Several issuers already have rewards tied to bill payment and other transactions, according to a recent report from Corporate Insight.

Broadening debit rewards programmes to cross-promote other bank products could be a key to success in the future. But the days of mass-market debit rewards are coming to an end, and free current account banking could be close on its heels. ■

2EMD: Where is the limit?

In the second in his series of articles looking at aspects of the Electronic Money Regulations 2010, which come into force in April, **Robert Courtneidge** looks at the potential for the conversion of paper voucher programmes to electronic money. Is the guidance clear, he asks, and does it even matter?

When the Electronic Money Regulations 2010 come into force on 30 April the gift voucher industry will breathe a collective sigh of relief as, at last, they will be able to move simply from paper to cards and not have to worry about the unintended consequence of being caught as e-money... Or will they?

Let's start with the exclusion wording in the definition of electronic money in the regulations: "Electronic money… does not include… monetary value stored on instruments that can be used to acquire goods or services only… under a commercial agreement with the electronic money issuer, either within a limited network of service providers or for a limited range of goods or services."

This definition stems from the lengthy preamble to the e-money Directive 2009/110/EC which states: "An instrument should be considered to be used within such a limited network if it can be used only either for the purchase of goods and services in a specific store or chain of stores, or for a limited range of goods or services, regardless of the geographical location of the point of sale.

"Such instruments could include store cards, petrol cards, membership cards, public transport cards, meal vouchers or vouchers for services [such as for childcare or schemes which subsidise the employment of staff to carry out household tasks such as cleaning], which are sometimes subject to a specific tax or labour legal framework designed to promote the use of such instruments to meet the objectives laid down in social legislation.

"Where such a specific-purpose instrument develops into a general-purpose instrument, the exemption from the scope of this directive should no longer apply.

"Instruments which can be used for purchases in stores of listed merchants should not be exempted from the scope of this directive as such instruments are typically designed for a network of service providers which is continuously growing."

In their recent consultation of October 2010, HM Treasury asked whether Financial Services Authority guidance, and case-by-case consideration, was the right approach to determining what constitutes a limited network.

"The government believes this is a more sensitive and responsive way to resolving uncertainty than hard-wiring criteria in legislation that may not be able to address ongoing developments in the market"
HM Treasury

After the consultation process HM Treasury concluded that: "The Government will adopt a pragmatic approach. It will require the FSA to publish guidance.

"The Treasury has asked the FSA to develop the guidance in consultation with the industry and the Treasury, based on general principles (such as the distinction between open loop and closed loop prepaid cards), supported by case studies and practical experience of different business models.

"This will narrow the scope for uncertainty from the outset, and in this way it is expected that a more responsive and growing body of knowledge will gradually develop to inform decision making on a case-by-case basis.

"The government believes this is a more sensitive and responsive way to resolving uncertainty than hard-wiring criteria in legislation that may not be able to address ongoing developments in the market.

"It will ensure that UK industry is not put at a disadvantage compared to other [EU] member states."

FSA guidance

So there we have it. It is now down to the FSA to give us guidance. But what have the FSA offered?

In its consultation paper issued in October 2010 it gave us its draft perimeter guidance and asked if the industry had any comments. The majority of responses were around the proposed guidance on the topic of limited networks.

In the FSA's policy statement (PS11/2) it says: "There were a number of comments about the clarity of the guidance on what is a limited network and the transitional arrangement for businesses that will no longer fall within the scope of our regulation.

"One respondent said that our guidance was less clear than that provided in Recital 5 of the 2EMD as our lists do not include common criteria. They suggested defining a limited network as a small closed loop… Respondents provided examples of business models that they believe fall into a 'grey area' in which it is uncertain whether the monetary value is e-money because of the limited network exemption."

The FSA's response was: "We note the various comments on limited networks. Our interpretation of the 'limited networks' exemption is, in our view, as definitive as possible within the limitations of the text of the Payment Services Directive [PSD], 2EMD and the European Commission's guidance in its 'Frequently Asked Questions'.

"The Commission does not allow [EU] member states to set fixed numerical or geographical limits for 'limited networks'. This means that the status of any particular product or scheme depends on the specific facts of the case, rather than there being a simple 'tick-box' approach.

"We have added more examples to improve clarity. We cannot include the terms

'closed loop' and 'open loop' because of the lack of clarity around their meaning."

All questions answered?

The FSA also published its amended perimeter guidance in this area. The Perimeter Guidance manual (PERG) answers a number of the frequently asked questions.

But, rather unhelpfully, the FSA put a caveat on all their Q&As: "The answers given in these Q&As represent the FSA's views but the interpretation of financial services legislation is ultimately a matter for the courts.

"How the scope of Electronic Money Regulations affects the regulatory position of any particular person will depend on their individual circumstances. If you have doubts about your position after reading these Q&As, you may wish to seek legal advice. The Q&As do not purport to be exhaustive and are not a substitute for reading the relevant legislation. In addition to FSA guidance, some of the Electronic Money Directive provisions may be the subject of guidance or communications by the European Commission."

And finally, just to be really helpful the FSA added: "It will be appropriate to take disciplinary measures against a relevant person where there is evidence of personal culpability on the part of that person.

"Personal culpability arises where the behaviour was deliberate or where a relevant person's standard of behaviour was below that which would be reasonable in all the circumstances at the time of the conduct concerned."

So, there we have it – a real grey area BUT to fall foul of the regulation, or at least to have the FSA take action, you need to have behaviour that was deliberate or at least willfully negligent.

Therefore, provided you take proper care when setting up your programme and use all reasonable efforts to ensure it is within the guidance for a limited network, it is highly unlikely enforcement action will ensue and you will be given time to address the issue and either move the programme into the regulated space of e-money or restrict it so that it ceases to cross the very grey line! ■

■ REGULATION

From the FSA's *Perimeter Guidance* manual

Q26. Are there any exclusions from the definition of electronic money that we should be aware of?

Yes. The Electronic Money Regulations have two express exclusions: the first covers monetary value stored on instruments that may be used to purchase goods and services only in the issuer's premises or within a limited network of service providers or for a limited range of goods or services (regulation 3(a)).

Q27. We offer branded prepaid cards which consumers can use to purchase goods in a particular shopping mall. Are we issuing electronic money?

Yes, it is likely that you will be issuing electronic money unless you are able to fall within an exclusion.

The most likely exclusion is if the card is only used to purchase goods and services in your premises or within a limited network of service providers. In our view you will only be able to take advantage of this exclusion here if: it is made clear in the relevant terms and conditions of the card that the purchaser of the value is only permitted to use the card to buy from merchants located within that particular shopping mall; and the facility to use the card to purchase goods and services outside this shopping mall has been disabled."

And under Q 26 above the following are referred to which were drafted in respect of the Payment Services Regulations 2009:

Q40. Which types of payment card could fall within the so-called "limited network" exclusion?

The "limited network" exclusion forms part of a broader exclusion which applies to services based on instruments that can be used to acquire goods or services only –

(a) in or on the instrument issuer's premises; or
(b) under a commercial agreement with the issuer, either within a limited network of service providers or for a limited range of goods or services...".

As regards (a), examples of excluded instruments could include:

(1) staff catering cards – reloadable cards for use in the employer's canteen or restaurant;
(2) tour operator cards – issued for use only within the tour operator's holiday village or other premises (for example, to pay for meals, drinks and sports activities);
(3) store cards – where the card can only be used at the store's premises (so where a store card is co-branded with a third-party debit card or credit card issuer and can be used as a debit card or credit card outside the store, it will still fall within the regulations).

As regards (b), this exclusion has two discrete limbs and so applies either to instruments that can be used only:

(i) within a limited network of service providers; or
(ii) for a limited range of goods or services.

In our view, examples of excluded instruments falling within (b) include:

(1) transport cards – where these are used only for purchasing travel tickets (for example, the Oyster card which provides access to different service providers within the London public transport system);
(2) petrol cards (including pan-European cards) – where these are issued for use at a specified chain of petrol stations and forecourts at these stations;
(3) membership cards – where a card can only be used to pay for goods or services offered by a specific club or organisation;
(4) store card – where the card can be used at a specified chain of stores at their premises or on their website.

Instruments for the purpose of this exclusion can include, for example, vouchers and other devices.

Q41. Do the regulations specify or define what a "limited network" is?

Neither the PSD nor consequently the PSD regulations provide any definition, conditions or criteria for determining what is a "limited network of service providers".

The issue of whether or not a "limited network" is in existence is ultimately a question of judgement that, in our view, should take account of various factors (none of which is likely to be conclusive in itself). These include the number of service providers involved, the scale of the services provided, whether membership of the network is open-ended, the number of clients using the network and the nature of the services being offered.

While a "limited network" could include transport cards, petrol cards, membership cards and store cards, we would not generally expect "city cards" to fall within this exclusion, to the extent that these tend to provide users with access to a broad range of goods and services offered by a city's shops and businesses. ■

Store cards a major force in Latin America

Retailers' store card programmes play a major role in Latin America's payments industry, since so many Latin American consumers do not qualify for bank-issued credit cards. But store card issuers are facing competition from banks prospecting for cardholders at lower socio-economic levels. **Robin Arnfield** reports

"The segments that Latin American store card issuers address are low-income consumers who may only now be getting bank accounts, and also the unbanked," says Alan Leach, director of UK-based market research firm Finaccord.

"This focus on lower-income segments is a primary factor driving the growth of banks owned by Latin American retailers and also banking joint ventures between banks and retailers."

In Argentina, Brazil, Mexico and Peru, for example, where a very large percentage of the population is unbanked, retailers charge extremely high interest rates to store cardholders without bank accounts, to cover default risks.

"Installment loans, where cardholders pay the principal plus interest over a set period, are common, as they are easier to understand than revolving credit," says Ali Raza, executive vice-president at US-based consultancy Speer & Associates.

Raza says that Latin American store cards generally have high charge-off rates.

"But if your interest rate is 70% and your charge-off rate is 20%, you can afford to make some losses provided you have a big customer base," he says. "Latin American store card issuers have perfected a model of underwriting loans and managing credit for customers who are outside the mainstream banking market, which works very well."

However, financial regulators in countries such as Brazil and Mexico are looking at curbing the interest rates charged by store cards and bank-issued credit cards.

"These rates are deemed to be excessive and over and above the actual cost and risks of providing credit," Raza says.

Banks

With their cards and in-store financing, Latin American retailers provide a way to bring unbanked consumers into the financial services arena.

"As they have massive databases containing their store-cardholders and consumer finance clients' credit histories, Latin American retailers often market additional financial services to these customers such as savings accounts through a captive (or subsidiary) bank," Raza says. "Examples include Mexico- and Central America-based Azteca Bank, a subsidiary of Mexican retailer Grupo Elektra, and Banco Ripley, owned by Chilean retailer Ripley."

Raza says Latin American banks are waking up to the opportunities of offering cards to low-income consumers.

"We're seeing Latin American banks acquiring retailers' private-label card portfolios in order to widen their customer base to lower socio-economic levels," he says. "In some cases, banks will change the branding on the private-label cards they buy and integrate the cards with their own brand.

"In other cases, banks will keep the private-label card brand separate from their own brand, for two reasons: lower-income segments are uncomfortable dealing with mainstream banks; and major banks don't want to dilute their brand through association with lower-income lending."

Raza warns that, as banks descend to lower socio-economic levels, they need to learn how to market cards to these segments, and manage credit risk.

"Banks need to learn from retailers and consumer finance providers how to do this," Raza says.

Richard Speer, Speer & Associates' chairman, says that the Brazilian government's plans to curb excessive interest rates charged by store card issuers may result in a growth in cards alliances between Brazilian retailers and banks.

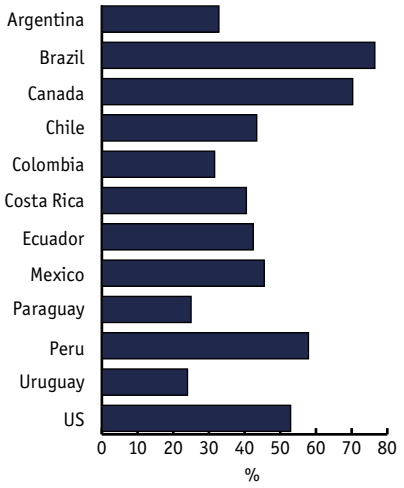
"There are already several joint ventures between the large retailers and banks, for example, Magazine Luiza with Itaú Unibanco, and Casas Bahia with Bradesco," he says.

Scotiabank

In January 2011, Bloomberg reported that Canada's Scotiabank plans to offer in-store consumer loans and credit cards through partnerships with Mexican retailers to unbanked and underbanked consumers. Scotiabank already has consumer-finance

■ DISTRIBUTION

Percentage of major retailers in North and Latin America offering payment cards split by country, 2009-2010



Source: Finaccord PartnerBASE for Retailer Financial Services

■ LATIN AMERICA

Agent banking

Through partnerships with banks, retailers play an important role in providing financial services such as loans, deposits, withdrawals, account-opening and bill payments to low-income Latin American consumers in a model known as agent- or correspondent-banking.

In this model, the retailer does not own the customer, but acts on behalf of a bank.

In Brazil, for example, large banks such as Bradesco and Santander supplement their branch networks by using agents such as post offices, convenience stores and retail chains to provide banking services on their behalf to their (bank account) customers.

Through its Bradesco Expresso network, Bradesco has 24,887 points of service at non-bank locations such as retail outlets, according to the World Bank's Consultative Group to Assist the Poor (CGAP) unit. ■

operations in Peru, Chile, Guatemala and the Dominican Republic, Bloomberg noted.

In February 2011, Scotiabank acquired Pronto!, Uruguay's third-largest consumer finance company. Pronto! offers personal loans and Visa-branded credit cards through 600 retail outlets, and has 200,000 clients.

Scotiabank announced in December 2010 that it planned to buy Nuevo Banco Comercial, Uruguay's fourth-largest private bank and its largest credit card issuer.

Cross-border retailers

A characteristic of large Latin American retailers is to operate in more than one country, and provide store cards in the countries where they have retail subsidiaries. Retailers in this category include C&A, Falabella, Ripley, WalMart, Carrefour, Cencosud, and Elektra. Through Banco Azteca, Elektra offers credit cards in Mexico, Panama, Guatemala, Honduras, Peru, Brazil and El Salvador.

"Carrefour issues cards through joint venture companies co-owned with BNP-Paribas's Cetelem consumer finance arm in Argentina and Brazil," says Leach. "In Brazil, Carrefour and Cetelem's joint venture is Banco CSF (Carrefour Soluções Financeiras), while their Argentine joint venture is Banco de Servicios Financieros, with 449,000 credit cards in issue in Argentina in September 2010."

Cetelem offers retailer co-branded credit cards in Argentina and Brazil under its Aura brand as well as in 15 other countries outside Latin America. In Brazil, it also offers co-branded MasterCards.

In March 2011, Dow Jones reported that major Brazilian banks including Bradesco and Banco do Brasil are interested in bidding for the 49% stake in Carrefour's Brazilian consumer finance arm held by Cetelem.

"Cencosud issues store cards in Chile, Argentina, Brazil and Peru, and has recently re-launched its loyalty scheme using the Nectar brand in Chile," says Leach.

> **"We're seeing Latin American banks acquiring retailers' private-label card portfolios in order to widen their customer base to lower socio-economic levels"**
> Ali Raza, Speer & Associates

In Chile, its home country, Cencosud had 1.39m active store cards in December 2010, according to Chilean banking regulator SBIF.

Until 2009, C&A owned a captive bank, Banco Ibi, in Brazil. Bradesco bought Ibi from C&A in June 2009, under a deal giving Bradesco a 20-year exclusive right through Ibi to provide private-label cards and Visa- and MasterCard-branded credit cards to C&A. Ibi's credit card operation had BRL1.288bn (US$780m) worth of receivables at 30 June 2010, up from BRL1.169bn a year earlier.

Ibi issues cards on behalf of other Brazilian retail brands such as Makro, Colombo, Clube Angeloni, Club Mapfre and Arco-Iris, as well as for C&A. According to Leach, Banco Ibi has around 20m private-label and Visa- and MasterCard-branded credit cardholders in total, the majority being in Brazil. C&A operates stores in Mexico, where its cards are also offered through Banco Ibi.

In the third quarter of 2010, Ripley saw borrowing on its Tarjeta Ripley private-label cards rise by 6% in Chile year-on-year and by 3.5% in Peru during the same period. Ripley signed up an extra 82,000 store cardholders in Chile in the third quarter of 2010, giving it a total of 6.1m cardholders in Chile and 2.3m in Peru.

As at September 2010, Falabella had 2.1m active CMR Falabella card accounts in Chile, 970,000 in Peru, 556,000 in Argentina, and 637,000 in Colombia.

Domestic-only store cards issuers

Leach highlights Peru's Supermercados Peruanos and Brazil's Lojas Riachuelo as major store card issuers which are only active in their home countries.

"Supermercados Peruanos issues credit cards through a captive bank, Interbank, which has around 20% of all the payment cards issued in Peru," he says. "Lojas Riachuelo owns a captive card issuer, Mid-

CHILE

Number and value of Chilean non-bank credit cards according to brand

Brand	Number of transactions				Transaction value (CLPm)				Annual total 2010	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Number	Value (CLPm)
Tarjeta ABC	110,390	97,480	110,804	119,258	5,812	5,944	7,382	8,452	437,932	27,589
Ripley	6,491,444	6,869,098	7,136,282	7,847,650	105,512	143,169	145,035	173,548	28,344,474	567,264
Jumbo	2,133,298	2,420,722	2,538,448	3,004,653	53,021	61,864	66,523	83,408	10,097,121	264,816
Más Easy	265,427	297,223	331,005	432,247	7,817	8,561	9,332	12,665	1,325,902	38,375
Más Paris	4,607,508	5,186,023	5,336,743	6,580,645	113,618	148,980	146,955	205,976	21,710,919	615,529
Tur Bus Card	330	16	0	1	7	0	0	0.01	347	7
Xtra	4,523	2,522	1,370	617	56	36	16	5	9,032	113
Visa Consorcio	18,718	15,970	17,120	17,842	417	410	411	490	69,650	1,728
Tarjeta DIN	827,928	964,574	1,071,482	1,351,864	31,054	41,190	45,037	63,260	4,215,848	180,540
Johnson's Multiopción	982,549	895,107	835,249	913,569	13,777	16,354	13,551	19,697	3,626,474	63,379
Tarjeta La Polar	2,367,482	2,562,396	2,615,847	3,090,822	218,658	250,016	353,438	249,757	10,636,547	1,071,869
CMR Falabella	18,241,272	16,006,029	13,439,993	12,155,045	402,862	361,618	302,047	308,536	59,842,339	1,375,063
Visa Promotora CMR Falabella	2,270,960	4,916,438	7,667,020	11,358,264	63,085	127,117	191,098	292,650	26,212,682	673,950
Presto	8,300,497	8,340,945	7,756,161	8,381,057	116,495	134,542	149,404	157,328	32,778,660	557,769
Overall total	**46,622,326**	**48,574,543**	**48,857,524**	**55,253,534**	**1,132,191**	**1,299,800**	**1,430,228**	**1,575,772**	**199,307,927**	**5,437,991**

Source: La Superintendencia de Bancos e Instituciones Financieras de Chile

way Financeira, in Brazil, and has 15m cardholders in total."

Other significant store cards issuers only operating in one country include Mexico's Chedraui, Coppel, Distribuidora Liverpool, and Grupo Famsa, all of which own captive banks; and Corporación Favorita, which issues its own payment cards in Ecuador.

Coalition store cards play important roles in Brazil and Argentina.

"Itaú Unibanco's Hipercard subsidiary is very strong in the Brazilian store cards market," says Raza. "Hipercard is a domestic-only coalition private-label card that is accepted at multiple Brazilian retailers such as WalMart and Bompreço, targeting low-income consumers."

Chilean grocery retailer Distribución y Servicio (D&S) issues Presto cards through its Servicios y Administración de Créditos Comerciales Presto unit, which can be used at 50,000 retail locations (including D&S-owned stores as well as other merchants) across Chile. In January 2009, D&S was acquired by Wal-Mart.

According to SBIF, there were 492,000 active Presto cards in issue in December 2010. Presto, like Ripley and CMR Falabella cards, can be used at selected merchants other than those of the parent retail brand.

The largest player in the Argentine store card market is Banco Galicia's Tarjeta Naranja (orange card) subsidiary. Originally a regional private-label card scheme, Tarjeta Naranja is now available with Visa, MasterCard and America Express logos. However, the majority of Tarjeta Naranja cards are only used in Argentina and do not bear a MasterCard or Visa logo. Around 4m Tarjeta Naranja cards were in issue in Argentina in 2010, with 100,000 Argentine merchants accepting the cards.

"Banco Galicia has launched Tarjeta Naranja in the Dominican Republic, where it has 300 retail partners, because the card brand has proved so successful in Argentina," says Raza.

Brazil

According to Richard Speer, Brazil is the most prominent store card market in Latin America. A third of the 628m Brazilian payment cards in issue in December 2010 were store cards.

At the end of 2010, there were 225.3m store cards in issue in Brazil, according to Brazilian credit card services trade association ABECS. In 2010 as a whole, there were 1.3bn store card transactions in Brazil, worth a total of BRL68.2bn.

Research carried out by Finaccord in 2010 found that 76.5% of retailers surveyed in Brazil had launched a payment card of their own, followed by 70.3% in Canada and 57.9% in Peru – the latter being a country where 60% of total cards in issue are store cards.

By contrast, only 24%, 25%, and 32% respectively of retailers in Uruguay, Paraguay, and Colombia offer store cards.

Finaccord surveyed 1,195 major retail brands in North and South America, and found that 634 offered their own payment card, thereby producing a region-wide penetration rate of 53.1%.

"A significant number [of retailer payment cards] continue to be issued either by the retailers themselves or by captive banks owned by those retailers," says Leach.

"This means there may be significant potential for conventional card issuers, including banks, to acquire the existing cardholder portfolios of retail groups by purchasing equity stakes in their captive card issuing operations."

Finaccord says 48.7% of retailer payment card programmes in North and South America are exclusively private-label.

"12% of retailer cards are affiliated exclusively to MasterCard and 10.4% make sole use of the Visa marque, while 23% can be used on multiple networks," says Leach.

By contrast, 0.3% of cards are branded with American Express and 1.6% with Cetelem's Aura marque. The remaining 3.9% of cards are linked to networks which are classified as 'other', such as Brazil's Dacasa and Tricard networks or Chile's CMR Falabella and Presto networks.

Cards in this latter category can be used at selected merchants other than those of the parent retail brand. ■

CHILE

Number and value of Chilean non-bank credit cards according to issuer*

Issuer	Number of transactions				Transaction value (CLPm)				Annual total 2010	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Number	Value (CLPm)
ABC Inversiones	110,390	97,480	110,804	119,258	5,812	5,944	7,382	8,452	437,932	27,589
Car	6,491,444	6,869,098	7,136,282	7,847,650	105,512	143,169	145,035	173,548	28,344,474	567,264
Cencosud Administradora de Tarjetas	7,006,563	7,903,984	8,206,196	10,017,546	174,462	219,405	222,810	302,049	33,134,289	918,726
Comercializadora y Administradora de Tarjetas Extra	4,523	2,522	1,370	617	56	36	16	5	9,032	113
Consorcio Tarjetas de Créditos	18,718	15,970	17,120	17,842	417	410	411	490	69,650	1,728
Créditos Organización y Finanzas	827,928	964,574	1,071,482	1,351,864	31,054	41,190	45,037	63,260	4,215,848	180,540
Efectivo	982,549	895,107	835,249	913,569	13,777	16,354	13,551	19,697	3,626,474	63,379
Inversiones SCG	2,367,482	2,562,396	2,615,847	3,090,822	218,658	250,016	353,438	249,757	10,636,547	1,071,869
Promotora CMR Falabella	20,512,232	20,922,467	21,107,013	23,513,309	465,947	488,735	493,145	601,186	86,055,021	2,049,013
Servicios y Administración de Créditos Comerciales Presto	8,300,497	8,340,945	7,756,161	8,381,057	116,495	134,542	149,404	157,328	32,778,660	557,769
Overall total	**46,622,326**	**48,574,543**	**48,857,524**	**55,253,534**	**1,132,191**	**1,299,800**	**1,430,228**	**1,575,772**	**199,307,927**	**5,437,991**

(*) Transactions correspond to purchases, charges for services contracted and advances made with the card both at the retailer and at affiliated but not related (ie, owned) businesses.

Source: La Superintendencia de Bancos e Instituciones Financieras de Chile

Processing power shift

Legislative changes in Russia have led to uncertainty around the future for card processors in the country. With rumours that MasterCard is building a processing plant in the country, **Louise Naughton** discovers how these changes are likely to affect the country's payments sector

Russia is widely considered a land of opportunity for the cards and payments industry. Is it any wonder with the country seeing total spending on payment cards increasing at a compound annual rate of 30.9% in the five years to 2009, as reported in last month's country survey *(CI455-456)*?

But it seems they will have a fight on their hands if they want to keep their foot in the door of this fast-moving and lucrative country. They also may need to work a lot harder than first envisaged to further penetrate the market.

Tension building

Friction between Russian authorities and the card networks stem from the planned switch to a national payment and universal electronic card system in 2012.

When the plans were announced in 2009 there was a general feeling that it was a step in the right direction. The Universal Electronic Card (UEC) is intended to replace all regional and national forms of ID and will provide a central database through which Russian consumers can access a wide range of services, from medical insurance to ATMs. From 2012, consumers will be able to link the card to their bank accounts and credit cards, and most businesses will be required to accept it.

But storm clouds gathered when Russian authorities tabled an amendment to the law that effectively brought a stop to Russian card processing taking place abroad. The changes are said to be designed to protect national security, but this would mean big changes for both MasterCard and Visa's operations in the country.

MasterCard chose to speak to *CI* to quash rumours that have been circulating regarding its strategy n Russia. A report by Russian news website *Vedomosti* cited a source "close to the system" and several bankers who were said to confirm that MasterCard is in the process of building its own processing centre at a cost of $20m, almost half its annual profits in Russia.

Ilay Riaby, country manager for MasterCard Russia, says he is currently investing in local infrastructure in the country but that this is independent of the proposed amendment by authorities to restrict processing on a geographical basis. He dismissed claims that MasterCard is in the throes of building an isolated processing centre.

"I would have kept silent about it right up until the very last moment but unfortunately there was a leak that we are doing something in Russia," says Riaby.

"What we are building in this country would not let me cut off my activity within the geographical borders of Russia. It is true that we are investing in a local facility but this forms part of MasterCard's global infrastructure.

"The products we will be making available in Russia will not just be made available to Russian consumers but for existing and potential customers all over the world."

A payments iron curtain

Riaby believes the provision to restrict domestic processing is one that will prove harmful to the market as a whole.

"When this iron curtain comes down and prevents information from flowing freely in and out of the country, Russian consumers will be separated from quite a few services that are not available in Russia today and that is my main concern," says Riaby.

He believes the reason for the rapid pace of growth in the Russian cards market is attributable to the fact that the products offered in the country are fully integrated into the global payments infrastructure.

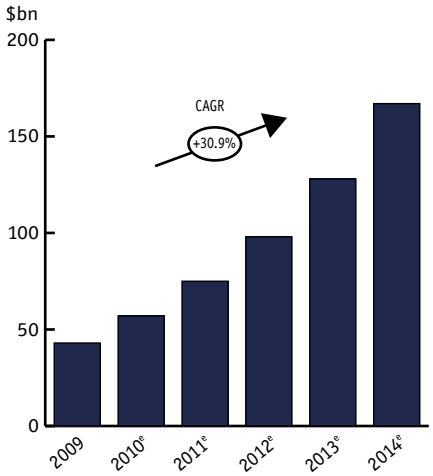
In a further bid to distance his strategy in Russia from the rumours, Riaby has echoed Visa's stance in that he has a tough decision to make if the proposal is to become law but it will only be made once Russia's national system law has been passed and its ambiguities have been ironed out.

Yuri Topunov, head of credit cards at CitiBank Russia, agrees with Riaby and says the restriction on processing will have a negative impact on the Russian payments market. He believes these negative effects will "heat up" as time goes on but will hit the card associations first.

"If the law says the transaction data cannot leave Russia, MasterCard and Visa will have to decide whether they are going to build processing houses, partner with other companies or disconnect with the Russian market," says Topunov. "If they do decide to build processing centres, the heat that the card associations felt will then fall onto the banks as they will be looking to recover costs. They will probably bill the banks for this because banks are commercial organisations, and we will have to cover those costs."

GROWTH PROJECTIONS

Russia – projected size of Russian payments cards market (2009-2014e)



Note: Based on five-year average CAGR (2005-2009) projected forward Source: *Cards International*

This may then lead to added costs to the end-consumer – a harmful and potential barrier that could impede adoption of card and electronic payments in the country.

Citibank Russia is one of the banks that joined Visa and MasterCard to lobby against the amendments to Russia's national payments law. It is difficult to determine what their chances are in getting the restrictions removed but there is optimism among the industry that the benefits of the cards schemes' international operations will be taken into consideration.

"We are being heard and we highly value the fact we are able to talk to the lawmakers and get our message across," says Riaby.

"I sincerely hope that the country I live and work in will take the path that will let it become more of a developed market." ■

Competing business models

The role of the programme manager is evolving as fast as the prepaid industry itself. **Jane Cooper** looks at this bustling market and finds out what programme managers need to do to stand out from the crowd, and where they can really add value

Life is getting tougher for programme managers as they strive to define their role in the rapidly-evolving industry of prepaid. Their position is being squeezed by other players – like processors or bank identification number (BIN) sponsors – who are now able to perform the tasks a programme manager did in the early days of the industry.

The prepaid value chain is already cluttered with companies all jostling for a slice of the pie and now the pressure is on for programme managers to demonstrate what they add to the process.

Mark Beresford, a director at Edgar Dunn & Co, says he has noticed a change in the role of programme managers in the last year or so. He notes that in the formative years of the prepaid industry, programme managers acted added value by making introductions and contractual arrangements for their clients. "But things have moved on," he says, adding that it is now more difficult for programme managers to show they add value.

In the past, when there were few companies with specialist knowledge of prepaid, programme managers stepped in to bring parties together and coordinate projects. It could be argued, however, it is hard to prove what tangible value this function adds to the process, and that is why this part of the industry is, according to Beresford "under pressure".

The elements that go to bringing a prepaid programme to market have evolved with the rapid transformation of the industry.

"Clients are more sophisticated and knowledgeable of what is involved and more capable of doing it themselves," Beresford says.

He adds that, when issuing prepaid cards today, the resources and technical components are more likely to be outsourced to specialist providers, which allows the client to act as the programme manager.

"The specialist providers have simply got better at what they do and they are able to be more flexible and accommodating to meet the needs of the client," says Beresford.

Definition

There is great variation in the types of company that describe themselves as programme managers, with a wide range of services that can fall under the general definition of what a 'programme management' actually is.

Some programme managers are consultants, advisers and coordinators, others are BIN sponsors and have an e-money licence, while some are specialist prepaid processors that also have the capability to manage the prepaid programme for their clients.

With this range comes different approaches to running a business in the prepaid world.

One approach is that of PrePay Solutions, which does not have the need for a programme manager as it performs many of the elements of the prepaid process itself.

The company, owned by prepaid voucher provider Edenred and MasterCard Worldwide, is described by its managing director Gilles Coccoli as a "one-stop shop", which provides programme design, processing, BIN procurement among other services, and is an integrated prepaid-focused company.

"The space for programme managers is getting squeezed a little," Coccoli says.

The role of what the programme manager does is getting blurred between the lines of what BIN sponsors and processors are able to do. Also, many clients feel they are also able to manage their own prepaid programmes, Coccoli adds.

The role and definition of what a programme manager does is evolving along with the nature of the prepaid industry.

Beresford says: "As the prepaid industry evolves the terminology of 'programme manager' will equally evolve.

"Clients will become more familiar with processing and issuing services as distinct service offerings and will prefer to contract with those providers.

"Card production, compliance, cardholder management and risk management, for example, will be services that the processors and service providers are able to provide and the actual programme management could be retained in-house by the client."

Some would go as far as to say the programme manager is a dying breed and in many cases they are no longer necessary. Beresford points out that a sophisticated brand or customer service company is more than capable of acting as the programme manager by managing the contracts of the different specialist suppliers.

"The less experienced, perhaps smaller clients will need more assistance in managing the different components in the value chain," says Beresford.

Under pressure

Ken Howes, a payments strategy adviser, says a lot of the pressures on programme managers are rooted in the economics of prepaid itself, and the difficulty of getting a business case for a prepaid programme.

If a client wants to create a programme, it typically has to involve so many other players who all want to take their cut. If the role of the programme manager can be combined with an e-money licence holder, or processor, then that means one of the parties – and its associated costs – can be removed from the chain.

It is difficult for a prepaid programme to be profitable, which in part is due to the low volumes of transactions on the cards and the relatively high costs of processing. With the margins being squeezed, there is more pressure on the programme managers to demonstrate what they will add to the programme.

Large companies, with a big brand and many customers may also have the expertise to project manage their programmes, and may prefer to do all the tasks of a programme manager in-house.

This scenario makes it difficult for the programme manager to score this kind of client, but the programme manager could also lose out at the other end of the client spectrum.

The more inexperienced issuers who are more likely to need programme managers, are less likely to have the scale and volume required to make the prepaid programme a success, and bring the profits that the programme managers need to survive.

Coccoli says many programme managers have been funded by venture capital and after the initial years of investment, many companies are now exhausted – both financially and strategically.

That, however, does not necessarily have to be the case as many in the industry still struggle to put their finger on what actually makes

a prepaid programme a success.

Beresford says it is possible for a programme to be profitable with a portfolio of 10,000 cards. What is important, he says, is to create a compelling proposition for the cardholder, and target what drives them to use the card rather than use cash or their bank account.

Executives, however, are still finding a way of putting this into practice and creating a winning formula. Coccoli comments that it can be a mystery predicting which programmes will or won't be successful.

"All of us have a lot of unsuccessful programmes and a few that are supporting the whole business," he says.

Advanced Payment Solutions (APS) CEO Rich Wagner says it is important to be selective in deciding which programmes are feasible and worthwhile to take on. Wagner, as the first programme manager to enter the UK prepaid market, has built up his reputation over approximately five years and in that time has noticed a number of changes.

In the formative years of the prepaid industry it may have been tempting for programme managers to take on projects because they offered volume and would raise their profile as well as that of the prepaid industry in general.

Wagner points out, however, that the volume of programme is only worthwhile if each incremental marginal account that is added also makes money.

"I think finding the distribution channel that is going to provide scale and profit back to the programme managers – a win win for them and the channel partner – is key," he says.

The preliminary research and assessment in the initial stages of working with a client is crucial for programme managers so they can really understand the potential programme and its distribution. It is also an opportunity for the programme manager to consider if they really want to take on the client.

"We have never done a programme where we did not feel that it was going to generate profit," Wagner says.

Wagner is candid in how it has not been easy in the prepaid market for that to happen. He says his company has had its first profitable year, and is the first programme manager to do so in the five years since prepaid was introduced to the UK. He comments this is not a good reflection of the UK prepaid industry in general.

Changing faces

There have been a number of factors that have made it difficult and now the types of business that programme managers seek out has changed in recent months. Where there might have been a lot of interest in consumer programmes previously, the programme managers are looking for the clients with the distribution.

"Distribution is the key factor – gone are the days of just selling on the internet," says Beresford. "Whether it is through a county council payroll or benefit card programme – those types of programme have been relatively successful and self sufficient," he adds.

These government prepaid programmes are becoming more attractive for programme managers. Howes argues that the consumer cards are a more difficult proposition as there are limited segmentation opportunities.

Many consumers already have payment cards that are issued on the Visa and MasterCard networks and so there is no compelling reason at the moment for them to have a general-purpose prepaid card.

For the segments of the population that do not have bank accounts or payment cards – the teen market, for example – the challenge is for the programme manager to achieve the scale and volume that makes it worthwhile.

"The key to success in being a prepaid programme manager is to have the capability to support and manage very specific types of programmes without relying on general purpose," says Howes.

For a programme manager to be effective they need to demonstrate that there is a specific added value. "Today, the more successful programme managers are able to clearly demonstrate value through a specific service or 'value add' functionality to the programme," says Beresford.

"This could range from a number of different service offerings, such as loyalty, fraud and risk management or simply contract management."

Some of the value added services could come through the marketing or the analytics of such programmes.

Wagner's view is that in this changing environment it is important for a programme manager to have the capability to deal with the range of clients that are likely to need a prepaid programme.

Wagner and APS have worked with a range of clients – from those with a large distribution and experience and who know what they want, to working with smaller clients who may need the programme manager to do everything for them.

"You have to accommodate that range of experience," says Wagner.

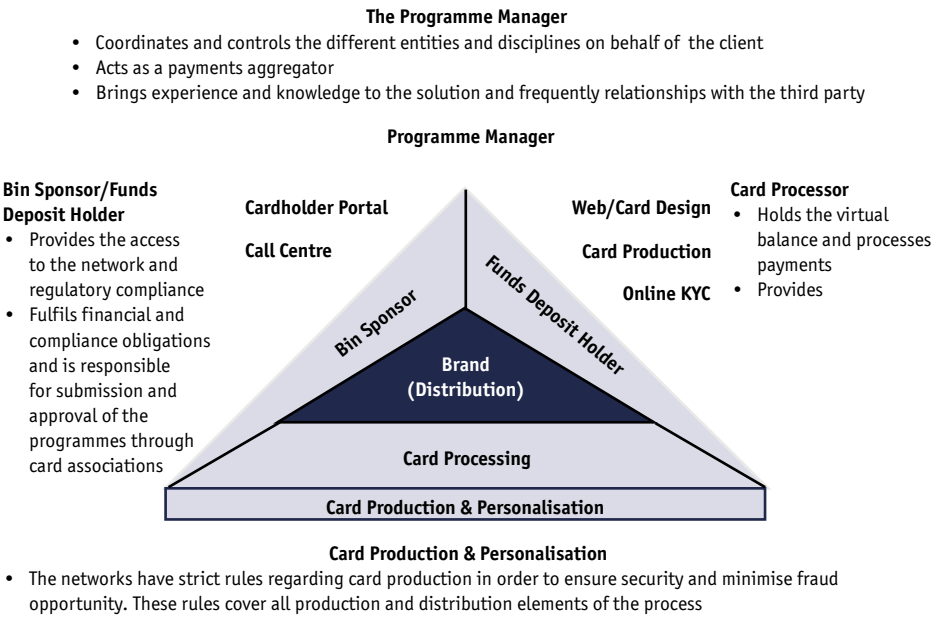
One of APS's strengths, he adds, is that it is able to identify what the client actually needs, rather than what they think they want when they first come up with an idea.

Wagner says one client wanted a prepaid card but when an assessment was done of what the needs of the end user actually were, it turned out the client did not need a card but rather a virtual bank account that offered a bill-payment solution.

Wagner adds that recent changes in the industry mean that companies such as his are finding more opportunities in Europe (a growing trend among programme managers). As the industry continues to evolve, so too will the role of programme managers. ■

WHERE DO PROGRAMME MANAGERS FIT IN?

The standard prepaid card processing model



Source: Polymath Consulting

The beginning of Big Brother

Prepaid cards are increasingly being used to deliver government benefits but, asks **Jane Cooper**, how far can this distribution mechanism be used to monitor people's activities? Privacy campaigners insist the ability to monitor – and control – transactions infringes on civil liberties

Being able to view the digital trail of spending is just one of the advantages for government bodies that use prepaid cards to disburse benefits.

With welfare being paid out on plastic, governments also have the ability to monitor – and control – transactions so that they can ensure that taxpayers' money is being spent appropriately. Privacy campaigners, however, are pushing for a public debate on how spending is controlled and what data is collected.

The issues surrounding such prepaid programmes threaten to move away from the industry's talk of cost-cutting and efficiencies to the more contentious topic of civil liberties.

The campaigners have a sense of urgency because they fear that because so much collection and monitoring of transaction data is already possible, such actions could be the first steps on a slippery slope to an Orwellian scenario of a Big Brother state that is all-knowing and is able to oppress its citizens.

With such fears seeping into the public consciousness, the bad press that issuers could receive over its benefits cards threatens to damage the reputation of the industry and the success of these prepaid programmes.

The parties are fighting to strike the right balance in the dilemma, between preventing the misuse of government funds versus the misuse of personal data, and the degree to which welfare recipients should be subject to scrutiny.

Monitoring and analysing the data is just one of the advantages of government benefit prepaid programmes. Government agencies have also introduced the cards because they can be reloaded, with the option of drip payments rather than a lump sum.

Also, since many of the low-income recipients of the benefits often do not have a bank account, the cheques have to be cashed, which is riskier than a card that can be reported lost or stolen. And benefits fraud is less likely to occur because government agencies are now able to analyse transaction data to spot unusual spending patterns.

Such benefits programmes are an ideal application of the prepaid model and the potential business is large for those in the cards industry. Markets such as the UK were estimating benefits payments totalling £165bn ($267bn) for 2009-2010 and other countries are also looking to convert their benefits programmes to plastic.

The types of programmes include payments for social care, asylum seeker benefits, housing benefits and allowances for young people leaving care. Citi is one such issuer to launch a number of prepaid products for these types of welfare payments.

In March, the UK's Department for Work and Pensions (DWP) announced it had chosen Citi for the contract to disburse welfare payments by card. According to the government department, welfare payments by cheque had dropped to a low level, and now only account for around 2% of all payments.

The DWP estimates it now costs the taxpayer around £30m to process cheque payments, which are also vulnerable to fraud that costs around £5m a year.

Citi has also won a contract to supply various benefits payments programmes through local councils in London, including the London Borough of Havering, where prepaid cards have been introduced to replace cash and cheques for benefits.

Such programmes are being used by governments around the globe, with ABN Amro introducing one as far back as 2004 and a similar scheme for a prepaid municipal card that is issued by Poland's PKO Bank Polski.

Monitoring and control

The programmes are often cited as a perfect application of prepaid cards.

While the monitoring and control of transactions is given as a main selling point of the cards, many campaigners are concerned this could be the beginning of governments efforts to extend mass surveillance of its population.

The justification that public money should be monitored clashes with the idea that welfare recipients have the same right to privacy – and choice in spending money – as everyone else.

Issuers can enforce certain spending restrictions with the cards. For example, Italy's Carta Acquisti social benefits card, which is provided by Poste Italiane, has certain restrictions. The card can only be used at certain food retailers and can be used to pay utility bills, but it cannot be used at ATMs to withdraw cash.

In the US, many welfare payments have now migrated to Electronic Benefit Transfer (EBT). Controversy has broken out about the degree to which the transactions should be limited.

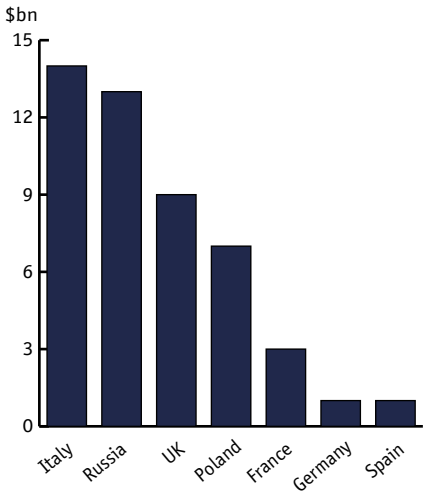
In February, the *Boston Herald* reported that in 2010 more than $44,000 was spent by Massachusetts's welfare card recipients in McDonald's. Even more sensational were news reports of benefits cards being used to withdraw cash at ATMs in casinos and strip clubs, which prompted calls for greater restrictions to be put on the spending on the cards.

It is not just about preventing playboy lifestyles at the taxpayers' expense but an anti-obesity drive has given rise to calls for buying soft drinks to be banned on the cards. Senator Mike Carrell has introduced a bill, which had its first reading in January 2011, to the Senate to limit the spending on EBT cards.

But such calls have been met with an angry

GROWING AMOUNTS TO KEEP TABS ON

Government spend on prepaid, 2010



Source: MasterCard

response by those who argue it is an effort to control the poor and subject the majority of innocent people to unnecessary scrutiny for the sake of a small minority who are abusing the system.

In the case of food benefits, for which there are an estimated 38m recipients, the traditional food stamps have now been replaced with the Supplemental Nutrition Assistance Program (SNAP).

A spokesman for the Food and Nutrition Service, which oversees the programme, tells *Cards International* that the EBT cards has given authorities a greater ability to monitor the misuse of the benefits as well as the ability to identify retailer fraud.

"Trafficking, the illegal sale of SNAP food benefits for cash, has decreased significantly over the past 15 years, which is largely attributed to the implementation of EBT," the spokesman said.

Ensuring food benefits are spent on food was also the intention of the Azure card, introduced to disburse allowances for asylum seekers in the UK. The card was designed to limit spending to certain supermarkets and chemists.

Guy Herbert, general secretary of NO2ID, a UK organisation that campaigns against the 'database state', argues this is an example of practices last seen in Victorian times. Others argue that the limiting of spending is another way of stigmatising the poor and assumes that the cardholders are incapable of spending their money wisely.

Herbert agrees it is valid to restrict certain purchases to ensure funds are spent on what they were intended, but "there is a distinction between restricting a payment to a particular use and monitoring how a card is used".

Whose money is it?

The danger is, because technology allows this monitoring and it is already possible to collect so much data, this information may be used in more sinister ways in the future.

However, each country has its own data protection and privacy laws that aim to prevent transaction data from being misused. For example, the US Food and Nutrition Act of 2008 outlines how state agencies can collect sensitive information and the safeguards that must be employed to protect individuals' privacy with the SNAP programme.

Ian Makgill, managing director of Ticon, which has worked on a number of benefits programmes, argues a distinction needs to be made as to whether the funds belong to the state or the individual.

In the case of general allowances, such as a state pension, the individual is free to spend those funds how they please. But if the funds are for a particular purpose, the government has the right to enforce that.

"Where it is the client's funds, no institution should be viewing the transactions," says Makgill. "Card issuers are clear about the division about what are state funds and what are client funds.

"Where it is client funds they are not providing that information and government is not requesting it. Where the government owns the funds, the client is aware in advance that their spending will be monitored.

"If a council becomes aware that clients are spending housing benefit money on something else, I would want to be certain the council was doing everything it could to prevent that," Makgill adds.

"There is the opportunity for a Big Brother to evolve, but when you understand who owns the funds then that perception changes."

Makgill compares it to the example of an employee spending on a company's expense account, where they would expect their employer to check how the card has been used.

> **"If a council becomes aware clients are spending housing benefit money on something else, I would want to be certain the council was doing everything it could to prevent that"**
> Ian Makgill, MD, Ticon

The value of data

Herbert argues, because it is ultimately the taxpayers' money that is funding the benefits, there needs to be a public debate about how the spending is limited, as well as what data it is necessary for governments to collect from such cards.

He argues government agencies collect as much data as they can because it is technically possible.

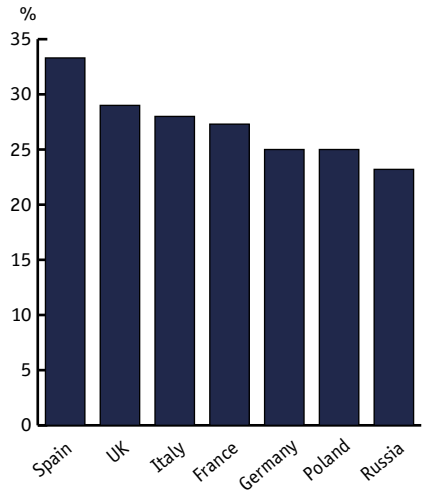
"There is a terrible tendency to collect information because it can be done and is seen as useful," Herbert says, but adds this trend could be dangerous in terms of data protection and privacy.

Kevin Haggerty, a professor of sociology and criminology at the University of Alberta, and an expert on surveillance, points to the potential uses of such data.

The data could be used for risk profiling or to run predictive profiles of what people are buying and how that data could be used to predict other types of behaviour. It is possible, Haggerty says, that governments could sell this data to a third party. He also points to the security risks of there being so much data on people and the potential breaches and likelihood of identity theft.

ROOM FOR EXPANSION

Percentage of government disbursement currently made on prepaid cards



Source: MasterCard

Haggerty adds this issue is part of a long history and general trend of subjecting the poor to greater scrutiny and regulation, compared to other more well-off segments of society.

"These cards provide a new avenue for that heightened scrutiny and monitor of the poor in a different way to other groups," Haggerty says.

Herbert of NO2ID argues: "If somebody is in a position of losing a certain amount of autonomy, as a matter of principle they should not lose any more than is absolutely necessary.

"It is something that has to be discussed and addressed in a public debate.

"Everyone is entitled to privacy and all the technology deployed should have the maximum privacy and minimise the transfer of information – only the information necessary to carry out the transaction at issue."

As campaigners are pushing for the debate to move into the public sphere, card issuers involved in such programmes could find themselves at the centre of a public relations storm.

For now, it is only the fear of what could happen with the potential of such programmes that is at issue, but still, the industry could do more to reassure its end users that it takes privacy issues seriously.

In addressing such issues, the industry has the challenge of striking the perfect balance between ensuring government funds are not misused, but an individual's personal transaction data is also not abused. ■

Unbundling gathers pace in Europe

One of the key parts of implementing the Single Euro Payments Area – unbundling – is being implemented as the European guidelines intended, although some of the consequences may be different to what was first envisioned, writes **Jane Cooper**

Unbundling, where the card acceptance brand or scheme governance is separated from the processing, authorisation, clearing and settlement of transactions, has been occurring across Europe. The aim of unbundling is to increase transparency so that the pricing of the different elements are separated out. The vision of this separation was to increase competition and encourage other players to be able to compete for parts of the services that were traditionally bundled up into one package.

Although the scheme governance has been unbundled from the processing, a card acceptance brand can still provide the processing as an additional service, but it cannot be mandatory and the client has to be free to choose to go to another provider.

For example, a payment on Portugal's Multibanco network could be accepted under the terms of its brand and scheme governance, but the actual transaction could be processed using a different infrastructure, such as Visa Europe, for example.

With SEPA should come standardisation and interoperability so that, in theory at least, a player would be able to compete for the same business regardless of the domestic market as the countries in Europe are all viewed at the same level, as a single market.

Gerard Hartsink, the chair of the European Payments Council (EPC), told *CI*: "The separation of schemes from processing entities has many dimensions comprising operational, informational, financial or accounting, commercial and legal separation."

He goes on to outline the guidelines laid out by the EPC in the SEPA Cards Framework (SCF).

"A SCF compliant card scheme is one that allows unbundling of functions while applying the same pricing per card product to national euro and SEPA transactions of the same type.

"Separation of SEPA card schemes' brand governance and management from the operations that have to be performed by service providers and infrastructures under these SEPA schemes is mandatory. A card scheme may offer additional services – eg, processing services – but their usage cannot be mandated.

"Scheme rules may not require as a condition of participation that any particular provider of processing services – eg, network management, authorisation switching, clearing, settlement – be used."

Luke Olbrich, group head of debit at MasterCard Worldwide, says that in the past if a player wanted to sign up to accept a national debit scheme in Europe they were also forced to sign up for the transactions to be routed through that scheme's processing network.

"That is no longer the case," says Olbrich, who adds that unbundling is now a reality in the European payments landscape.

In 2009 when the guidelines regarding unbundling were revised, discussions about unbundling were really theoretical, but now they have become a reality as many national debit schemes have adjusted their strategy so that they are compliant with the SCF.

The pace of change

There are differences of opinion about whether the unbundling has been progressing at the same pace as was first intended.

When asked how far the unbundling has been implemented, Hartsink says: "The EPC received letters from individual schemes that say they are, or are planning, to become SCF compliant. We cannot confirm if all the card schemes are already fully SCF compliant."

A Visa Europe spokesperson says that unbundling has not been easy: "European schemes provide freedom of processor choice according to their operating regulations.

"However, in many markets the reality is that it is still very difficult for banks to disengage from the incumbent national processor.

"Many domestic features and requirements are often hardcoded through the transaction chain, and the cost and effort taken to disentangle from old systems can be quite high. An increasing number of multi-country banks are looking for solutions that can serve their business in all markets where they operate."

Norbert Bielefeld, deputy director of payment systems for the European Savings Banks Group (ESBG) says: "The progress has been less substantial than some could have hoped and there are several reasons for this."

He added that because of competition legislation the EPC is limited in its role, as it cannot enforce the guidelines.

Bielefeld also says, however, that in the future he foresees that there will be greater unbundling, which will come from market forces.

The enforcement of the guidelines or the oversight would have to be done by a body from outside the payments industry – such as a regulator – because if the EPC intervened with the actions of some of the payments companies in Europe, it could be accused of acting in an anti-competitive manner.

For now the industry is relying on each of the players to comply with what has been laid out in the SEPA Cards Framework and their own benchmarking of whether their practices comply with the standards.

This means that many players could drag their heels over the implementation of the guidelines, while others have seen what is required of them and have taken early action to get ahead of the field in the new SEPA environment.

Feeling the effects

Some of the effects of unbundling have already taken hold. For example, Eufiserv, the European ATM network, responded to the guidelines of the SCF and separated out its processing business and created Trionis, which is now a separate interbank processing network that is separate from the Eufiserv ATM acceptance network.

There were fears that the unbundling would mean that many domestic debit schemes would die off, but there are some schemes that have successfully unbundled – such as Multibanco – and remain in Europe as standalone businesses that is now in a position to seek business beyond their domestic borders.

There are, however, national schemes – such as the Netherlands' PIN network – that are being phased out and replaced with the SEPA-compliant Maestro scheme.

Olbrich points out that in terms of unbundling, MasterCard has always unbundled and separated out its scheme governance from the processing of the transactions so that its customers have the choice of how to route the transactions.

However, MasterCard has stipulated that

there is at least the capability of processing on the MasterCard network as a fall-back option, just in case the other processor was unable to settle a payment that came from a card issued in Bora Bora, for example.

Visa Europe also says that unbundling is a reality for its customers.

"Members of Visa Europe are entirely free to choose their network and processor for domestic and intra-European transactions. Visa processes 40% of all European Visa transactions. The remainder is processed by various domestic or international commercial processors.

"Of course it is our ambition to grow our processing business, leveraging the €500m ($723m) investment that we have made in our own bespoke European switching and clearing and settlement platform.

"However, the market is competitive and it is up to the banks to pick their processors of choice."

One of the consequences of the unbundling in the European payments market is that it has opened up more processing opportunities to Visa Europe and MasterCard. This perhaps was not one of the intentions of the SEPA vision, and there have been fears that rather than creating competition with numerous new players, the market could be dominated by the two international payment brands.

"Across Europe we are doing the minority of processing," says MasterCard's Olbrich, who adds that MasterCard's dominance in this space is a common misconception that has been driven by the fears of national schemes, which were concerned they would lose out as a result of unbundling.

"We are the minority of transactions in Europe," says Olbrich.

Many retailers feared they would no longer have access to the low-cost utility of the national schemes due to the concerns that unbundling of the card networks would kill off national debit schemes.

Olbrich argues, however, that many retailers are happy to be free of the agreements that locked them into both an acceptance scheme and a processor.

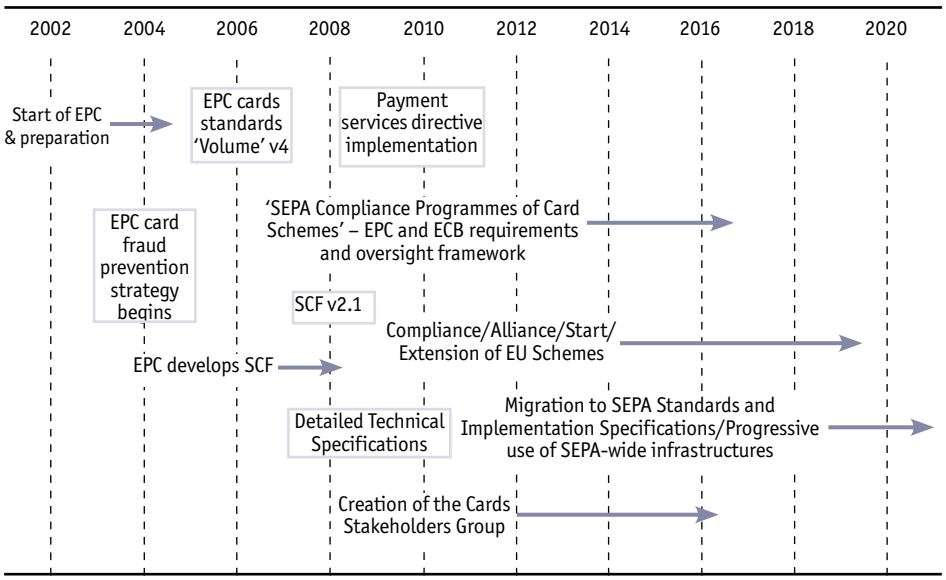
For large retailers that have operations across Europe, the SEPA environment is particularly advantageous as they can sign up to the Maestro infrastructure which is pan-European, which means they can use the same network for both domestic and cross-border transactions.

"Retailers are driving the SEPA business," says Olbrich.

He argues that it is the retailers who are opting for Maestro. This is not just in terms of acquiring and processing, he says, but also on the issuing side as SEPA has also enabled non-banks to issue credit cards, and retailers are increasingly choosing to issue on the MasterCard network.

■ **TIMELINE**

SEPA card master-plan



Source: Cartes-Bancaires, Feb 2010

When asked who the winners of the unbundling in Europe are, Bielefeld said: "In the short term, probably the processors."

This may not be one of the intended consequences of the SEPA guidelines as the main beneficiaries of the SEPA vision were perhaps meant to be retailers or consumers.

Fees going up?

Perhaps another unintended consequence of European intervention in the payments industry is that prices may have actually gone up.

As part of another aspect of unbundling in Europe, Visa and MasterCard have pledged to unbundle all the pricing elements so that acquirers have to be transparent in all the aspects that make up the merchant service charge (MSC).

Visa and MasterCard were committed to make these changes from January 2011 so that all the costs – of card scheme, card programme, card type – were unbundled and the acquirers no longer blended the MSC into a single price that also covered the acquiring service, marketing and supply of card acceptance equipment.

One of the consequences of this, says Luke Purser, a senior consultant at PSE Consulting, is that acquirers are now beginning to pass on more fees to the merchants when they may have taken a loss on certain products.

"Historically, the acquirers would have absorbed those fees," says Purser. "It is possible that rates have actually gone up."

While there may be more transparency in how the fees arrive, this does not necessarily mean that merchants have the freedom to move acquirers.

Purser notes that it is only the largest retailers – at the top end of the market – that are in a position to negotiate with different acquirers for better rates for each of the elements of the merchant service charge, which have now been broken down into different parts.

In the case of the average small and medium enterprise merchant, however, "they want cheap prices, but they only want one acquiring package", says Purser.

He notes that despite the transparency and options that unbundling has brought about, it is not necessarily practical for merchants to make use of the choices that are now available to them.

It is still unknown what the long-term consequences of unbundling will be and whether the SEPA vision will be very different from the realities on the ground.

The Visa Europe spokesperson says: "Legal separation of scheme management and processing does not contribute to a truly competitive processing market. In some markets there is still a long way to go before true open competitive landscape will be a reality. It's a slow process but in the longer run, banks will opt for what makes economic and business sense."

How the competitive landscape will develop under the SEPA initiative is still open for debate. Whether the unbundling of cards associations has created opportunities for a proliferation of players to enter the market, or whether more pan-European consolidation will be inevitable and the European payments market will be dominated by a small number of players remains to be seen. ■

Brazil's retail bubble could burst

As Brazil's economy booms, personal debts are rising, and retailers are issuing vast numbers of credit cards in order to further boost footfall into stores. The consumer debts may stall the country's progress, writes **Sheena Rossiter,** but the government is now starting to act

There has been lot of talk lately of Brazil's so-called credit bubble, and that the bubble is set to burst.

Some have even gone as far as saying that Brazil's mounting consumer debts may be the root of the problem and could stall the country's progress right in its tracks. Brazil's Central Bank expects 28% of Brazilians' disposable income will go to serving debts by the end of the year; more than double other developing nations where less than 10% of household incomes are dedicated to paying off debts.

Credit now makes up nearly 50% as a percentage of GDP, up from 24% in 2003 at the beginning of the Luiz Inácio 'Lula' da Silva administration which elevated around 40m Brazilians from poverty. The expansion of getting the new middle-class away from cash, cheque and boletos (a common invoicing method of payment used in Brazil) and on to electronic payments has been growing quickly.

And even with all this talk of a credit bubble forming and potentially bursting, it hasn't stopped banks from wanting to issue more credit cards. This is especially true in the retail market where the so-called 'hybrid' card has been born.

Looking at the facts

The $190bn credit card industry in Brazil continues to grow. By the end of last year, there was a total of 628m payment cards in circulation in Brazil, with 36% of those cards (225.3m) having been issued in the retail market space.

The figure is a 7% increase from 2005 when store cards amounted to 29% of the cards in circulation in the country.

According to the Brazilian Association of Credit Cards and Services for Businesses (ABECS), an association that oversees the electronic payment market in Brazil, an estimated 661,699 cards were issued in Brazil in July 2011. It is estimated about a third (238,725) of those cards were issued in the retail sector.

In comparison to the same period a year ago, there was about a 12% increase in the number of retail payment cards issued. Retail cards took in an estimated 118,536 transactions that totalled approximately BRL6.641m ($4.27m) in July – making for an estimated year-on-year increase of 13% in transactions and a 20% increase in spending.

Brazil's emerging middle class, more commonly known as classes C, D and E in Brazil's five-tiered A to E income ranking structure now has access to credit which was once only available to the country's elite. Retail-issued credit cards that offer benefits to their consumers are popular with this segment of the population.

> **"The emerging middle-class is going to make a difference in the coming years in Brazil. They are the new retail market"**
> Ricardo da Cruz Barreto, Carrefour Financial Solutions

There was no shortage of talk about Brazil's booming retail market at the Cards & Payment Identification 2011 conference held in May in Brazil's financial hub, Sao Paulo.

"Those who know how to give credit to the C, D and E Classes, have the opportunity to have gold in their hand," says Denis Piovesan, commercial director of cards at Banco Losango.

Retailers are looking to gain market share among Brazil's new consumers and are trying to keep customers loyal by issuing payment cards as more of the Brazilian population moves away from paper and onto plastic.

According to an ABECS survey that interviewed 1,916 Brazilians across all social classes and throughout the country, 41% of respondents from class D and E were using electronic payments in 2010, up from 36% in 2009 results. Some 13% of them were holders of retail payment cards, a 2% drop from 2009.

Class C Brazilians, on the other hand, are consuming more than ever, and have been a big market driver in the consumer sector. The ABECS survey showed 67% of Class C Brazilians used electronic payments in 2010, a 3% increase from the year before.

However, they are big customers of retail payment cards with 27% of class C Brazilians using the product. It is a figure that might seem low, but class A and B Brazilians made up the largest percentage of store card holders in 2010, with 30% of the total, an 8% drop from 2009.

It is evident that many retailers are trying to gain more consumers through this new social inclusion, and are trying to keep them loyal by giving consumers incentives to sign up for a store payment card.

Traditionally, Brazilian retailers offer customers lay-away deals, which allows consumers to buy what they want and pay for the product in instalments over an extended period of several months. Usually customers who have opted for the instalment plans come from the C, D or E classes.

"If you don't give your customers credit, you are going to lose all of your customers," says Guilherme Oliveira, an equities portfolio manager at Itaú Asset Management, which invests in the Class C retailer Hering Store.

Oliveira explains that the tradition of allowing Brazilians to buy everything from socks to cars on instalment plans started after Plano Real was implemented in 1994, the economic policy that put an end to Brazil's age of hyper-inflation.

He said that instalment plans were put in place to make consumer goods and services accessible to the whole population – despite these plans having interest rates attached to them which can sometimes make the product more expensive (sometimes almost double the original price).

Now retailers are combining the former wave of social including for the lower classes, instalment plans, with the new wave of social inclusion: electronic payments.

Retailers cashing in on credit

Clothing stores have been among the biggest retailers to start issuing store cards in a joint

partnership with banks and credit card issuers (such as Visa and MasterCard).

This type of hybrid card is a change from the traditional two-player model which involved banks crediting merchants for purchases made on the issuers' cards. These store cards can act like a credit card and can be used freely at any store and even allow card holders to even take cash from ATM machines.

Hering, which sells basic clothing to Brazilians from class A to C, has launched a payment card in conjunction with Visa and Banco Losango.

Central Bank rules state that only a financial institution, such as a bank, can issue Visa and MasterCard credit cards, said a spokesperson from Visa. Hering is trying to attract consumers to use its store card is by offering customers the first five instalments interest-free.

Fellow clothing retailer Lojas Renner sent out a free payment cards to one million of its 17.5m customers back in December. The retailer, which has had loyalty cards since the 1970s, sent off its first MasterCard or Visa that can be accepted by any commercial establishment in Brazil.

The free card allows customers to pay for the first five instalments tax- and interest-free, and the card can be ordered for dependents over the age of 12. Lojas Renner will be responsible for the management of the card, and credit is being handled by the bank Santander, as required by law.

Retailers are keen to cut down costs by cutting out the extra player involved in issuing store payment cards: the banks.

Clothing store Riachuelo, part of the Guararapes group, set up its own bank back in 2008, Midway Financeira, after it received approval to be a financial agent for the group from the Central Bank.

The store credit card that Midway Financeira issues for Riachuelo allows the company to keep larger shares in the gains of its operations.

Lojas Renner is looking to go down the same path as Riachuelo by starting up its own bank. It is waiting on approval from the Central Bank.

With many retailers looking to open their own financial institution, there is a race for banks to partner up with retailers looking to launch a store credit card, but who don't have the capacity to do it without a bank of their own.

A big hybrid card deal as of late is the Casas Bahia card, a home appliances and furniture store that targets class C Brazilians. Casas Bahia dominates the electronics and home appliances market, having about 23% of the market share, with its nearest competitor, Magazine Luiza, having around 9%.

The Casas Bahia Visa card was launched in June in a partnership with Banco Bradesco after heavy competition from another large Brazilian bank, Itaú.

Bradesco is the same bank that Casas Bahia partnered with between 2005 and 2010. During this time, the volume of cards issued for the store went up 50% during that period – one of the ways Bradesco has proved to be the leading bank in the retail credit card sector with more than 30 partner networks and with around 50m cards issued from the bank to retailers.

Even though many retailers already have their own financial institution, some banks are looking at them as good alternative routes into get into the retail card space.

In April, Itaú bought 49% of Carrefour Financial Solutions at a price of BRL725m. Itaú's stake in the Brazil-based operations of the retailer give the bank access to 7.7m accounts and to a loan portfolio totalling BRL2.2bn.

Regional marketing tool

A big reason why retailers like Carrefour and Riachuelo are keen to issue their own credit cards is because it functions as a marketing gateway to the new class of consumers.

Retailers now have database of direct access to see what consumers are buying both at their stores, and everywhere else.

"We need to know what people are buying inside Carrefour, and what they are buying outside and where," said Ricardo da Cruz Barreto, business director at Carrefour Financial Solutions.

"The emerging middle-class is going to make a difference in the coming years in Brazil. They are the new retail market."

Even as most retailers target Brazil's C, D and E classes as a possible route to big profits, they recognise the risk involved in giving these sectors of the population extra available credit.

The Central Bank has already seen some warning signs of consumer credit running too high, and it recently tighten up regulation around credit cards.

As of June, the minimum payment to pay-off credit card debts went up from 10% to 15%, and by the end of the year will reach 20%. Tariffs have also changed. Consumers will only pay an annual fee for a duplicate card, cash withdrawals, bill payments and for emergency requested credit limits.

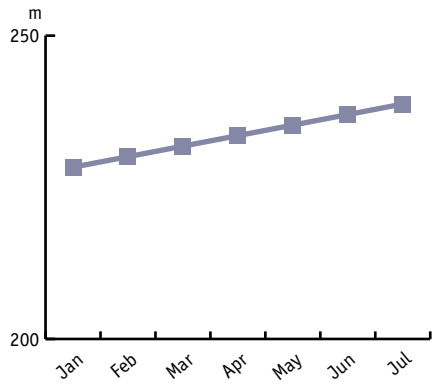
The new rules only apply to cards issued in the month of June and for all other cards issued, the rules will change in December.

Another recent proposal by Brazilian law makers expects competition to increase in the credit card industry after the senate approved a bill that would reduce fees charged on credit card purchases at an average of 4% per sale price in the middle of July.

The increased government intervention in the credit card sector is feared to curb growth and investment in the industry. ■

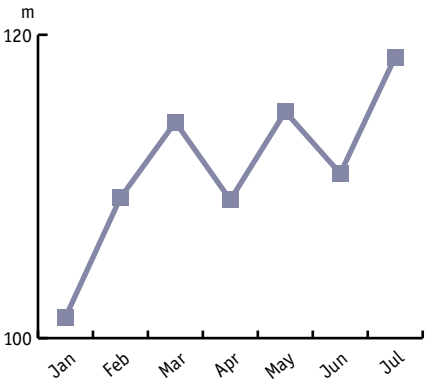
PREDICTED GROWTH

Retailer-issued cards (including co-brand) distributed



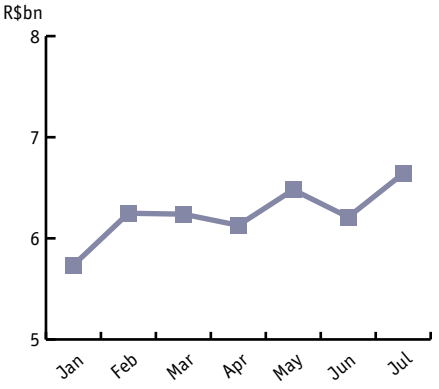
ERRATIC INCREASE IN TRANSACTIONS VOLUME

Volumes rose quickly at the beginning of 2011



REASONABLY STEADY REVENUE

Gentle gain in transaction values



Source: ABECS

Time for a change

The roll out of EMV chip technology in the US has been a long time coming, but Visa's recent announcement finally put forward a timeline for migration. **Louise Naughton** looks at the detail of the announcement, and considers the implications for the US industry

Visa Inc has announced its intention to speed up migration to EMV in the US, saying it is essential to pave the way for mobile payments.

The lack of a business case, a fragmented market and the existence of adequate fraud prevention measures have all been cited as reasons why the US market has not introduced EMV technology to its cards and terminals – as reported in *CI 457-458, EMV implementation: The US case*.

For some time, the US risked becoming left behind in terms of payments standards and becoming a hub for payment fraud.

The worrying thought of what the US payments industry stands to lose by not moving to EMV rather that what it costs to move, has spurred on development.

The majority of the global payments industry considers the implementation of EMV in the US as an essential move.

However, Seth Eisen, a spokesperson for MasterCard, said that to date, consumer demand and market economics have not justified a migration [to EMV] in the US.

Visa clearly disagrees and, fed up with the delays in implementation stateside, has made a public declaration of its intention to push the technology forward. The company says that migration to EMV contact and contactless chip technology is essential to prepare the US payment infrastructure for the development of NFC-based mobile payments.

"By encouraging investments in EMV contact and contactless chip technology, we will speed up the adoption of mobile payments as well as improve international interoperability and security," said Jim McCarthy, global head of product for Visa Inc.

"As NFC mobile payments and other chip-based emerging technologies are poised to take off in the coming years, we are taking steps today to create a commercial framework that will support growth opportunities and create value for all participants in the payment chain."

HOW THINGS STAND

Worldwide EMV deployment and adoption*

Region	EMV Cards	Adoption Rate	EMV Terminals	Adoption Rate
Canada, LatAm, & Caribbean	207,715,356	31.2%	3.900,000	76.5%
Asia-Pacific	336,602,681	27.9%	3,480,000	43%
MEA	23,003,747	17.6%	345,000	60.7%
Europe Zone 1	645,472,323	73.9%	10,500,000	89%
Europe Zone 2	27,516,286	12.7%	513,600	65.4%
Total	**1,240,310,393**	**40.1%**	**18,738,600**	**71.1%**

* Figures reported in Q1 2011 and represent the latest statistics from American Express, JCB, MasterCard and Visa, as reported by their member financial institutions globally. Source: EMVCo

Implementation plan

Beginning 1 October 2012, Visa plans to expand its Technology Innovation Programme (TIP) to the US.

TIP rids merchants of the time consuming task of annually validating their PCI Data Security Standard compliance once 75% of a merchant's transactions originate from chip terminals.

For merchants to qualify, their terminals must be able to support both contact and contactless chip acceptance, including mobile contactless payments based on NFC technology.

In another push, Visa will also require US acquirer processors and sub-processor service providers to be able to support merchant acceptance of chip transactions by 1 April 2013.

The card scheme plans to provide additional guidance as part of its bi-annual Business Enhancements Release for acquirer processors to certify that their systems can support EMV contact and contactless chip transactions.

According to Visa, the US is the only country in the world that has not committed to either a domestic or cross-border liability shift associated with chip payments. This is all set to change as the network will force the shift on 1 October 2015.

At the moment, the cost of POS counterfeit fraud is largely currently absorbed by card issuers.

In Visa's proposed liability shift, in those instances where a consumer presents a contact chip card to a merchant that has not adopted contact chip terminals – at a minimum – the liability for counterfeit fraud may shift to the merchant's acquirer.

This shift is hoped to encourage chip adoption as chip-on-chip transactions provide the dynamic authentication data that helps to better protect all parties.

"Dynamic authentication is the key to securing payments into the future," said Ellen Richey, chief enterprise risk officer for Visa Inc.

"Adding dynamic elements to transactions makes account data less attractive to steal and takes more merchant systems out of harm's way, shrinking the battlefield against criminals.

"The migration to chip technology will be an important security layer and a critical step in a comprehensive strategy to use dynamic authentication across all markets and all channels."

Tried and tested

The US holds a key advantage over other markets that have seen the technology rolled out in that EMV has already been tried and tested in many other countries around the globe and has had tremendous success in reducing counterfeit card fraud.

George Peabody, director of consultancy firm Mercator Advisory Group's Emerging Technologies Advisory Service, notes the potential for counterfeit EMV cards to exist.

However, he claims it is currently economically impractical, which is enough to keep criminals from 'bothering' when there are other 'easier' ways to profit.

Visa's carrot and stick method to acceler-

GLOBAL SNAPSHOT

Global EMV adoption rates by region, September 2010

Source: EMVCo

ate EMV adoption in the US shows that the network thinks the US is ready to make the switch.

Steve Brunswick, strategy manager for transaction security at software provider Thales, sees the US EMV shift to be a positive move for payments security not only for the US but for the rest of the world too.

He claims Visa's plans will reduce the instances of criminals stealing payment card data in one country and creating cloned mag-stripe cards which can be used in the US.

Visa's plans will also serve to focus merchants in the US, not only on card fraud issues, but also on the currently unlocked potential of electronic payment.

"While some US merchants like Walmart have already taken the bold move to go it alone and invest in EMV terminals and infrastructure, the rest have had no clear vision from the card schemes on whether to invest in EMV to improve security," said Brunswick.

"Well, now they have."

President and founder of market research and advisory firm Javelin Strategy and Research, James Van Dyke, is equally impressed by Visa's "pragmatic, comprehensive and strategic announcement".

Resistance to change

At a time where a new innovative payments start-up seems to emerge every five minutes, the odds are stacked against any one new payments initiative gaining critical mass – especially in as developed and saturated a market as the US.

Visa is no different.

It faces the same challenge of the resistance to change as any other, but Van Dyke credits the scheme for acknowledging it will require specific incentives with major industry constituent groups to potentially change the industry and setting reasonable targets for such change.

In his comment on Visa's announcement, Van Dyke mentions the phrase "boiling the ocean", referring to the practice of undertaking an impossible task or project or to make a task or project unnecessarily difficult.

While Van Dyke stops short of explicitly linking the phrase with Visa's EMV announcement, dangling such a phrase and in the next breath showering Visa with compliments over its incentive-led path could be seen as potentially confusing and provocative.

One industry expert said: "It is mind-boggling that the US has been allowed to evaded its responsibilities in protecting both merchants and consumers for so long.

"Visa is not trying to reinvent the wheel with this announcement; it is simply trying to bring the US in line with many other markets."

MasterCard's EMV strategy in the US is to watch market responses to Visa's EMV push and reconsider its migration plans accordingly. MasterCard's Eisen refused to comment on whether its lack of support will scupper Visa's EMV plans, but it seems very unlikely that MasterCard will resist the move.

The question is: how enthusiastically will they join the push, and whether they will follow Visa's timelines? ■

An electronic age for Japan?

The decline of the traditional consumer finance industry in Japan may allow mainstream financial services companies to access the consumer lending market, writes **William Cain**. Regulation of so-called money lenders has brought the industry to its knees, while credit card and mobile payments providers are growing quickly

Japan has for a decade been renowned for its innovative payments infrastructure. It has arguably the most advanced mobile payments market in the world and is one of the only countries to feature unmanned, card-issuing loan terminals.

Now, the demise of a shady section of Japan's consumer finance industry – its so-called money lending businesses – could give electronic payments the opportunity to take centre stage for credit-hungry consumers.

Consumer finance companies in Japan have been subject to heavy regulation and increased funding costs in recent years – bringing the entire industry to near collapse and starving consumers of access to credit.

Unsecured personal loans at these consumer finance companies contracted from ¥9.9trn ($130bn) in 2007 to ¥4trn in March 2011.

The industry's problems stem from the government's introduction of its Money Lending Control and Regulation (MLCR). The law was introduced to clean up the money lending business, which had developed outside the more tightly regulated bank sphere and had its roots in what some commentators describe as "criminal operations".

The growth of mobile payments and improvements in credit card profitability are in stark contrast to the general outlook for consumer credit in Japan.

The decline of Japan's consumer finance industry and the move towards more mainstream, bank-operated financial services may finally push Japan's cash-based economy into an electronic age.

Changing credit climate

Until a decade ago, Japanese banks were primarily corporate financing vehicles with little emphasis on retail banking.

As a result, Japan's money lending industry developed outside the banking sector, creating a host of independent finance companies. These companies remained largely outside of the scope of regulators, meaning they developed a host of unorthodox lending and collections practices.

Loan officials for Takefuji, one of the industry's largest independent companies, reportedly checked the cleanliness of customers' kitchens and lavatories as part of their application process. It was also criticised by regulators when an employee attempted to collect an overdue loan by playing loud music outside the customer's house.

The industry's shady operations are partly a reflection of Japanese consumers' attitudes towards credit. The development of a separate consumer finance industry was because banks rarely offered this type of finance, and also because of a cultural aversion to being seen buying goods on credit.

The Japanese government has taken steps to clean up the industry through the introduction of the MLCR, a set of rules designed to bring industry practices sharply into check.

The main requirements of the MLCR are for lenders to repay excess interest charged to consumers and also to reduce the amount of debt which can be offered to individuals to one third of their income.

The new regulations led to the bankruptcy of Takefuji after it was overwhelmed by interest refund claims from its customers. These claims have raised questions over the viability of independent consumer finance companies, which are not part of larger banking groups. Many are likely to fail, according to Kiyoko Ohora, a Tokyo-based director at ratings agency Standard & Poor's.

The companies hold assets which could be useful to banks or other finance companies. Their networks of unmanned loan terminals and proprietary credit records built up over many years are particularly valuable.

Unmanned loan terminals dispense ATM cards to users so they can gain access to a line of credit with anonymity and convenience. These are popular in Japan because of the cultural aversion to applying for credit. Applicants insert a photo identification card into the terminal and input employment information.

The data is checked against credit bureau data and other available data and scored before the loan offer and card is dispensed. Credit can then be withdrawn at ATMs and spent as cash.

Despite the appeal of these assets, Ohora said it is unlikely banks will seek to acquire and consolidate the businesses in the current environment. There is still a lack of clarity around the level of unresolved interest refund claims among the remaining consumer finance companies. The organisations are also culturally very different to banks.

"Takefuji is a sort of special company. Its owner was charismatic and strong and banks did not really want to tie up with that kind of company.

"Aiful [another consumer finance player] has a lot of interest refund liabilities and its owner is also quite a strong character.

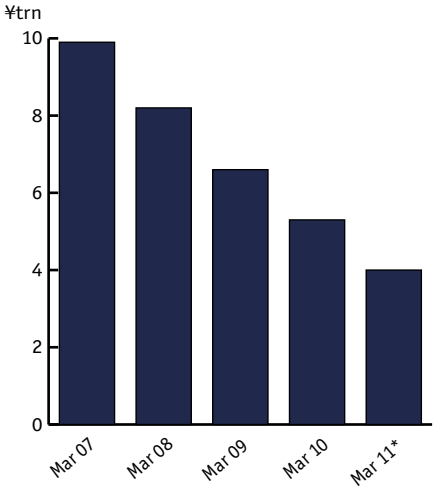
"There may be some other potential consumer finance companies available but the buyers would probably only look at them after they go into legal bankruptcy to get rid of those potential refund claims. Otherwise it's too risky to buy those companies now."

In the longer term, the clean-up of the consumer finance industry is likely to lead to a "more measured and balanced business model" in which the industry's unmanned terminals and credit data may be put to better use, according to Tokyo-based Neil Katkov, a senior vice-president at Celent, a consultancy.

"I think the answer is a whole scale reorganisation of the industry which takes its very strong and innovative points such as the

CONSUMER FINANCE

Industry-wide – consumer finance companies, unsecured personal loans outstanding



*March 2011 figure is an estimate.
Source: Japanese FSA, Shinsei Bank

unmanned branches and the ability to reach into the cash flow-challenged sector," he said.

"They use very savvy advertising approaches and marketing approaches. They have very valuable credit databases; it is basically a credit bureau for the consumer finance industry, with detailed data on that customer segment. It is all very valuable stuff.

"But the consumer finance companies did develop all these very valuable assets and I think that basically a major reorganisation which puts these assets to work in a more measured and balanced business model is the answer. And I think that's going to happen."

Banks moving in

Shinsei Bank has been one of the first movers in this area.

It has repositioned Lake, its consumer finance business, into its retail banking franchise, and is actively marketing to consumers that Lake is part of Shinsei Bank.

This move is one step in the reorganisation of consumer finance into a bank-operated customer segment, an arrangement which Katkov expects to be the final endgame of the consumer finance industry under the new regulations.

"It's really predicated on the business model not being viable and more failures due to the financing issues," he said.

"Then it's a case of what do you do with the assets. Similarly if you do have firms that are being folded into savings or retail operations like what happened with Shinsei, then other firms – even if they do not go bankrupt – may see that is the route to go. That's the premise [of the endgame scenario]. Basically, the overall direction will be in the cleanup and recycling of the assets into the more orthodox or mainstream finance."

It may even be possible to use the unmanned terminals to issue more conventional card products, like prepaid cards or credit cards, in place of the ATM cards, according to Katkov. Regulatory and compliance issues would need to be overcome in order for this to become a reality, he added.

Opportunities for new players

The real opportunity for the payments industry in Japan may be greater than the potential for picking up the scraps of customer databases and unmanned loan terminals from a collapsing consumer finance industry.

As Japan's old consumer finance industry declines, the door is being left open for new forms of finance to fill the gap. Innovative operators like NTT DoCoMo and Sumitomo Mitsui are at the forefront of this.

NTT DoCoMo, the country's biggest mobile phone operator, created the first large-scale mobile payments venture when it bought 34% of Sumitomo Mitsui Bank's credit card subsidiary, Sumitomo Mitsui Card Company, in 2005.

The investment from NTT and the partnership it created disarmed the types of bickering between banks and telecommunications companies which have until recently held back the development of mobile payments in much of the rest of the world.

NTT and Sumitomo Mitsui Card (SMC) immediately started work on building a new payments brand they called iD which would provide the acceptance platform for mobile contactless payments in Japan. SMC is responsible for signing up merchants to offer radio frequency identification (RFID) iD payment terminals which enable consumers with DoCoMo RFID-enabled phones to transact by waving their handsets over the terminal.

SMC has installed around 510,000 of these terminals at merchants in Japan so far. Mobile phones are linked to an iD-compatible credit card account – the cards are issued by DoCoMo itself and a number of partner issuers including SMC and retailers which have their own credit card programmes.

DoCoMo's shift from telecommunications provider to credit issuer has so far proved successful.

Its credit card receivables – which include credit purchases made on mobile phones – increased from ¥72,996m to ¥126,009m between 2009 and 2010. Faced with declining growth in Japan's highly penetrated mobile phone market, its shift into financing activities has helped the company diversify its revenue streams.

It is seeking to develop further synergies between telecommunications and payments by making strategic investments in mobile advertising, gaming and e-commerce businesses.

The growth of its credit card portfolio is partly a result of these synergies. Perhaps the biggest factor, however, is the loyalty benefits it has been able to offer its subscribers which use its mobile phone and payments services.

Users of the Osaifu-Keitai (mobile wallet) service can pick up loyalty points from making phone calls and purchases using their mobile phone.

Retailers offering the iD brand are able to market special offers and discounts to users of the Osaifu-Keitai service via SMS and email.

NTT and McDonald's Japan – one of the locations where mobile payments are offered – signed an agreement in 2007 to create an e-marketing programme combining information the two companies have on consumers.

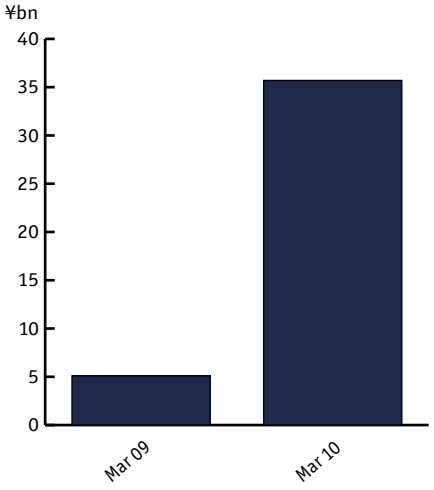
Users of the service can also pick up extra points by using DoCoMo's Visa- and MasterCard-branded credit cards which are issued in conjunction with the service for purchases outside the country or at outlets where the iD brand is not available.

Around 16m NTT customers subscribe to its Osaifu-Keitai (mobile wallet), and Sumitomo Mitsui has also benefited from the partnership.

Its credit card business line – which includes SMC as well as a number of other credit card-issuing subsidiaries including Cedenya Financial – posted strong growth in the 2011 fiscal year, ending in March 2011. Fee and commission income increased from ¥143,987bn to ¥181,160bn and consolidated net segment profit increased from ¥5.1bn to ¥35.7bn. ■

■ CREDIT CARDS

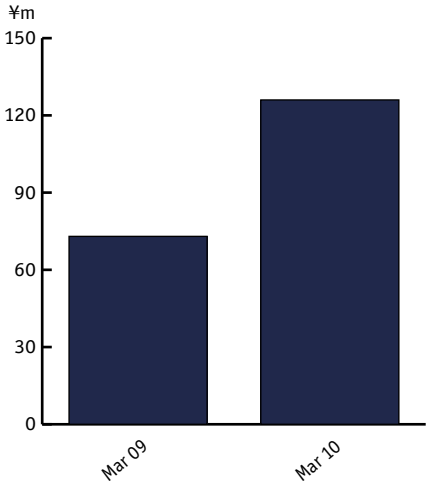
Profitability – Sumitomo Mitsui credit card subsidiaries (2009-2010)



Source: Sumitomo Mitsui

■ MOBILE PAYMENTS

NTT DoCoMo – credit card receivables (through mobile payments and card products)



Source:NTT DoCoMo

Predictive analytics: looking forward

The use of predictive analytics is becoming standard practice for credit issuers as they return to expansion following the banking crisis. While things are on the up for lenders, they are operating in a very different landscape and require new tools, writes **Charles Davis**

US credit card issuers never stopped issuing credit cards, even in the middle of the banking crisis. But they did slow down, and they certainly ramped up lending standards significantly.

With the economy improving, albeit slightly, issuers are returning to expansion mode but with a new risk dynamic.

Consumers are paying their credit card bills on time again – five of the top six card issuers say customer default rates fell in June – enabling issuers to reinvest and innovate.

Much of that innovation is focused on ensuring issuers make good decisions. And demand for risk assessment technology, predictive analytics, data mining and risk scoring tools is increasing.

Chisoo Lyons, vice-president at FICO, the credit scoring and risk management company, says the economic downturn has heavily constrained the creativity of risk and profitability management.

"Credit card profitability is deeply constrained by the risk environment," Lyons says.

"Issuers are spending more time explaining to other people what they are doing on compliance, rather than to use analytics to get themselves out of a hole.

"There is a real competitive opportunity in analytics, but people are so bogged down with the day-to-day."

Exacerbating the usual challenges is the uncertainty of far-reaching regulatory changes under Dodd-Frank and the CARD Act, Lyons says. This has many seeking balance between their business needs and a near-paralysing caution.

The new regulations also place a new premium on extending the proper amount of credit as a card is issued, because the CARD Act requires issuers to receive written requests before they can increase a card's credit line.

Shifting scores

Though the economy is stabilising, the fluidity of consumer finance these days is still reason enough for renewed focus on credit risk management.

FICO recently conducted a study of a bankcard issuer, taking a proxy of the US population that found significant score movement over time.

The study showed 27% of consumers scores change plus or minus 20 points over a three-month period. Almost 40% of consumers see a score shift of plus or minus 20 points over a six-month period.

For issuers, this means even the best customers may not be risk averse, warranting stricter account management processes to help identify early delinquency issues before they become unrecoverable.

> **"Everything about risk management revolves around historical models, and this does not account for these new defaulters"**
> Deron Weston, Deloitte Consulting

It demonstrates that risk management no longer is a matter of tracking high-risk accounts, as the fluidity of credit scores means today's stable account can quickly mushroom into an account worth watching closely.

"Everything about risk management revolves around historical models and this does not account for these new defaulters," says Deron Weston, a principal in the financial services banking practice of Deloitte Consulting.

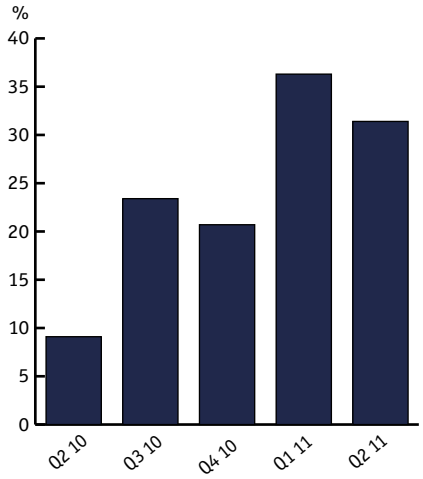
"How do we assess risk in this scenario? Can we incorporate variables beyond the credit history, like real estate data, the type of mortgage they hold, their occupation, that differ from region to region?"

On the heels of a devastating financial crisis and ever mindful of increased scrutiny of risk, issuers largely remain reticent about pursuing new opportunities that ultimately could make for a stronger and more profitable portfolio.

Issuers are deepening their investments in credit-risk management tools. Instead of just considering a customer's propensity to pay or credit history, issuers can use the technology to gauge how external events might affect a loan.

CREDIT CARD DELINQUENCIES

Fewer expect to see a drop in credit card delinquencies than in Q1, however still more optimism than Q4 of 2010



Source: PRMIA

Positive trend

It seems to be working: the latest credit trend report from Equifax showed banks are issuing more credit to consumers as repayment behaviour improves.

Equifax's recent report revealed an increase in the amount of available US consumer credit. New lines of credit for auto, bankcard, consumer finance, and home equity revolving lines have risen from $145bn to $167bn from March 2010 to March 2011. Total consumer debt fell from $12.4trn in October 2008 to $11.4trn – an 8.7% drop.

"Despite concerns of the economy relapsing, several current metrics indicate the credit cycle is stabilising – even growing somewhat as consumer payment behaviour improves," says Michael Koukonas, Equifax senior vice-president of client services.

In May, the average Equifax Risk Score rose to 695.

This score predicts the likelihood of a serious delinquency in the two years after scoring.

The Equifax Risk Score ranges from 280 to 850 where the odds of becoming severely delinquent doubles every 33 points.

Card issuers approved 1.8m more credit cards in May, while consumer finance credit limits experienced a slight increase of 1.5%.

Equifax attributes the increase in new card credit to the increase of new cards and lending competition. Issuers are racing to get as many reasonably issued cards in the hands of consumers as possible, they fear the new regulatory environment will again shrink the pool of potential cardholders worth their trouble.

"We are starting to see a shift toward growth," says Lyons.

"It is extremely cautious, and it is slow moving, but issuers are realising that, in the new environment in which they operate, growth is an imperative."

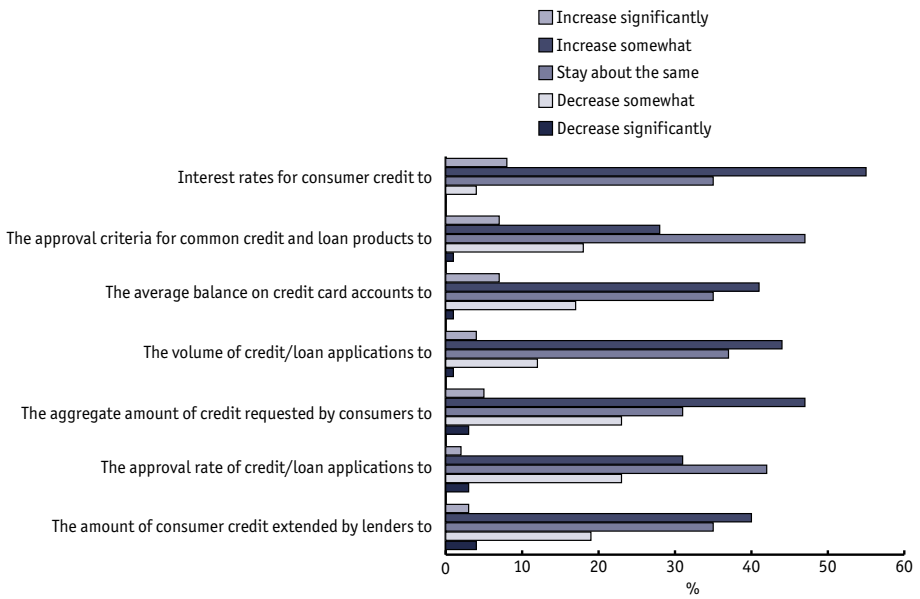
The regulatory environment is another driver for credit risk management. Bank regulators want more details on risk management procedures.

The New York Stock Exchange now requires listing firms to share risk assessment policies, and Standard & Poor's factors risk management capabilities into its credit ratings. In December 2010, the Securities and Exchange Commission began requiring disclosures on a board's involvement in risk oversight.

Regulators are leaning on risk officers more too. Pushed by the Federal Reserve's proposed guidelines on incentive compensation practices, they have asked some risk officers to 'opine' on the plans at their banks.

RATES INCREASE AS CONSUMERS SEEK AND ACQUIRE MORE CREDIT

Looking at the industry as a whole, over the next six months, do you expect:



Source: PRMIA

CARD Act implications

The recent passage of the CARD Act has affected issuers' credit risk management in two ways.

First, the new regulations lowered profit potential, forcing lenders to shift business strategies to stay profitable. Second, with rising interest rates at traditional card issuers, there is more opportunity than in years past for niche players to offer cards with more attractive terms – if they can manage the risk.

An increase in the number of cards in circulation is generally positive, but issuers must also be mindful to select customers who, despite various income levels, represent the lowest levels of credit risk.

New technologies, no longer the purview of only large lending institutions, can provide a critical difference to issuers caught between hyper-caution and long-term risk.

Dexterity is needed these days. FICO's post-crisis research yielded three major lessons about credit risk management:

- risk is dynamic, and all elements of risk management must be treated dynamically;
- rapid and significant changes in economic forces and market forces can render traditional risk management approaches less reliable;
- credit providers need better economic forecasting relative to risk management for loan origination and portfolio management.

While most scoring models are able to rank order consumer risk accurately during turbulent times, there is empirical evidence that economic upheaval can have a significant impact on default rates even when credit scores stay the same.

So immediate past default experience may be a poor indicator of future payment performance when economic conditions deteriorate rapidly.

For example, in 2005 and 2006 a 2% default rate was associated with a FICO score of 650 to 660. By 2007, a 2% default rate was associated with a score of about 710 as rapidly worsening economic conditions (and the impact of prior weak underwriting standards) affected loan performance.

Weston says Deloitte's research shows a similar fluidity to creditworthiness.

"Our research showed us that the economic crisis swallowed individuals that had nothing in common with at-risk people in the past," he says.

"Somewhere between 11 and 12% of the defaulters we studied had never even had a blip in their credit before the bottom simply fell out. That is a very different pattern."

The bigger picture

Risk estimates today should incorporate the potential future impact of changes in key economic indicators (unemployment, gross domestic product, housing prices, per-capita income) on credit risk. Such economic forecasts can augment credit-risk prediction in two ways, FICO says.

First, it can be used to improve predictions for payment performance associated with any given score.

These improved predictions can be incorporated into individual lending decisions and be used at the aggregate level to predict portfolio performance. Second, economic data can be used to predict the migration of assets between risk grades.

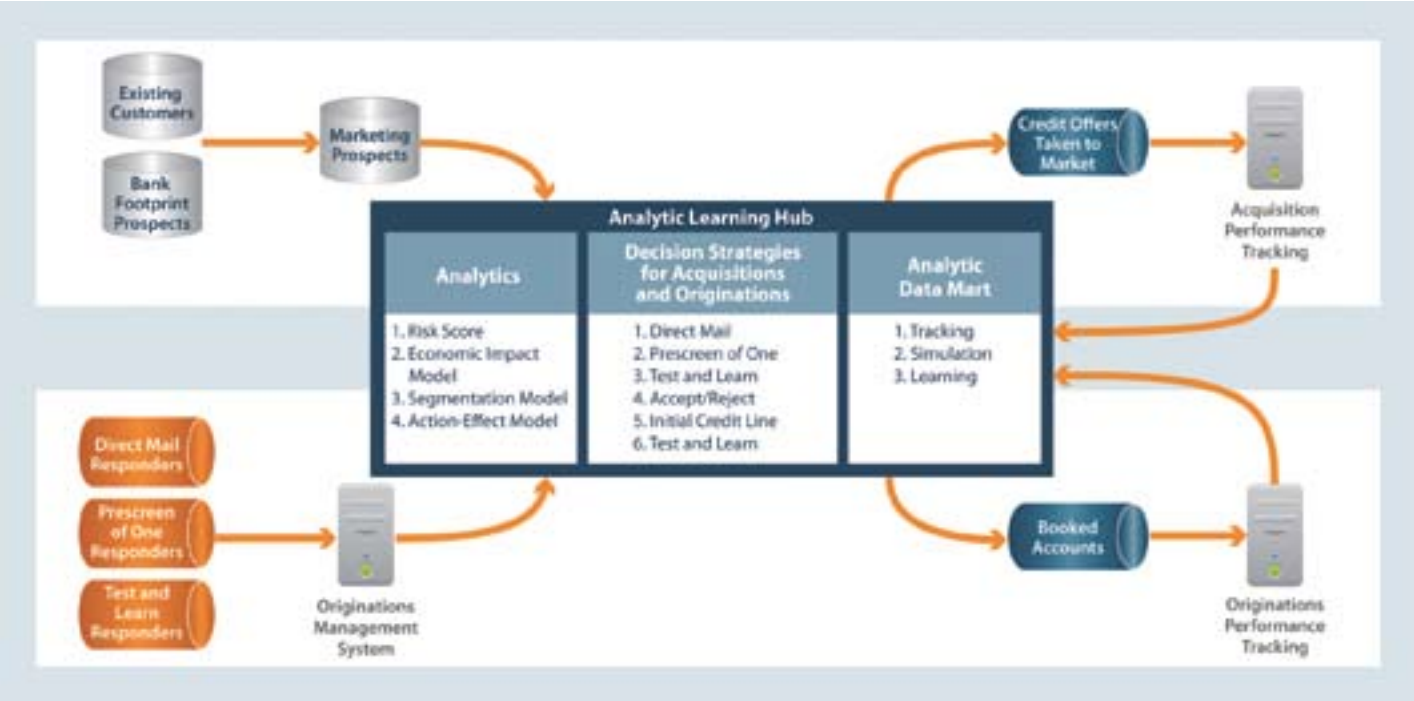
The ultimate benefit of adding this type of forecasting capability into credit-risk management is that lenders will have a better ability to limit losses by tightening credit policies sooner and targeting appropriate customer segments more precisely.

Issuers must strike a workable balance between risk-assessment tools and quality underwriting.

With higher default rates, that means relying on more precise risk-assessment tools to understand the risk represented by a given borrower.

■ RISK MANAGEMENT

Analytic Learning Loop



Source: Fico

With widespread adoption, new analytics, updated and tuned to changing environments, issuers are able to more accurately pinpoint less risky customers at the time of origination.

The bottom line, Lyons says, is improved risk assessment through newly developed scores can help lenders approve more loans without increasing risk.

Analytics also fuels early intervention. Given the volatility of unemployment and other economic shifts, it's more important than ever for issuers to continually assess risk across their accounts.

By pulling credit scores more frequently, segmenting member populations for special treatments and running standard risk-analysis reports, credit unions will be able to provide early intervention and assistance for members exhibiting signs of early delinquency.

Lyons says FICO is in the launch stage of its new Bankcard Growth Solution suite, which includes what the company calls the Analytic Learning Hub – a data mart that compiles all the information from across product lines into one analytic engine.

"The Hub gathers everything necessary to generate campaigns that meet risk levels while coordinating the various functions of issuance, from marketing to customer acquisition to account management," she says.

"The tracking of the customer begins even before onboarding, and then the account is part of a constant feedback loop that improves analysis of the overall portfolio."

Analytic learning loops

Lyons says, in such dynamic markets as card issuance these days, there is a direct relationship between profitable portfolio growth and an issuer's ability to quickly understand and adapt to changing consumer behaviour.

Rapid risk management can be achieved by creating what FICO calls "analytic learning loops".

These loops are created through the analytic leaning hub and are comprised of data marts continually refreshed from internal and external data sources.

These data marts are then threaded through both acquisition and origination, with decision-making strategies built in by the issuer.

This approach provides constant learning based on what consumers are doing that day – not 90 days in the past.

The hub cuts across product silos, allowing managers from marketing, lending and risk management to hone card offerings in real time.

For example, the marketing department launches a new card product, and while they do that, they give the risk management people a profile of the customer they are after demographically.

The risk management analysts create a risk profile based on the desired outcome and desired response rate.

The risk department knows what they are looking for, and the marketing department agrees. If the response rate comes in a bit low, the risk department looks and adjusts accordingly.

The data generated from the campaign, in turn, can be used to cross-sell other products to selected consumers.

"We can use the Analytic Learning Hub to extend to other products in the bank," Lyons says.

"If you are mining all that card data to extend to lending in other areas, then you grow that – it's a customer profitability management solution, really."

Lenders now have the analytic tools to enable safer, measured growth while simultaneously preparing for a lingering recession. The use of such forward-looking analytic tools is fast becoming a best practice in risk management.

With risk predictions better aligned to current and future economic conditions, lenders can adjust more quickly to a dynamic market and steer their portfolios through uncertain times. ■

Legislative threat to prepaid in Germany

The German banking and payments landscape is often described as conservative. While its neighbours and the emerging markets in Europe are adopting new payment technologies fast and declaring war on cash, the German regulators resist new payment technologies and declare war on e-money. **Duygu Tavan** reports

When the second e-money directive (2EMD) was issued in April, the German Finance Ministry interpreted its requirements in its own way and introduced AML legislation that destroys any opportunities in general purpose reloadable prepaid products in Europe's biggest economy.

Germany's AML laws make what is a growing and viable business case a complex and costly one: Non-finance institutions, such as estate agents, casinos, solicitors, petrol stations, bakeries and even supermarkets, are just as much affected by them as are non-bank e-money product and service providers.

The local legislation requires prepaid card distributors to comply with KYC standards and record and archive the consumer's information for five years – regardless of the top-up value. The legislation also requires companies with more than nine employees to appoint an AML commissioner.

Germany's home-grown AML legislation restricts prepaid more than the regulations in other countries.

The issue is this: If the e-money provider is not based in Germany, the regulator cannot control them. But it can put very restrictive legislation in place.

It seems to be more a case of political, rather than security issues. One source says the German Finance Ministry has even approached its French and Benelux counterparts to convince them to adopt "a harsh regime" – to no effect. As the popularity of e-money rises, elsewhere Germany seems to be shooting itself in the foot.

Criminal intent

Industry stakeholders clashed on 19 October at a public hearing in the Bundestag. At the hearing, a Federal Criminal Police representative described a horrific scenario in which prepaid cards appealed to criminals and argued that so far, only a fraction of the prepaid crime that is possible, has occurred.

The counter argument came by the German Confederation of Skilled Crafts (ZDH), which argued that the collection of KYC data went against the German government's efforts to reduce bureaucracy, and that the required role for an AML commission will only increase costs without actually effectively fighting money laundering.

ZDH is, according to a spokesperson, against the legislation "in its current format". The spokesperson argues that, if for instance, an independently-run bakery wants to issue prepaid cards, it will still need to apply KYC procedures – even when the card is in a closed-loop system and obviously has no high-value stored on the card.

So if a drug dealer decides to pay back its distributors with a prepaid bakery card, it technically is money laundering. But, what is the likelihood of such a scenario?

Michael Mueller, group CEO of paysafecard.com and member of the Prepaid Forum Deutschland (PFD), argues that the legislation "clearly violates" the 2EMD and criticises its lack of differentiation between prepaid issuing and distribution.

"The issue is that if an e-money institution issues a gift card, for instance, it needs to comply with KYC standards," he says.

"If a bank issues gift cards, there is no such obligation. Banks are not yet regulated in that way. So e-money institutions are treated differently."

Mueller argues the Finance Ministry "actually knows very little about prepaid. They do not understand it and do not want to".

"The regulator based its arguments on the outcome of the FSCS report which found that Germany had to tighten its AML regulation," he adds. "However, the report did not specifically refer to money laundering via e-money products.

"They argue prepaid cards can be used for crime. But we oppose that. Statistics show money laundering crime has gone up from 11,000 to 40,000 in the year to end-2010.

"E-payments crime has risen from 64 to 90 and prepaid is a tiny fraction of this. So there is no evidence for prepaid crime. There might be a risk of money laundering, but there no clear evidence. If there is a risk of cash out and e-money transfers, then there should be verification when that money is redeemed or transferred," says Mueller.

Gilles Coccoli, managing director of PrePay Solutions, agrees the KYC process at the till point makes it a too complex and costly business case.

"AML regulation is being localised across Europe, but there needs to be a common spirit," Coccoli says.

"The solution would be no KYC at the till point and monitoring buying behaviour. If somebody buys 10 cards, that is not normal. If the merchant sells those 10 cards, they will be held accountable to prove anti-money laundering actions.

"We would have to report the merchant and they would be called upon by the financial regulator and lose their licence.

"The chances of money laundering are limited. PrePay Solutions runs a system that monitors how many cards are bought at once – one would have to have a very clever scheme, such as buy one card a day and top it up to its limit.

"But if KYC takes place at the till, it is impossible to do business with prepaid."

The issue of prepaid clearly goes beyond security – it is an issue of banks versus non-banks.

"Not one bank is a PFD member. They are pretty happy with the law," Mueller argues. "The real reason behind the law is that a lot of e-money distribution takes place via non-banks. There will be exemption of the law for the German Geldkarte – so there is clear evidence that the AML legislation has anything to do with AML. It is political."

But the ZDH spokesperson believes the problem does not lie directly with the banks.

"It lies with the opinion of the Federal Criminal Agency and the Law Enforcement Agencies who think that every little e-money value can serve as money laundering" the spokesperson say.

Coccoli highlights the relatively low threshold limit for prepaid cards and argues that the risk of money laundering is relative low.

He warns: "If this legislation kills prepaid, it could weaken the economy. Prepaid replaces cash securely and is an efficient tool for fund distribution."

But, the ZDH spokesperson highlights, the Finance Ministry is not interested in the economic impacts of prepaid. ■

A 'clicks and mortar' approach

Japan has found a successful formula to integrate the world of e-commerce and traditional retail. Its approach to technology, business models and – perhaps most importantly – a light-touch regulatory regime, has helped prepaid e-money become a genuine and powerful alternative to cash. **Will Cain** reports

Has the payments industry finally found a way to crack Japan, one of the biggest and most cash-intensive consumer markets in the world?

Credit card usage at higher transaction values and the more recent development of prepaid and post-paid e-money products for smaller purchases are steadily narrowing the huge wedge of cash spending in the economy.

Transaction volumes at Edy, the country's biggest prepaid e-money issuer, almost doubled in 2010 to ¥1.2trn ($15bn). The same company estimated in 2007 that cash spending for transactions under ¥3,000 in Japan stood at ¥60trn.

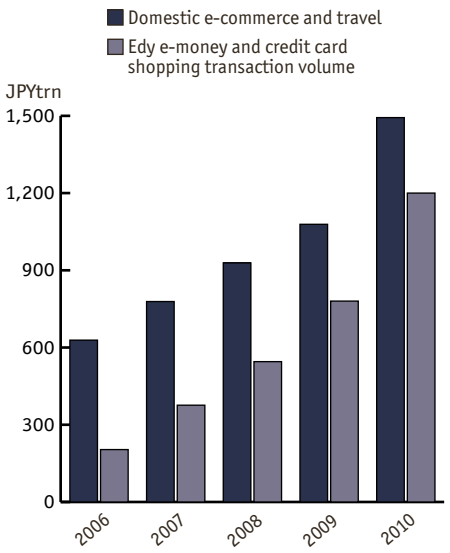
The striking thing about Japanese prepaid and e-money, particularly in the context of low-value payments, is how differently the foundations of the industry have been built compared to other markets.

Japan has found a highly successful formula which is increasingly integrating the worlds of e-commerce and traditional retail into a single 'clicks and mortar' e-payments environment.

Consumers are increasingly using prepaid and post-paid e-money purses which are integrated into payments cards and mobile phones to make quick and convenient contactless transactions both at the point of sale and online.

RAKUTEN

Japan's largest prepaid e-money issuer
Gross transaction volume



*Rakuten is the internet services company which owns Edy.
Source: Rakuten

Some of the key drivers for this behaviour lie in the areas of technology, business models and regulation, where Japan has pursued a very different path to other markets.

Technology

One of the great puzzles surrounding the successful development of e-money in Japan is that the technology to make it happen existed elsewhere first.

Sony Corporation developed the chip which has provided the platform for much of the e-money usage in Japan and is now ubiquitous across its payment cards and mobile phone devices.

Yet prepaid and stored value payments did not begin life in the tech-savvy high rises of Sony's Tokyo headquarters, but on the streets of Swindon, in the UK.

In 1996, National Westminster Bank conducted a trial involving around 40,000 people for a system it had developed which could be used to load prepaid e-money onto a chip on a payment card.

Its main selling point was its ability to permit low value transactions at greater speed because there is no need for a signature.

The system was called Mondex and subsequently taken over by MasterCard. If the technology existed to develop stored-value payments in the UK, what prevented the industry there and other European countries from developing at the same speed as Japan?

Nobuhiko Sugiura, a professor in e-money law and part of the team which developed Mondex, says the reason Mondex failed highlights why European and US prepaid spending, particularly for low-value transactions, has lagged Japan.

The emphasis for Mondex, Sugiura says, was purely bank-led. His experience in Japan over the past decade suggests that non-financial companies, particularly retailers, often have more to gain from issuing e-money products. They also are able to provide more convenience for end-users.

"Mondex was kind of a disaster from my experience," says Sugiura. "Customers had to go to banks to top-up, it was always bank related.

"But do you go to the bank every day? The answer is no. Look at Octopus [a contactless e-money transit and payments system] in Hong Kong. You can charge it in an ATM, in shops or at metro stations."

Business models

Sony's stored-value payments system was first put to practical use in Hong Kong's Octopus public transport payments system in 1997, based on the FeliCa contactless chip it developed.

The chip, which is installed onto a payment card, has a radio frequency identification (RFID) capability that enables it to communicate with a reading device and store information securely.

After its introduction in Hong Kong, FeliCa was integrated into payment cards in Japan in 2001, again in a mass transit environment, to improve ticketing and payments efficiency at barriers and sales kiosks.

The contactless card enabled the companies to reduce paper ticketing and provided benefits to customers, like the ability to top up their travel cards online.

The first rail company to do this was Japan Rail East (JR East), the country's privately operated metropolitan overground train service serving the eastern suburbs of Tokyo. Its system is called Suica.

As well as being used for travel costs, JR East developed Suica so would be possible to make payments in shops and vending machines within the station. Consumers are able to buy newspapers, confectionary items and other small ticket items at shops where the Suica logo is displayed.

The next key development in Japan was the creation of Edy, an issuer-acquirer e-money business which offered rechargeable contactless smart cards to consumers and card readers to merchants.

Edy kick-started the development of the e-money market in Japan and has expanded its merchant base to include a number of major retailers including convenience stores Seven Eleven, Lawson and Family Mart, pharmacy

Matsumoto Kiyoshi, electronics store Yodobashi Camera and McDonald's.

In total, it is accepted at 255,000 stores across Japan.

There are now several rival e-money services to Edy, including Nanaco, a proprietary system set up by retailer Seven Eleven; and Waon, issued by Aeon for use in its shopping malls.

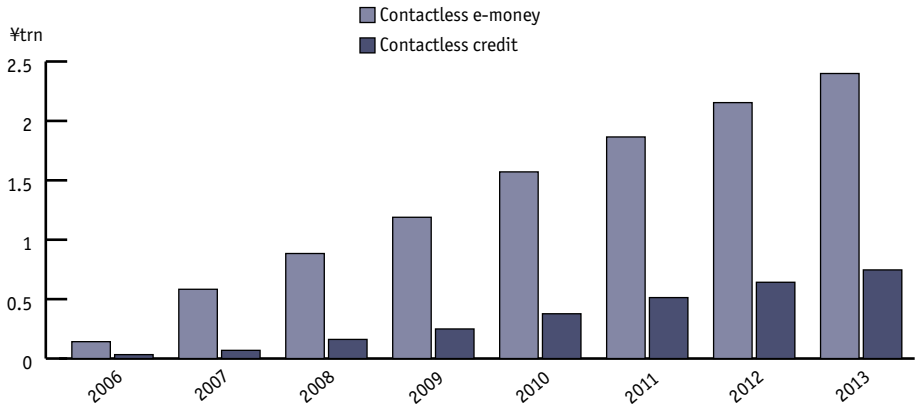
NTT DoCoMo, a mobile phone company, offers a slightly different e-money solution called iD. Its customers receive bills at the end of the month for the transactions they make, meaning their e-money purchases are made on credit and charged through their phone bill.

In practical terms, there is little difference between prepaid and post-paid products in the eyes of consumers, according to Masayuki Takezawa, head of marketing and communications for Sony's FeliCa chip.

They are all viewed as a convenient means of making low value transactions, he says. Many of the prepaid e-money products are charged up using credit cards, further blurring the distinction.

E-MONEY

Estimates: growth of credit and prepaid e-money



Source: Nomura Research Institute

A familiarity

The more important point is that – after heavy retailer and telco involvement – consumers are now familiar with making transactions on both contactless cards and mobile phones.

"People are very familiar with using contactless cards," says Takezawa.

"In Japan, the contactless card was introduced around 2001. Then, almost all transportation companies introduced this type of contactless ticket. At the same time, there was a new prepaid type of e-money service: – Edy. It is from this background that people have become educated in using contactless cards.

"The other thing is that in Japan, internet services on mobile phones were started in 1999 by NTT DoCoMo, a service called iMode.

"People have become familiar with using their mobile phones to connect to the internet and connecting to the user interface. It is a combination of these two environments – people are already familiar with both mobile and contactless payments."

One of the benefits that has comes from non-bank involvement in e-money is it enables businesses to offer a service to consumers complementary to their core business and helps them raise revenues.

But, of course when non-bank businesses start to play a bigger role in the payments industry is the question of regulation.

E-money laws in Europe, in particular, were drawn up because of concerns over the impact issuance of e-money might have on monetary policy and also its potential impact on consumer confidence in payment systems. Banks have been traditional custodians of the payments system, either through the issuance of cash through ATMs, payment cards or internet banking.

One of the main concerns of central banks when e-money became a hot topic in the late 1990s was the lack of ability to track e-money purchases and potential use for money laundering and fraud.

Some of these concerns have been now been overcome. For example, in Europe the implementation in April 2011 of the second e-Money Directive was designed to create more access to non-financial businesses like retailers and telecommunications companies.

It is still more restrictive than regulation in Japan, which has been laissez-faire throughout the industry's development. Any company is allowed to issue e-money as long as it registers itself and holds 50 percent of the deposited funds as capital.

Sugiura says Japanese regulation would allow a stall-owner selling vegetables to offer e-money if they had sufficient documentation of their financial history and could prove stability in their business.

The ability for a multitude of e-money issuers is important in fostering greater usage of e-money. But is it safe? Sugiura says Japanese regulators may have been more willing to permit a non-bank-led approach because many of the corporates involved in issuing e-money have better credit ratings than the country's leading banks – a hangover from Japan's financial crisis in the late 1990s.

"In Europe regulators find it hard to believe that these kinds of companies should be involved with financial operations and regulation for them should be like regulation for banks," he says.

"If you look at Japanese companies these days, and this is a different answer, Japanese financial company ratings as rated by credit agencies like Moody's are not that high. If you look at companies like JR East, Toyota, Nissan, their ratings are higher. In these cases, why not let them start payments businesses?"

There have been examples of small Japanese e-money issuers going out of business, according to Sugiura, who is also an academic panel member of the International Centre for Financial Regulation. Japan's Financial Services Agency keeps close track of the accounting records of e-money issuers and if there are any signs of stress, it intervenes.

In some cases, this has meant orchestrating the sale of a small e-money business to another issuer. In others cases, small businesses have been allowed to go bankrupt. Sugiura estimates there are two or three e-money issuer bankruptcies each year.

The companies are usually small and the recovery rate for consumer funds runs at about 85 percent. Sugiura says this means that, so far, consumers have not lost large sums of money through the failures.

This light-touch regulation is perhaps the most important contributor to Japan's development as an m-payments and e-money centre of excellence.

It was a brave approach and, as the bankruptcies show, has not been without its mishaps. But it provided the platform for Japan to develop a dynamic e-payments system with a diverse set of payments providers, while avoiding competing technology platforms from creating a large number of non-compatible systems.

The recent relaxation of some of the rules for smaller e-money issuers in Europe suggests that regulators there have come to accept this. This, coupled with the standardisation of the technological and security frameworks, should ensure Europe and possibly the US can follow Japan's impressive lead – even if it could have been achieved a little more quickly. ■

Loyalty counts

Loyalty software programme provider Welcome Real-Time works with banks generate revenue by providing incentives to retailers and consumers to increase traffic on POS and card payments. Now the 15-year-old company is preparing to diversify into new sectors. **Maryrose Fison** speaks to chief executive Philippe David

Since its beginnings in 1996 Welcome Real-Time has undergone a trajectory nothing short of stellar.

Today, the company has offices in Paris and Aix en Provence, as well as bases in the US, Brazil and Singapore. 300,000 transactions go through the company's trademark software a day.

In May the company took on a new CEO, Philippe David, who has big ambitions.

Over the coming 12 months, he identifies three fundamental goals. The first target is to move the loyalty programme into a managed services arena where Welcome will be able to host and manage it for customers based on a subscription rather than a license.

His second goal is to reach out to merchants directly with the company's software. He says Welcome is in the middle of developing a specific merchant loyalty solution for this purpose which may be ready by the end of this year.

The third target is to diversify Welcome's loyalty solution into the telecoms and insurance spaces – sectors well-known for high levels of customer churn. He is confident that the loyalty software will help companies in those arenas reduce customer turnover.

When the Greek Telecommunications company WIND implemented Welcome's loyalty solution, David says the company saw a 13% reduction in churn within one year.

Standing out

In its first year as a company, Welcome Real-Time had a negligible number of customers, but a dogged determination to lead the market. This ambition has been realised and today, customers include Barclays, Burger King and Shell.

But, while the company has enjoyed strong growth in the past 15 years, loyalty programme provision is becoming increasingly competitive, and Welcome has to work harder to maintain its edge.

For David this means differentiating between short-term and sustainable long-term gains, benefiting all sectors in the payment chain and making the solution accessible.

While some discount providers work on the basis of one-off promotions offered to large audiences, David says there is little incentive in this model for customers to make repeat visits.

With Welcome's loyalty programme, David says the benefits continue over the long-term for banks, retailers and the end consumer.

"The rewards are based on a longer-term relationship where parameters such as frequency of visits, amount spent and demographics come into play in determining the types of rewards that the customer can get," he explains.

"By providing discounts that apply when paying by card only, the customer is encouraged to use their payment card for that transaction. Every payment by card brings revenue to the bank in terms of interchange. This increases the bank's issuing department's revenue.

"For a bank's acquiring business, the more transactions made on the bank-owned POS terminals at the merchant's store, the more revenue the bank gets. And, by providing their merchants with a loyalty programme that is embedded in their acquiring back-office system, these banks are ensuring that their POS terminals get the most transactions on their terminal."

As well as increasing electronic payment traffic, the company has also developed mechanisms to encourage consumers to spend more per visit to a retailer and a system to help support banks in holding onto existing merchants.

Freedom

In March 2010, Welcome partnered with Barclaycard to deliver a retail rewards scheme known as Barclaycard Freedom.

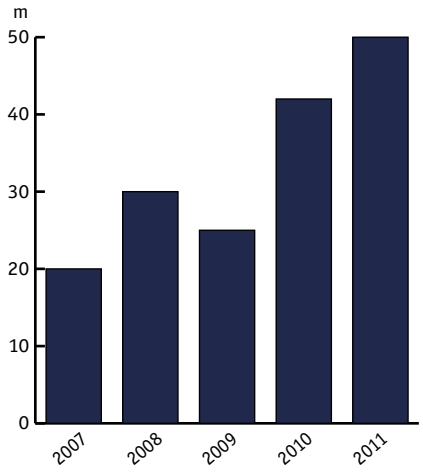
In the first year, David says this scheme delivered a 15% rise in linked sales from Barclaycard Freedom cardholders at Shell service stations.

"Such schemes aim to increase customer spend at participating retailers and therefore also increase payments on the card, enhancing customer loyalty and increasing profits for the card issuer," he says.

In addition, David says the upgraded software allows retailers to segment their customer base so as to maximise the effect of their promotions.

WELCOME REAL-TIME

Cardholders benefiting from loyalty features on payment cards from bank customers



Source: Welcome Real-Time

"If you take the example of a hairdresser, on a free afternoon, she could decide to send out a promotion via any channel – mobile, email or social media- to a specific segment of customers," David says, using a hypothetical example.

"The hairdresser could decide to offer female customers, who are homemakers and aged between 25 and 35, a 30% discount on haircuts if they come to the salon between 3pm and 6pm. This sort of targeted promotion creates loyalty from the segment."

He says it is also possible to drill down further and analyse consumer behaviour patterns and use this knowledge to financially benefit bank, merchant and consumer.

"We can track a customer's behaviour in terms of types of purchase – food, petrol, retail or entertainment – and then when it comes to rewards, we can give them a reward relevant to them based on those analytics," David adds.

As consumers' appetite for loyalty programmes grows and banks increasingly recognise the financial benefits of rewarding and retaining customers, Welcome Real-Time's future, like those of its customers, looks set for sustainable long-term growth. ■

Credit unions reap Durbin benefits

Credit Unions are reaping the benefits of the effect the Durbin Amendment has on banks' debit card portfolios, with a number of them launching initiatives to attract more debit card customers. Credit unions represent just 4% of the overall US cards market – but know how to fight the big guys, writes **Duygu Tavan**

It certainly was not a great time to start charging for services and products that customers had got used to. But some banks said they would, arguing they had to make up for the lost revenue due to the effects of the Durbin Amendment.

So, Bank of America (BofA), Wells Fargo, Citi, US Bank, Sun Trust angered customers... and credit unions began reaping the benefits.

Even now, after they have made a U-turn and decided to drop the fees, credit unions are riding on a wave of glory.

According to the Credit Union National Association (CUNA), the network of affiliated state credit union leagues, "hundreds of thousands of consumers have rushed to them" since the end of September.

The angered masses of consumers have brought along their savings, boosting credit unions' deposit balances.

A nationwide survey by CUNA of 5,000 of the 7,400 state and federally-chartered credit unions revealed more than 80% registered a growth in their customer base, which they attributed to the growing anger and consumers' mistrust of large banks.

Another reason for the big migration, CUNA highlighted, was the social-media inspired Bank Transfer Day, which incentivised and urged consumers to switch their current accounts by 5 November.

CUNA estimates "at least 650,000 consumers" have joined credit unions since 29 September – the day Bank of America announced that it would introduce a $5 monthly debit card fee.

All this, CUNA says, has boosted credit unions' balance of savings accounts by $4.5bn.

No surprise

This does not come as much of a surprise: a poll by Bankrate.com in March ha found 64% of US bank customers would consider switching to a credit union if account fees were really to be raised or introduced.

According to CUNA president and CEO Bill Cheney, the results are proof "consumers are clearly making a smarter choice by moving to credit unions where, on average, they will save about $70 a year in fewer or no fees, lower rates on loans and higher return on savings".

The study by CUNA found the larger credit unions, which account for about a fifth of all credit unions in the US and are classified as those with total assets of or above $100m, registered the biggest growth.

Despite making up just 20% of all credit unions in the US, these large unions represent 80% of the overall credit union member base – and more than 70% of them have grown their membership base since the end of September.

> **"Consumers should be given more credit for being smart about what to do with their money"**
> CUNA president and CEO Bill Cheney

The mass migration from banks to credit unions did not happen out of nowhere, of course.

Card customisation service provider Serverside has a number of credit unions as clients.According to the company's head of marketing Connor Kinnear, there is a psychological aspect to consumers' move to credit unions – they are more local, thus appear closer to the customer. And they do not suffer from the mistrust that the big banks suffer from.

"Credit unions have to be more creative [than banks], try to incentivise their customers," Kinnear says.

Besides Bank Transfer Day, credit unions have initiated a number of promotions and other advertising campaigns to attract customers.

The campaigns included sending out what CUNA described as switch kits, which existing credit union members were spurred on to distribute – "share" – with non-credit union members.

Some even offered bonuses for members who brought in new members. Then there were website-based and social media initiatives, extended opening hours and more staff for 5 November, banners in branches and other lobbies.

The message was simple.

"They are doing whatever their resources will allow them to do to help serve this surge in consumer interest in credit unions," Cheney said at the announcement of the CUNA survey results.

On Bank Transfer Day alone, credit unions registered 40,000 new members, received $80m in new savings account funds and issued new loans worth $90m on 5 November.

According to Cheney, the surge of 650,000 new credit union members since the end of September was more than the total for the twelve months in 2010.

Mass migration

Shortly after Bank Transfer Day, Cheney said: "Since 29 September – the day BofA announced its now-rescinded monthly $5 debit card fee – average estimated membership increases nationally were around 20,000 new members each day.

"On 5 November consumers doubled the pace. It is clear that consumers kept up their interest in credit unions.

"Consumers should be given more credit for being smart about what to do with their money. Many obviously did not wait for a specific day, but took the time to make the change to a credit union in a deliberate manner. Consumers made a smarter choice."

"This nation needs more economic activity to get back on its feet; credit unions are ready and willing to help gets things moving. Perhaps credit unions and their new members got things started on 5 November."

One of the credit unions seizing the opportunity is Freedom Credit Union, which began offering to pay $5 per month for purchases made on debit cards. The credit union is also offering to pay customers up to $60 if they switch to its Freedom's Free Interest current account.

The mass migration is certainly a trend to follow in the coming month, as banks will begin to grapple with the consequences. For now, the score is one-nil to the credit unions. ■

Back to the future? Not quite

The US credit card mergers and acquisitions market is slowly regaining traction, fueled by a number of smaller deals between mid-sized players, including some re-entering the card issuance business after years away. **Charles Davis** reports

Two ubiquitous variables – the new card reforms and the economy – have worked in tandem to tamp down the mergers and acquisition (M&A) market and depress premiums.

A comeback to the heady days of 2008 could be years in the making, experts say, despite the latent demand underlying the market.

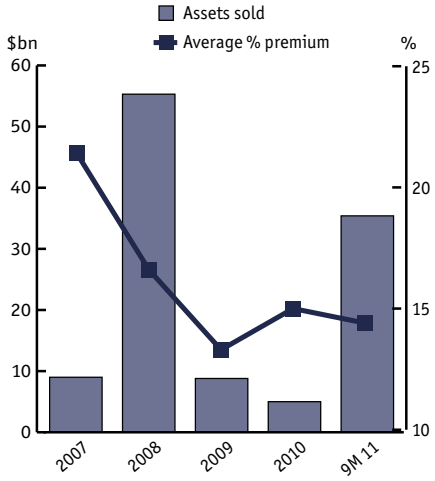
Yet, there are deals to be had, particularly as some of the larger issuers seek to offload non-essential card assets, and private label portfolios are generating renewed interest after years of lackluster performance dampened enthusiasm for them in the M&A market.

The attention-getter thus far in 2011 has been the $30bn Capital One acquisition of HSBC's US card portfolio, distracting attention away from a number of smaller, but just as interesting deals like Bank of America's sale of its $6.8bn Canadian credit card business to Toronto-Dominion Bank.

These deals underscore a major reversal of years past, as smaller banks and regional players take portfolios back from the bigger players as prices reach the point where it makes too much sense for the small issuer to re-establish a card issuance relationship with its customer base.

ERRATIC ACTIVITY

Bank portfolio sales



Source: Robert K Hammer & Associates

Retro feel

Robert K Hammer, president and CEO of Hammer & Associates, points to a pair of recent deals as examples of the back-to-the-future feel of credit card M&A deals: Bank of America's FIA Card Services subsidiary's deals to sell portfolios to Regions FinancialCorp and Santander's Sovereign Bank.

In June, Bank of America, in its ongoing asset offloading campaign, sold a $1bn Regions-branded credit card portfolio back to the Birmingham, Alabama-based bank.

For Regions, it was an opportunity to get back in the cards business, and regain control of a portfolio of 500,000 existing Regions consumer credit card accounts. Additionally, Regions acquired a portfolio of 40,000 business credit card accounts.

"This transaction accelerates Regions' efforts to improve the balance between our consumer and commercial loan portfolios and further diversify revenue streams," says John Owen, senior executive vice-president and head of consumer services with Regions.

"We plan to grow this business as part of an expanding suite of financial solutions to better serve our customers."

In announcing the deal, Regions CEO and president Grayson Hall said much had changed since they exited the issuance business.

"This transaction will help us bring greater balance and diversity to our business while providing opportunities for us to meet more of our customers' borrowing needs," Hall says.

"Our successful efforts over the past two years to attract new checking customers gives us a strong platform for operating this business successfully."

Odysseas Papadimitriou, chief executive of Evolution Finance Inc's CardHub.com, a lead-generation website, says the deals signal a realisation among issuers that the days of huge profits on debit may be nearing an end.

"They are coming back because they are realising that it was a mistake to exit in the first place," Papadimitriou says.

"A credit card, unlike a loan, is a transactional vehicle, a relationship builder, so it provides more opportunities to deepen that tie."

Another element, he said, is profitability.

"Credit cards are still a rich opportunity to differentiate," Papadimitriou says.

"Mortgages have become a commodity, auto loans are also pretty commoditized. So here is an unsecured loan that fosters creativity, and allows rich access to a lot data."

Of course, a return to the credit card business will help Regions and other smaller banks find some new revenue in the wake of the Dodd-Frank financial reform law.

Banks that left the cards business have profited mightily from debit cards, only to find themselves in a less advantageous position once the interchange caps kicked in.

It certainly helps those looking at coming back into card issuance that the pricing of portfolios is dampened by the economy.

"The valuation dynamic right now is not strong, and some sellers are re-evaluating from a sales position several months ago," says John Costa, managing director of financial strategies at Auriemma Consulting Group.

"Some of the smaller and mid-sized issuers who were right on the verge of exiting the issuance business saw the low premiums and they don't want to sell them and take a loss.

"We thought there would be a natural tendency by the smaller players to exit the business, but they are being faced with illiquidity on the buyer side."

IMPACT OF REGULATION

Bank portfolio sales

2007: $9bn in assets sold at an average 21.4% premium
2008: $55.3bn at 16.6% premium
2009: $8.8bn at 13.3% premium
2010: $5bn at 15% premium
2011: (first 9 months): $35.4bn at 14.4% premium

Source: Robert K Hammer & Associates

BofA keeps turning

The M&A market would be fairly dormant if not for Bank of America's ongoing sales push, as it seeks to shed the cards it issues in Canada and Europe, legacies of its 2006 acquisition of MBNA Corp's FIA Card Services.

The bank also sold its Spanish credit card

business to Apollo Capital Management, its $200m small-business card portfolio to Barclays in and has placed an additional $19bn of card assets in the UK and Ireland on the sales block. The bank said it hoped its exit from the international cards business would shore up its capital ratios.

"Our strategy is clear: We have been transforming the company to deliver the franchise to our core customer groups, and building a fortress balance sheet behind that," chief executive Brian T Moynihan said in a statement.

"While the credit card remains a core product for our US customers, an international consumer card business under another brand is not consistent with that strategy."

While Moynihan says BofA intends to keep the vast majority of its US portfolio, the bank also has shed a number of legacy portfolios from previous acquisitions.

BofA also recently sold a Sovereign-branded portfolio it serviced back to the Pennsylvania-based bank.

The number of accounts included in the portfolio was in the low six figures, Hammer says, typical, with the exception of Cap One-HSBC, of the deals being made these days.

"We are a long ways from the frothy days of 2008," Hammer adds. "We are seeing prices slowly, slowly creeping back up to the mid-teens in terms of premiums paid for portfolios, but you have to remember that pre-2008 they were routinely in the 20% range."

There have been 13 general-purpose card portfolio sales worth $4.5bn announced or completed so far this year, Hammer says.

That does not include private-label assets like the HSBC portfolio. The buyer of that portfolio, Capital One, paid an 8.75% premium, or $2.6bn, for the HSBC portfolio, which includes a mix of private-label retail and cobranded credit cards.

The deal included HSBC's MasterCard, Visa, and other credit card operations, including the private-label portfolios of Best Buy, Neiman Marcus and Saks Fifth Avenue.

HSBC's US unit will retain its $1.1bn portfolio of general-purpose cards and will still offer credit cards to its customers.

Costa says one of the more obscure factors slowing the M&A market are new capital standards and higher underwriting standards in the wake of the subprime credit crisis.

"The issuing side of the business requires a lot of capital, and high reserves for potential losses," Costa adds.

"Issuers have to set aside a ton of capital, and that has a lot of the bigger players re-evaluating capital holds, so they aren't going to get into a lot of risk-taking."

Timothy Kolk, owner of TRK Advisors, an M&A adviser to banks and credit unions seeking to buy and sell card portfolios, says the slowdown in portfolio sales has hit credit union issuers just as hard as banks.

Credit union consolidation

Credit unions represent just 4% of the overall US cards market, Kolk says, but consolidation in the market was just beginning to take off when the economy imploded.

"By now every credit card issuer understands that the CARD Act and the economy have combined to create a new 'normal' for the way credit card programmes must be managed," adds Kolk.

"What is only now coming into view is a special and material set of concerns related to merging credit unions.

"CARD Act rules, when combined with now-in-place accounting rules for merging credit unions, can together create long-term compliance and unanticipated financial risks for years to come."

Kolk says a major factor in M&A these days is the difficulty in portfolio valuation. The 15-20% premiums of yesteryear are nearly impossible to find these days, he says, and "squeaky clean" portfolios are yielding premiums in the low teens.

Three variables confound pricing, Kolk says. First and foremost is the portfolio's underlying interest rate.

"Yield post-CARD Act is really critical because where once you could simply acquire a portfolio, then quickly reprice, now repricing is a three-to-four-year proposition, so yield is huge," he says.

Purchase volume is the second-most important variable. In a soft economy, regional differences in cardholder domicile are tremendously important.

Cardholders in the Midwestern farming areas are doing quite well, while portfolios centred in depressed states such as Michigan, Florida and Arizona make portfolio purchase volume stagnant at best.

Closely related is he third variable, average balance per account, which dictates the would-be buyer's expense levels.

"If you spend $100 a year to run and manage an account, and you buy a portfolio with average balances of $1,000, you are going to spend 10% of the account's value just to run it, and that is too high," Kolk says. "But if the average balance is $2,000, then your expense is 5%."

Value a portfolio too high, and the buyer will be dealing with the after-effects for years, he says.

If a card portfolio is assigned a fair value above book value, then the issuer must carry the difference on its balance sheet where it may be subject to future write-down as, for example, the portfolio deteriorates, as losses increase, or as new legislative events change the base economics of the business.

All this uncertainty has many issuers deciding to keep their portfolios, Kolk says.

Hammer agrees, adding the emphasis on relationship building will see a greater emphasis on card-based marketing and a greater reliance on fee income as the dominant revenue stream.

In fact, Hammer notes that fees in 2011 will surpass interest as the payment card industry's largest income stream for the first time, representing 52.7% of total revenue.

This represents a dramatic reversal from as the heady days of 2003, when the payment card industry generated 67% of its revenue from interest and 33% from fees.

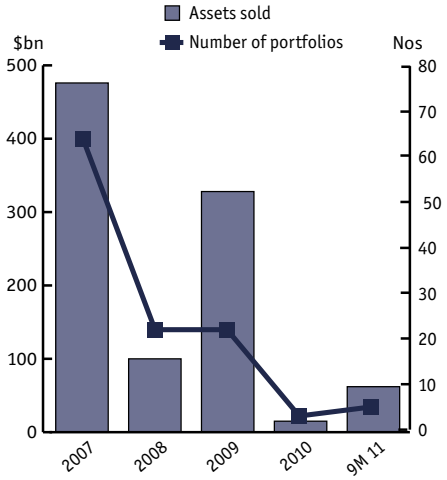
"This was bound to happen," Hammer says. "As soon as the interchange legislation hit the books, issuers responded by adjusting their pricing. Consumers will adjust accordingly, either by consolidating balances to avoid such fees, changing their purchase behaviour, switching banks or staying put."

The effects on the M&A market may be unintended consequences of the regulation, but they are here to stay.

"It will never be what it was," Kolk says. "There just isn't the same promise of profitability out there for issuers." ■

BUMPY RIDE

Credit union card portfolio sales



Source: TRK Advisors

CREDIT UNION RALLY

Credit union card portfolio sales

2005: 64 portfolios, $476m
2008: 22 porfolios, $100m
2009: 22 portfolios, $328m
2010: 3 portfolios, $15m
2011 (first half): 5 portfolios, $62m

Source: TRK Advisors LLC

Multinationals see growth in LatAm

For Citi, HSBC, Scotiabank, BBVA and Santander, the Latin American cards market represents a major opportunity. They are keen to tap growing demand for credit cards among the region's middle-class consumers. **Robin Arnfield** reports

"For multinational banks, the Latin American credit cards business is strategically important," says Ali Raza, executive vice-president at US-based consultancy Speer & Associates.

"Their Latin American cards operations are very profitable for them in terms of fees, interest charges, and the third-party insurance products they sell to cardholders.

"Also, issuing credit cards helps multinationals promote their brand in the region. Credit cards offer a more effective way to carry out lifestyle marketing to different consumer segments than current accounts or savings accounts do."

Andreas Suma, senior director, Latin America at FICO, says multinationals face regional competition from major domestic Brazilian banks such as Itaú Unibanco.

"Itaú has cards operations in Argentina, Chile, Paraguay and Uruguay," Suma says. "It also owns start-up Mexican credit card issuer Itaucard Mexico [formerly called Tarjetas Unisoluciones]."

Segmentation

Franklin Santarelli, Fitch Ratings managing director for Latin American financial institutions, says multinational credit card issuers focus on higher-income segments in Latin America than local issuers do.

"In Mexico, Citi's Banamex subsidiary and BBVA Bancomer target the A, B and C+ segments," he says.

"Specialist lenders such as Banco Azteca offer credit cards to low-income consumers in Mexico. In Brazil, Santander offers credit cards to the A, B and C+ segments, while HSBC targets A, B, C and C-."

In Brazil, there has been growth in credit card issuing not just to affluent Brazilian consumers, but to the country's new middle-class, Santarelli says.

In recent years, some 40m Brazilian consumers have joined the middle-class and entered the banking system. Mexico has also seen significant growth in low-income consumers migrating to the middle class.

"Brazilian banks offer new middle-class consumers credit cards with low limits," Santarelli says. "But getting a credit card may not be the first priority for the newly-banked, as they may prefer instalment loans repaid from their salaries."

In Latin America, multinationals prefer to issue credit cards as part of a package to regular banking customers, such as mortgages and loans, Santarelli says.

"They realise the new middle-class represents a pool of customers who will eventually become more affluent and have a greater demand for banking products such as credit cards," he adds. "Several multinationals are now prospecting within the emerging middle-class," says Raza. "The next big credit card growth wave will come from this group, as the higher-income segments get saturated."

Regulators

Raza warns that regulatory changes may curb the profitability of multinationals' Latin American credit card portfolios.

"By European or US standards, the fees and interest rates charged by Latin American issuers are very high [refers to domestic issuers and multinationals]," he says.

"Regulators are getting concerned about excessive fees and interest rates, and there's also concern that consumers may be getting over-extended on their credit cards."

In 2010, Mexican and Brazilian regulators imposed curbs on the fees that credit card issuers can charge their customers.

In July 2011, the federal prosecutor's office in Rio de Janeiro filed civil charges against HSBC Brasil, Banco Santander Brasil and Itaú, seeking compensation of BRL1bn ($623m) for what the prosecutor alleged were illegal fees charged to customers from 2008 to 2010.

The amount includes interest, penalties and the original fees, which covered credit card charges as well as other banking fees, Bloomberg reported.

Another challenge to multinationals' credit card profitability is low transaction volumes.

"At a high level, there are 1.25–1.5 transactions per credit card per month in Latin America, compared to 3.0-3.25 in Canada and Europe and Latin American balances are lower," says Raza.

"This indicates a tremendous card activation and usage opportunity, while highlighting the need for issuers to compete with cash. But the challenge is to balance aggressive expansion of their credit card lending with adherence to their risk management guidelines."

MEXICO

Mexican credit card receivables, MXNbn

Issuer	May 2010	May 2011
BBVA Bancomer	68.179	77.017
Banamex	63.158	63.145
Santander	26.558	25.001
HSBC	19.223	16.965
Banorte	12.381	11.964
American Express	8.569	7.267
Scotiabank	4.578	4.054

Source: Comisión Nacional Bancaria y de Valores (CNBV/ National Banking and Securities Commission)

Platforms

A trend FICO has observed is that multinationals are putting their various Latin American cards operations on a single IT platform which has common standards and practices across the region.

"Citi, BBVA, Scotiabank and HSBC have all moved to regional platforms for their cards operations in Latin America," says Suma.

"Running their Latin American cards businesses on a global or regional platform provides multinationals with much-needed capacity for scaling up," says Raza.

"It also allows them to take marketing, fraud management and technology expertise they've acquired in other markets and apply this know-how in Latin America.

"They can deploy more robust and innovative technology and better analytics capability to compete with domestic issuers."

Raza admits that domestic Latin American banks are catching up with the multinationals in terms of cards management technology, but stresses that it is particularly in marketing that multinationals have the edge over domestic banks.

"Most multinationals have co-branded portfolios, for example with airlines," says Raza. "For a major airline or for an oil company such as Exxon, a partnership with a

multinational bank is a good way to get its co-branded cards into multiple Latin American markets.

"HSBC can offer co-branded cards with British Airways in Latin America more effectively than a local issuer. There's also the aspirational brand value of cards issued by North American or European banks, and Latin Americans like brands.

"Also, many Latin Americans have a strong affinity with Spain, which gives Santander and BBVA an advantage."

For high-end cardholders, multinationals can offer attractive rewards programmes.

"Citi or Scotiabank, for example, can offer a very strategic regional airport lounge programme, which a local bank may find hard to achieve," Raza says. "In Mexico City, Citi has an airport lounge reserved solely for its high-end credit card customers."

■ CASE STUDY

Banco Santander Brasil

"Banco Santander Brasil works hard to segment its credit card offers as part of a strategy to aggressively build its share of the Brazilian cards market," says Cassius Schymura, the bank's executive director of payments products.

"In the third quarter of 2010 alone, we saw 20.2% year-on-year growth in our credit card business.

"In the lower and middle-income segment, we offer cards such as Santander Free, which has no annual fees; Santander Flex, which provides an extra five interest-free days for paying off the monthly balance plus one interest-free month a year; and Santander Light, which offers low interest rates."

For high-income consumers, Santander Brasil offers Platinum MasterCard and Visa rewards-based credit cards as part of its Serviços Van Gogh banking package.

"Our van Gogh service is about offering a personalised relationship with the customer," says Schymura.

"For our highest-level customers, we offer the Unlimited Black MasterCard. This card is the only one in Brazil to offer Priority Pass access to over 500 VIP airport lounges worldwide."

As part of its parent's global partnership with Ferrari, in November 2010 Santander launched the Ferrari co-branded credit card in Brazil (monthly income from BRL2,000 – $1,104), after launching it in Mexico in September 2010.

The card, which is only available as a MasterCard, offers Ferrari-branded rewards. Santander also offers the Esso Santander co-branded credit card, which is available in Visa and MasterCard versions.

The card offers discounts on purchases at Esso's Brazilian petrol stations as well as Esso rewards points. Santander says a co-branded credit card with Shell Brazil is under development. ■

Santander

In Latin America, Santander's main credit card markets are Brazil, Mexico, Argentina and Chile. In the first half of 2011, Santander's overall Latin American cards business saw a 24% year-on-year growth in receivables.

"In terms of its overall regional presence, such as branch and bank account numbers, Santander is bigger than BBVA in Latin America," Suma says.

"In Latin America, we're more focused on the already-banked segment for credit cards than the emerging segment," says Carlos Oramas, global head of cards issuance for Santander Cards.

"In Brazil, the middle class is growing very fast, and we're doing some specific cards for that segment in Brazil. But Santander Brasil's main focus is the already-banked."

Brazil is a pillar for Santander's Latin American credit card business.

"The Brazilian credit card market is growing very fast, but our Brazilian cards business is growing even faster than the market," says Oramas.

In the second quarter of 2011, Santander Brasil saw its credit card portfolio grow to BRL12bn from BRL 9bn a year earlier. Santander Brasil's total credit card transactions rose to 196.3m in June 2011 from 158.9m in June 2010, while the number of its credit cards in issue rose from 10.2m to 11.9m during the same period.

In March 2011, Banco Santander Rio, Santander's Argentine unit, had 2.86m credit cards in issue and 1.17m credit card accounts, according to Banco Central de la República Argentina (Central Bank of Argentina).

Banco Santander-Chile had 1.82m credit cards in issue and 1.49m credit card accounts in March 2011, according to Chilean regulator SBIF (Superintendencia de Bancos e Instituciones Financieras/Superintendency of banks and financial institutions).

In Mexico, Santander is the third largest bank in terms of retail banking and also credit and debit cards.

In May, Santander Mexico had MXN25bn ($2.03bn) worth of credit card receivables, according to Mexican regulator Comisión Nacional Bancaria y de Valores (CNBV/National Banking and Securities Commission).

"Mexico was a pillar for our credit cards business until the 2009 financial crisis," says Oramas. "In 2009, all the big banks in Mexico stopped offering credit cards, until the crisis ended."

Oramas says Santander is committed to the Mexican credit card market, due to Mexico's regional importance.

"Like the other Mexican credit card issuers, we've cleaned up our Mexican card portfolios and started selling credit cards in Mexico again, but more conservatively than before the crisis," he says. "We are now more selective in credit issuance in Mexico, and only issue to customers with good risk scores."

In Argentina, Latin America's third-largest cards market, and Chile, where Santander is the credit card market leader, Santander mainly sells its credit cards through banking packages. These offer a range of accounts plus a credit card for a single fee.

"In Brazil and Mexico, we started offering packaged accounts with credit cards two years ago, but we mostly sell credit cards on a stand-alone basis," says Oramas.

While it does not export credit card products from one market to another, Santander does have a common methodology for credit card product design and for portfolio management, which it uses in each country.

"Credit card products have to be tailored to individual markets," Oramas says.

"For example, we offer different versions of our Ferrari co-branded credit card in Brazil, Mexico, Germany, Portugal and Spain."

Santander has a common IT platform which each of its cards operations uses.

"We don't centralise our platform, although, in some cases, one country might host the platform for several other countries," says Oramas.

BBVA

Bancomer is currently the main generator of profits for the BBVA group. In the first half of 2011, Mexico provided 27% of BBVA's group gross profits, while the rest of Latin America contributed 20% and Spain 37%.

Bancomer had 31% of Mexico's credit card and unsecured lending market in May, up from 29% a year earlier.

In May, Bancomer led the Mexican credit card market with MXN 77bn worth of receivables, according to CNBV.

While it does not issue cards in Brazil, BBVA owns BBVA Banco Frances in Argentina, which in March 2011 had 1.76m total credit cards in issue and 1.41m credit accounts.

In March, BBVA Chile had 183,619 total credit cards in issue and 134,660 credit card accounts, according to SBIF.

Citi

"The largest multinational credit card issuer in Latin America, purely in terms of cards in issue [not in terms of receivables or transaction volumes] is Citi," says Suma.

"This is because of Banamex, Citi's Central American cards business and its Brazilian subsidiary Credicard. However, the three biggest domestic Brazilian banks have more credit cards in issue than Citi's entire Latin American cards business."

Citi has subsidiaries in 25 countries across Latin America. In Mexico, Latin America's second largest card market after Brazil, Banamex had MXN63bn worth of credit card receivables in May, putting it in second place behind Bancomer, according to CNBV.

Credicard administers Citi's Brazilian Diners Club, Visa and MasterCard credit cards, and has formed a partnership with US acquirer Elavon to enter the Brazilian acquiring market.

According to its website, Credicard has 4.7m credit cards in issue and accounts for 10% of Brazilian credit card billings.

In July, Elavon Brazil said it was in the process of hiring staff and organizing its Brazilian head office, with a view to starting operations by the end of 2011. Antonio Castilho, a former executive at Brazilian acquirer Cielo, has been appointed Elavon Brazil's president.

In Argentina, Citi had 896,729 credit card accounts and 1.13m total credit cards in issue in March 2011.

"Citi is a big player in the Central American cards market, because in 2006 it bought Grupo Financiero Uno, whose Aval Card business was the largest credit card issuer in Central America," says Raza.

"In 2007, Citi bought Banco Cuscatlan, the biggest bank in Central America, giving Citi a distribution channel for the cards issued by Aval."

In 2008, Citi integrated Grupo Financiero Uno's Aval and Banco Uno businesses and Cuscatlan with its local Citi operations.

TIMELINE

HSBC Latin American and Caribbean acquisitions

Country	Acquisition	Year
Bermuda	Bank of Bermuda	2004
Brazil	Banco Bamerindus	1997
Mexico	Grupo Financiero Bital	2002
Panama	Grupo Banistmo, with operations in Panama, Costa Rica, El Salvador, Honduras, Colombia, Nicaragua, and the Bahamas	2006

Source: HSBC

HSBC

HSBC's main Latin American retail banking businesses are its HSBC Bank Brasil-Banco Múltiplo, HSBC Mexico, HSBC Bank Argentina and HSBC Bank (Panama) subsidiaries.

In May, HSBC's group chief executive Stuart Gulliver said HSBC would concentrate on achieving organic growth in retail banking in Argentina, Brazil and Mexico, which it sees as strategic markets. He warned of possible cuts at "less strategic and underperforming businesses" elsewhere in Latin America.

At the end of 2010, HSBC had 790,000 Premier customers in Latin America. And during 2010, the bank launched its Advance service, which packages a credit card with a current and savings account and line of credit, in Brazil, Mexico, Argentina, Panama and Chile. By year-end, Advance customer numbers exceeded 425,000 in Latin America.

Business News Americas quoted a source in May as saying that HSBC is considering selling its retail banking operations in Chile. HSBC entered the Chilean market in 2010 offering Premier and Advance accounts, but failed to see any significant growth in its share of consumer lending, the news agency said.

Brazil represented 55% of HSBC's Latin American profits in the first half of 2011, while Mexico accounted for 26%. HSBC saw growth in consumer lending, including credit cards, in Brazil in the first half of 2011.

In 2010, HSBC Brasil's fee income rose due to the launch of the Advance account package plus increased revenues from credit cards as a result of higher account activation and use.

In Brazil, HSBC owns Losango, which offers private-label and open-loop credit cards as well as consumer loans in partnership with 23,000 Brazilian retailers.

Losango has 20m customers, and 20% of the Brazilian direct consumer finance market. HSBC Brasil's own credit card portfolio includes co-branded cards with Delta Skymiles and Accor Hotels.

As at May, HSBC was the fourth largest credit card issuer in Mexico, with total receivables of MXN19.22bn, according to CNBV.

In February 2011, HSBC Mexico launched the '+ puntos +millas' ('points and miles') credit card reward programme, which is available free of charge to its Classic, Gold, Platinum, Advance and Premier cardholders.

As a result of "+ puntos +millas", HSBC Mexico increased its sales of credit cards by 43% in the second quarter of 2011 compared to the previous quarter. The reward programme also resulted in increased credit card balances, HSBC says.

HSBC's Argentine subsidiary had 896,729 credit card accounts and a total of 1.13m credit cards in March 2011.

HSBC RESULTS

HSBC profit/loss before tax in Latin America

	Personal financial services division, $m, year-end		
	Year-end 2009	Year-end 2010	First-half 2011
Argentina	24	88	49
Brazil	(224)	93	136
Mexico	(31)	165	169
Panama	69	48	17
Other	(54)	(100)	(35)
Total	**(216)**	**294**	**336**

Source: HSBC 2010 annual report, interim 2011 report

Scotiabank

Scotiabank has retail banking and cards operations in Belize, Peru, Chile, Costa Rica, El Salvador, Guatemala, Mexico, Panama, Puerto Rico, and Venezuela, as well as across the Caribbean.

In Mexico, Scotiabank came seventh in terms of receivables in May, with MXN4bn, according to CNBV.

Scotiabank Mexico's revenues from credit card fees and commissions fell to MXN266m in the first half of 2011 from MXN317m a year earlier, although delinquency levels improved.

In December 2010, Scotiabank Mexico launched a range of cards offering travel-related rewards: Scotia Travel, Scotia Travel Oro (gold), Scotia Travel Platinum and Scotia Travel Premium.

In Chile, Scotiabank had 126,766 credit card accounts and a total of 148,179 credit cards in issue in March.

In January, *Bloomberg* reported that Scotiabank plans to offer in-store consumer loans and credit cards through partnerships with Mexican retailers to low-income consumers.

Scotiabank entered the Peruvian consumer-finance market in 2008 by acquiring lender and credit card issuer Banco del Trabajo, which it rebranded as CrediScotia. It also has consumer-finance operations in Chile, Guatemala and the Dominican Republic.

In February, Scotiabank acquired Pronto!, Uruguay's third-largest consumer-finance company.

Pronto! offers personal loans and Visa-branded credit cards through 600 retail outlets, and has 200,000 clients.

In June, Scotiabank acquired Nuevo Banco Comercial, Uruguay's fourth-largest private bank and its largest credit card issuer.

"Whenever Scotiabank enters a new cards market in Latin America, it has a strategy of applying the lessons it learnt in other Latin American countries to that market," says Speer's Hiers. ■

Mergers, acquisitions and partnerships

After a period in the doldrums, 2011 saw some uplift in terms of the credit card M&A market. In addition, a significant number of deals, partnerships and joint ventures are set to deliver new and alternative payments technologies

In the US, the credit card M&A market began to pick up in 2011, fuelled by a number of smaller deals between mid-sized players – including some who are re-entering the card issuance business after years away.

There were the high-profile deals by Capital One (paid $30bn for HSBC's US card portfolio) and Bank of America's (Bofa) sale of its $6.8bn Canadian credit card business to Toronto-Dominion Bank.

In June, BofA, in its ongoing asset offloading campaign, also sold a $1bn Regions-branded credit card portfolio back to the Birmingham, Alabama-based bank.

For Regions, it was an opportunity to get back in the cards business, and regain control of a portfolio of 500,000 existing Regions consumer credit card accounts. Additionally, Regions acquired a portfolio of 40,000 business credit card accounts.

In terms of product development, companies may still be in the process of carving out niches for themselves – but partnership and acquisition patterns are emerging.

This year, there was Dutch start-up TinyPay, which secured $1m from Aksoy Internet Ventures with the aim of expanding globally and take on the likes of PayPal; and Sweden-based iZettle. Then, of course, there was there was of course Isis and Google Wallet.

■ QUICK COUNTRY PROFILE

Nigeria

Nigerian banks were hit hard by the 2008 financial crisis but the country's future looks promising after it has reviewed its banking sector and implemented new regulations.

The country has also seen a change to a more diversified economy, with the services sector overtaking resources by contributing 37% to GDP growth since 2000.

Credit cards were only introduced into Nigeria in 2004 and are generally targeted at wealthier Nigerians. It is estimated there are around 300,000 in circulation.

Figures could increase in the near future as the country is looking to establish a more conducive environment for borrowers and lenders to transact. It has already set up its first credit bureau in Lagos.

The usage of debit and pre-paid cards has grown far more quickly than credit cards, with pre-paid cards increasing by an estimated 20% year on year.

At the end of 2008 there were around 28m payment cards in issue in Nigeria, with 27.7m being debit cards.

The volume and value of transactions in 2008 stood at 66.1m and NGN441.6bn ($2,7bn), which represented a rise of 273% and 196.9% respectively compared to 2007.

This is partly due to the formation of the domestic debit Interswitch scheme and partly because of new government directives for electronic payments. Salaries and pensions for instance, of firms employing more than 50 workers, are now paid electronically.

But it is ATM transactions that comprise the overwhelming majority of e-payments in Nigeria, representing 80% of all e-payment transactions in terms of volume and 84.5% in terms of value as of June 2009.

Usage of ATM transactions amounted to 49.6m and NGN285.8bn for the period, a staggering rise of 162.1% and 99.5% respectively from June 2008.

In the hope to spread electronic payments more widely, The Central Bank of Nigeria has this month launched an awareness campaign for end-to-end electronic payments of all forms of Government suppliers, taxes and pensions. ■

On the move

Isis announced at the beginning of December that it had selected Gemalto to secure its mobile commerce platform in the US. Isis will use Gemalto's Allynis Trusted Service Manager (TSM) solution, which allows Isis to provide consumers and merchants with an open m- commerce platform.

Google Wallet went live in September and shortly before that, secured Visa's approval to use its payWave technology.

All these launches, but Google's in particular, have stirred optimism for contactless and other alternative payments in the industry.

One deal that stood out – and probably showcases the merging of new payment methods – was that of Vodafone, CartaSi, MasterCard and the Italian People's Bank Institute in Italy.

They released a prepaid contactless payment card, called Vodafone Smart Pass, which will be linked to the card holder's Vodafone phone number, to enable contactless mobile purchases.

Vodafone is definitely a company to watch out for next year. 2011 saw its Indian division's partnership with HDFC Bank to deploy its M-paisa mobile banking service in the north-western Indian state of Rajasthan.

Where does this leave the good old card, then? Well, it may be making some space for the new entrants, but plastic's anchor is set. One does not need any new methods to get results, just innovative ideas and new features, it seems.

Display cards continue to gain popularity. Turkish bank TEB went live with the world's first display card last year and at this year's Cartes, it launched its first display credit card.

Romanian banks Credit Europe Bank and Carpatica Bank followed suit and launched display debit cards for online banking authentication in October.

MasterCard expanded its prepaid footprint with a deal with Western Union to drive cross-border remittance.

Western Union itself made significant acquisitions this year. It bought Travelex Global Business Payments, the spun-out B2B unit of foreign exchange specialist Travelex. Cross-border remittances seem to be a focus for next year, as Western Union teamed up with Forex Bank to provide Europe's Nordic region money transfer services to 100 Agent locations in Denmark, Finland, Norway and Sweden. ■

Mobile payments get going in LatAm

Two rival alliances between major telcos and financial institutions are set to drive mobile payments in Latin America. **Robin Arnfield** looks at two high-profile JVs – one between MasterCard and Telefónica, the other bringing together Citigroup, América Móvil and Grupo Financiero Inbursa

In January 2011, MasterCard and Spain's Telefónica signed an agreement to offer mobile financial services to the 87m subscribers of Telefónica's Movistar mobile subsidiary in 12 Latin American countries. The two companies have formed a 50-50 joint venture called Wanda to operate the services.

MasterCard and Telefónica's joint venture will face strong competition from an initiative involving Citigroup, Latin American mobile carrier América Móvil, and Mexico's Grupo Financiero Inbursa (América Móvil and Inbursa are both owned by Mexican entrepreneur Carlos Slim Helú).

In October 2011, the three companies formed a $50m joint venture called Transfer to offer mobile financial services across Latin America. Transfer will initially offer services to customers of Citi's Mexican subsidiary Banamex, América Móvil's Mexican mobile subsidiary Telcel, and Inbursa, starting in the first quarter of 2012. América Móvil has 236m mobile customers in 18 countries.

Both Wanda and Transfer aim to bring mobile banking services to unbanked Latin American consumers. "Around 75-80% of the population in Latin America has cellphones," says Richard Speer, chairman of US consultancy Speer & Associates. "But only 33-40% of Latin American households have bank accounts. The market research we conducted in several Latin American countries revealed a very high demand for mobile financial services among banked and unbanked customers," says Pablo Montesano, chief marketing and sales officer at Miami, Florida-based Wanda.

"Domestic remittances within Latin American countries cost 10-15% of the transfer, and microcredit agencies can charge interest rates of over 80%.

"Since the unbanked rely solely on cash, it's difficult for them to prove their income and build credit histories. Mobile money provides an answer to these inefficiencies."

Wanda

In June 2011, Richard Hartzell, president of MasterCard Latin America and Caribbean (LAC), told *Business News Americas* that Wanda's intention was "to be functioning in various markets by the end of 2011".

Montesano declined to give an exact date for commercial rollout, but said: "We are moving to final technological and operational tests in some of the countries in line with Richard Hartzell's comments.".

"The initial offering consists of a basic portfolio of services based on a prepaid mobile wallet, including person-to-person transfers, mobile airtime top-up, and bill payment."

According to Montesano, Wanda plans to adopt an open-platform approach offering interoperability with multiple carriers.

"We are committed in the long term to a multi-partner approach, although initially we are only working to activate Movistar's customer base," he says.

Adopting an open-platform model means Wanda will be able to facilitate fund transfers between unbanked and banked consumers.

"Because our m-wallet is open-loop, it will be integrated with existing payment systems, so funds can flow freely between the banked and unbanked," Montesano says.

"We have a favourable view of sharing with other mobile money schemes the burden of financial education [about mobile money], building cash in/cash out networks, and sup-

LATIN AMERICA

All MasterCard credit/debit/charge card programmes

GDV* $bn	Growth in $ (%)	Growth local currencies (%)	Purchase volume $bn	Growth local currencies (%)	Purchase transactions (m)	Cash volume $ bn	Growth local currencies (%)	Cash transactions (m)	Accounts (m)	Cards (m)	Acceptance locations (m)
THREE MONTHS TO 30 JUNE 2011											
69	34.6	24.5	40	28	662	29	19.9	170	106	130	4.4
THREE MONTHS TO 30 JUNE 2010											
51	22.3	15.7	29	20.8	527	22	9.7	157	103	125	
SIX MONTHS TO 30 JUNE 2011											
131	30.9	22.3	76	26.6	1,267	55	16.9	333	106	130	
SIX MONTHS TO 30 JUNE 2010											
100	25.9	15.9	56	20.7	1,015	44	10.3	309	103	125	
THREE MONTHS TO 30 SEP 2011											
71	30.6	24.6	43	29.1	697	28	18.3	172	106	130	4.6
THREE MONTHS TO 30 SEP 2010											
54	19.5	17.1	31	22.4	566	23	10.7	160	103	126	
NINE MONTHS TO 30 SEP 2011											
202	30.9	23.2	119	27.6	1,965	83	17.4	505	106	130	
NINE MONTHS TO 30 SEP 2010											
154	23.5	16.3	87	21.3	1,581	67	10.4	469	103	126	

* Gross dollar value (GDV) represents purchase volume plus cash volume and includes the impact of balance transfers and convenience checks. Purchase volume means aggregate dollar amount of purchases made with MasterCard-branded cards for the relevant period. Cash volume means aggregate dollar amount of cash disbursements obtained with MasterCard-branded cards for the relevant period. The number of cards includes virtual cards, which are MasterCard-branded payment accounts for which functional cards are not generally issued. Acceptance locations include merchant locations, ATMs and other locations where cash may be obtained.

Source: MasterCard

porting the introduction of mobile money regulation."

Montesano says Wanda is pursuing a multi-bank approach, with partnerships with banks being on a non-exclusive basis.

"Since Wanda only acts as service provider and enabler and doesn't intend to become a financial institution, banks play a critical role in our business," he says.

"There are several possible roles banks can take, including: issuing m-wallets to their existing customer base; managing the funds stored in m-wallets; and providing financial products to m-wallet customers."

"I envisage Wanda offering its platform to small banks or microfinance institutions that cannot afford to develop their own m-payment services," says Álvaro Martín Enríquez, a partner at Madrid, Spain-based consultancy Analistas Financieros Internacionales.

Currently, in most Latin American countries, regulators require mobile money or prepaid card issuers to involve a bank, adds Enríquez. However, in 2010 Mexico passed a law stating that e-money issuers do not need to be banks.

"Peru has drafted similar legislation, expected to become law in 2012," Enríquez says.

Cash replacement

MasterCard and Telefónica said in January 2011 that Wanda plans to offer m-payments in segments such as taxis and small merchants that currently only accept cash.

"Currently, it isn't economically viable to provide POS terminals to small merchants who handle only low-value transactions," says Montesano.

"But these informal merchants have cellphones, which can be used to enable cellphone-to-cellphone transactions.

"So m-payments will be very beneficial to them, offering greater security than accepting cash, and helping them increase their sales volumes, for example with customers who aren't carrying cash."

Montesano says Wanda plans to offer NFC payments for on-premise purchases, once NFC-enabled devices and POS infrastructure become widely available. Wanda also plans to offer prepaid cards.

"We believe physical and virtual prepaid cards can be a strong complement to m-wallets," Montesano says.

Brazil

In November 2011, MasterCard and Telefónica announced a 50-50 joint venture to provide mobile financial services to the 68m subscribers of Telefónica's Brazilian subsidiary Vivo.

The new company, which is subject to Brazilian regulatory approval, will provide subscribers with m-wallets offering similar services to those provided by Wanda. However, it will be a separate entity from Wanda.

MasterCard and Telefónica say the initiative will aim to encourage the acceptance of m-payments in locations that traditionally have only accepted cash, such as taxis and delivery services.

Separately, since December 2010, MasterCard has been running an NFC payment and mobile remittance pilot in Brazil with Brazilian bank Itaú Unibanco, acquirer Redecard and Vivo.

The MasterCard Mobile pilot enables Vivo subscribers to link their Itaú MasterCard credit or debit card to their cellphone for retail purchases, airtime reloads, and, through a partnership with Philippines telco Smart, remittances to the Philippines.

América Móvil

"Telefónica is not as big in Mexico as América Móvil, whose Telcel subsidiary is the dominant Mexican mobile brand," says Speer.

He predicts that Transfer will see significant transaction volumes in the second half of 2012, with a massive ramp-up in 2013 and 2014.

América Móvil aims to have 15% of its Latin American mobile subscribers using Transfer in four years.

"América Móvil's 236m customer base compensates for Citi's lack of presence in Latin America outside Mexico and Central America," says Speer.

América Móvil says that other Latin America telcos' can join Transfer. "It is aggressively developing its plans to roll out Transfer to the rest of Latin America," says Speer. "I think América Móvil's aggressive approach will encourage Telefónica not to get left behind."

Barriers

Wanda's Montesano says two factors are inhibiting the development of m- payments.

"Firstly, the region lacks an adequate regulatory environment to foster mobile money-based financial inclusion, although several countries have made important steps in this direction," he says.

"Risk-adjusted anti-money laundering and know-your-customer requirements need to be introduced that recognise lower-income consumers' specific characteristics such as lack of ID and lower transaction volumes.

"The second factor is the need to set up extensive and liquid cash in/cash out networks to support mobile money services."

"The real challenge in setting up the MasterCard-Telefónica deal is not technology but organisational issues, for example how to work out revenue-sharing," says Speer.

"Preventing fraud from customers' m-wallets and complying with the varying regulatory regimes in force for banks and telcos in Latin America will also be big issues."

Given that the bulk of mobile money transactions will be for low-value purchases by consumers on low incomes, user fees must be kept very low, says Speer.

"América Móvil and Citi say they will charge the local currency equivalent of 7-15 US cents per transaction," he adds.

Speer is bullish about the potential market in Latin America.

"I expect m-payments to develop very fast, given the size of América Móvil and Telefónica's mobile customer bases," he says. "Both Mexico and Brazil will see the biggest m-payment volumes in the region."

Over the past five years, there was a lot more talk about m-commerce by Latin American telcos than action, Speer says.

"It is Visa and MasterCard which have galvanised the telcos to take action," Speer adds. "MasterCard and Visa are both very proactive in m-payments in Latin America."

According to Speer, Visa's $110m acquisition of South African m-payment platform vendor Fundamo and its partnership with m-banking firm Monitise are very significant for Latin America. ■

■ STRATEGY

Movistar credit card deal

In August 2010, MasterCard and Telefónica formed an alliance to offer co-branded credit cards to Movistar's subscribers in 11 Latin American countries. This deal is separate from MasterCard and Telefónica's m-payments joint venture.

"We've already rolled out the Movistar-MasterCard co-brand credit cards in Argentina and Uruguay with Banco Itaú, in Peru with Banco de Crédito del Perú, in Colombia with Banco de Bogotá, and, most recently, with ItauCard in Mexico," says Francisco Alves, MasterCard LAC 's head of sales for payment gateway services, market development. "We will continue to roll out the Movistar-MasterCard co-brand programmes in the remaining 11 markets during 2012."

Prior to the August 2010 deal, MasterCard and Telefónica already had co-branded credit card deals in Chile with Santander and in Brazil with Itaú. ■

Debit Cards as Profit Drivers

Issuers have redoubled efforts to innovate revenue streams and cost savings in their debit products in the wake of regulatory scrutiny of interchange revenues and the continuing low levels of credit card revenue. This is an extract from *Cards International's* exclusive *Debit Cards as Profit Drivers* research report

In recessionary times fraud increases. But industry efforts too reduce losses are reaping results. In terms of fraud-related costs that banks bear, much has been invested so far in upgrading technologically advanced tools in order to keep pace with a more sophisticated fraud business carried out across the world. As far as the relationship with customers is concerned, banks face also loss of credibility as a result of the potential lack of response to customers having to deal with fraudulent activities performed at their expenses.

According to the Royal Bank of Scotland annual reports for 2009 and 2010, external fraud-related losses retained the highest share of losses suffered by the bank. Only in 2010, losses from external fraud were overtaken by losses associated with execution, delivery and process management-related activities (see figure 5.1).

In 2009, fraud losses were reported TBH793m ($25.64m) by the Bank of Thailand. The amount of fraud-related losses occurring through payment channels rose from TBH90m ($2.9m) to TBH561m ($18.13m), whereas losses through payment instruments remained almost the same, moving from TBH254m ($8.21m) in 2006 to TBH232m ($7.5m) in 2009 (figure 5.2).

It is clear in this instance that fraudulent activities have been carried out mainly through specific payment channels (the Bank of Thailand did not provide broken up figures). The migration to EMV prevented many fraud-based crimes from being committed, as outlined in section 5.2. However, the more sophisticated counter-measures are, the more adaptable fraudsters become.

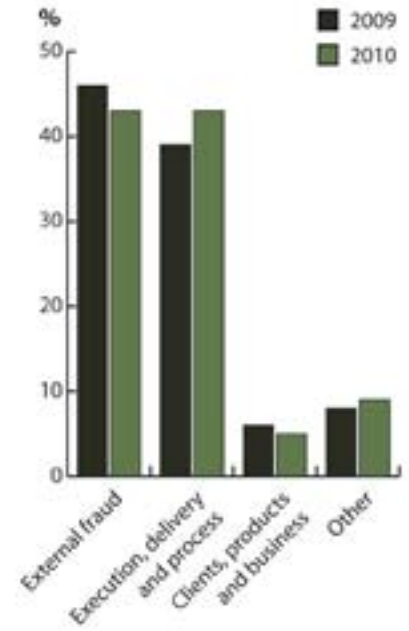
As fraud has been demonstrated to be beaten by adopting EMV cards, many steps forward have still to be taken when it comes to payment channels, like internet banking, due to increasingly complex threats posed by the "virtual" world. This seems to be the underlying reason behind the upward trend of losses from payment channels-related fraud activities reported by the Bank of Thailand (see figure 5.2).

According to the UK Payments Association, fraud losses on cards have been decreasing for two years now, as shown in table 5.1. From a 28% reduction in card fraud losses between 2008 and 2009, figures showed a consistent decrease from £440m to £365.4m reported in 2010 (accounting for an 18% fall).

Outside the UK, the European war on fraud similar encouraging progress. According to figures from the industry group European ATM Security Team (EAST), ATM-related losses fell by 14% to €268m in 2010. Such figures, amounting to €44m, are based on a study conducted on a sample made up of 22 European countries and represent a fall in losses occurring for the second consecutive year. In 2009, in fact, ATMrelated losses dropped by 36% as shown in figure 5.3.

When it comes to card-related fraud activity, British consumers seem to be the favourite target within the European market. In 2010, a Eurostat report showed that 7% of British internet users suffered from financial losses, through phishing attacks (when attempting to acquire sensitive information such as usernames, passwords and credit card details by masquerading as a trustworthy entity), or fraudulent payment card use. This compares with a European average of just 3%. Costs associated with signature-based cards are generally

Figure 5.1: Share of losses suffered by RBS, 2009-2010



Source: RBS annual reports (2009-2010)

higher due to broader acceptance and higher number of transactions. PIN-related fraud leads to lower costs due to limited acceptance in key merchant categories. Some forms of fraud can take place as a result of consumers' negligence or lack of attention. Other forms can be facilitated by the lack of appropriate counter-measures. In both cases, figures show encouraging progress and both consumers, when it comes to transactions' security, and banks, as far as more robust profits due to a reduction in fraud-related losses are concerned, seem to be facing a brighter future.

By physically obtaining a debit card, criminals can impersonate the card holder to buy goods and services, either in person or online. The card may be lost or be stolen from the cardholder. Figures suggest that consumers' attention has changed as they have become more aware of the problem. In fact, this kind of card fraud which mostly depends on the cardholder's negligence, decreased by 7% between 2009 and 2010.

Skimming fraud involves making a clone or counterfeit version of the card. This involves copying the data held within the magnetic strip on the back of the card without the cardholder's knowledge. The more sophisticated form of this crime will use this data to make a clone of the card.

Skimming can occur both at the point-of-sale (especially in restaurants, bars and petrol stations) as well as at cash machines (ATM fraud). After a remarkable upward trend reported from 2006 to 2008, fraud involving skimming-based devices declined significantly up to 2010 (a 41% reduction).

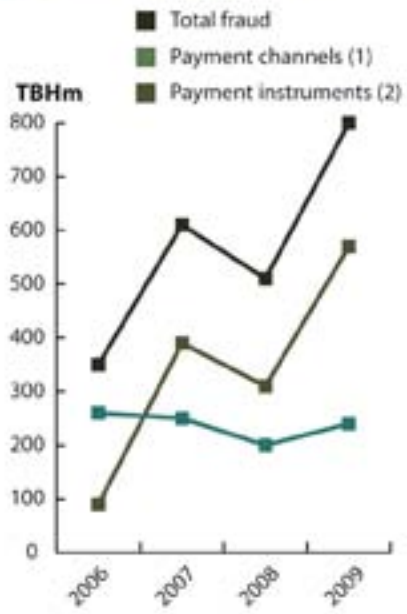
In Europe, 12,383 ATM related fraud attacks were reported in 2010, down 7% on the previous year. Losses from card skimming have dropped in Europe as well in recent years, from a peak of €315m in 2007 to €123m last year. The current situation sees a Europe almost free of skimming related risks as 82% of the remaining losses are now being reported in countries outside of Europe.

Making purchases when buyer and seller are not physically present is becoming more and more popular. E-commerce, mail order, and telephone purchases are easy, quick and efficient methods of buying goods and services directly from home. Using debit cards to make purchases with these methods requires neither signature nor PIN verification. Also this kind of fraud adds to the declining figures, with a 15% fall from 2009 to 2010 (from £266.4m to £226.9m). However, it has remained the most frequent type of fraud within the UK.

ID fraud takes place when false identities are used to apply for new accounts or cards. The same result can be reached by stealing the cardholders' identity. Unlike the trend observed with regard to other fraudulent activities, ID fraud-related crimes have not declined at all over the two year- period between 2009 and 2010.

Since old card technologies have been blamed for facilitating the dissemination of fraudulent transactions, countries all over the world have been consistently implementing Europay-MasterCard-Visa (EMV) standards. The main objective of EMV is the establishment of new

Figure 5.2: Fraud figures by payment channels and payment instruments



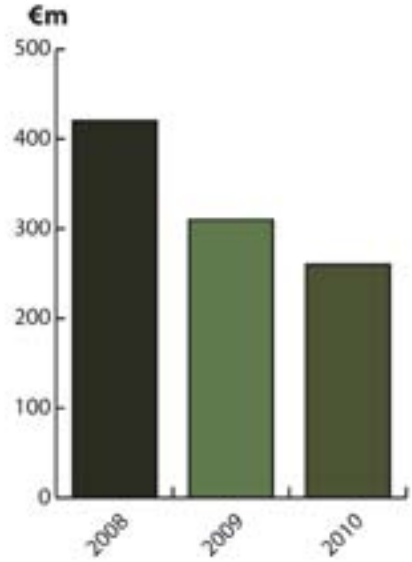
1) Include telephone banking, mobile banking, internet banking, pass book and other channels; 2) Include cheque, credit card, ATM card, ebit Card, prepaid cards and other cards. Source: Bank of Thailand

Figure 5.4: Annual plastic card fraud losses on UK-issued cards 2006-2010

Card fraud type: on UK-issued credit and debit cards	2006 (£m)	2007 (£m)	2008 (£m)	2009 (£m)	2010 (£m)	% +/- 09/10
Phone, Internet and mail order fraud (Card-not-present fraud)	212.7	290.5	328.4	266.4	226.9	-15
Counterfeit (skimmed/cloned) fraud	98.6	144.3	169.8	80.9	47.6	-41
Fraud on lost or stolen cards	68.5	56.2	54.1	47.7	44.4	-7
Card ID theft	31.9	34.1	47.4	38.2	38.1	0
Mail non-receipt	15.4	10.2	10.2	6.9	8.4	22
Total	427	535.2	609.9	440	365.4	-17
Contained within this total:						
IK retail face-to-face transactions	72.1	73	98.5	71.8	67.4	-6
UK cash machine fraud	62	35	45.7	36.7	33.2	-9
Domestic/international split of total figure:						
UK fraud	309.9	327.6	379.7	317.4	271.5	-14
Fraud abroad	117.1	207.6	230.1	122.6	93.9	-23

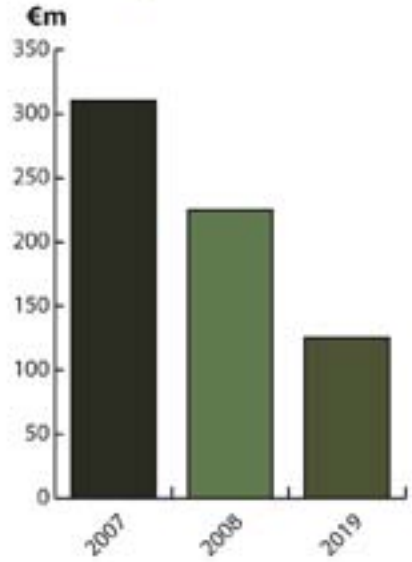
Source: UK Cards Association

Figure 5.3: European ATM losses



Source: EAST

Figure 5.5: European skimming-related losses



Source: EAST

technological systems which would enable issuers to eliminate the cloning of cardholder account information and counterfeiting of cards. The establishment of the Single Euro Payments Area (SEPA) prompted the quick development of EMV, with 8,000 European banks being part of it, which have been working together in order to create European payment standards, now considered as mandatory by the European Commission.

EMV technology has been embraced by numerous countries across the world. In Canada, Interact, as the national debit network, announced the phasing-in of EMV-based tools by initiating the distribution of EMV cards and the replacement of ATM and POS terminals with devices supporting EMV technology. Expectations around further EMV-enabled devices have been exceeded in the Asia-Pacific (Malaysia, Korea, Hong Kong, Thailand, Cambodia and Indonesia), African, Australian and Middle Eastern markets. In 2008, Japan, for example, had an enormous quantity of EMV cards which accounted for 40% of total cards in circulation.

By contrast, countries like Italy, which has always suffered from structural deficiencies (mainly owed to a sluggish economic pace and a political system which tends towards traditionalism and not enough open minded views as far as new technologies are concerned), have been characterised by a relatively slow EMV migration.

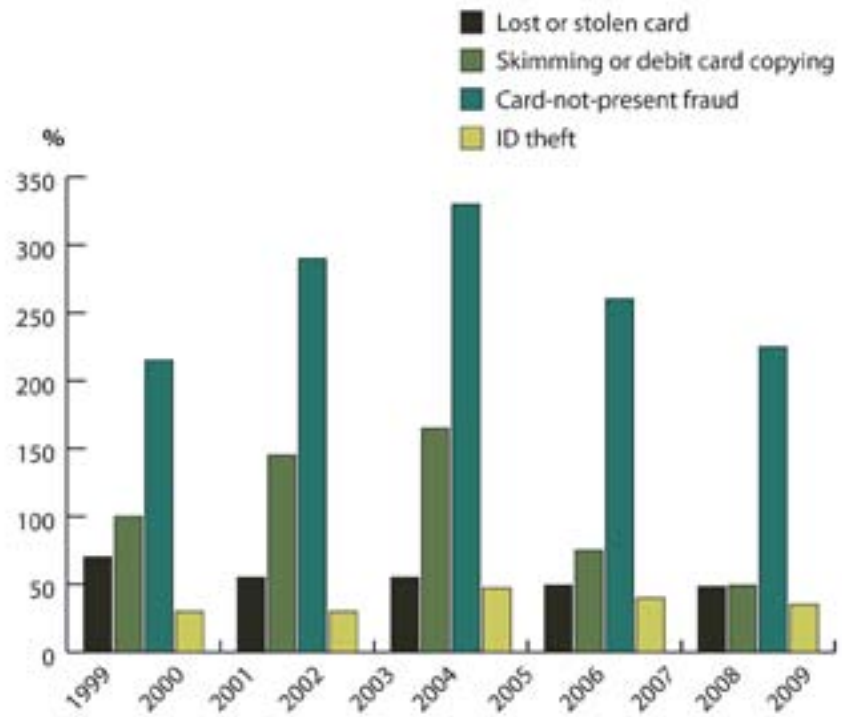
Only by the end of 2010, every card circulating in Italy had started the instalment of microchip-based technology in order to comply with the SEPA regulations even though 2010 represented the year by which every country complying with the SEPA regulations was expected to implement the EMV system.

In terms of profitability, banks have to support the implementation of EMV by investing a relevant amount of financial resources in such technology in the hope that much cost-saving will be made as a result of a considerable reduction in card fraud losses.

However, the EMV system is still unable to fight some alternative forms of fraud which have been expanding within the cyber world when, for example, card-not-present transactions are made by using online services. In the meantime, EMV have been proved to be efficient as the large decline in ATM losses described before is clearly owed to the virtually complete ATMs assimilation of EMV technology across Europe.

The most recent situation shows a large part of the world implementing EMV technology. In September 2010, the migration to EMV saw the number of EMV cards rise from 991m to 1bn. Europe retained more than 50% of EMV cards, with 578.5m units in issue; Asia-Pacific cards totalled 305.1m; Canada, Latin America and the Caribbean accounted for 182.2m cards; Africa and Middle East had 16.8m EMV cards. Figure 5.7 shows how the distribution of EMV cards was last reported.

Figure 5.6: The predominance of card-not-present fraud in the UK



Source: UK Cards Association

The US represents the only country that belongs to the G20 who has not migrated to the new system. Making effective decisions within the US scenario is being made more complicated by operational deficiencies as too many different parties working within ATM and PIN networks are spread all over the country.

The main inhibitor is the share of costs that the different parties will have to bear, as demonstrated by Javelin Research and Strategy in 2010 through estimates showing that such expenses would total $8.65bn.

The cost that merchant will have to bear is about $6.57bn for upgrading POS systems; replacing existing cards will cost card issuers $1.4bn; lastly, $500m is the cost for replacing ATM terminals. The composition of these costs is illustrated in figure 5.8 on the following page.

Actors operating in the US debit card market claim that migrating to EMV would not be worth the costs, if the US fraud-related losses, which amount to $8.6bn, were taken into consideration. These losses in fact equal the cost of replacing existing devices with those compatible with EMV technology (approximately $8.65bn).

However, according to Bell ID, losses from fraudulent activities are expected to reach $10bn by 2015 in the US. Despite the reluctance of the involved parties, these forecasts make the US EMV migration necessary.

The EMV implementation is therefore just a matter of time since, apart from the urgent necessity of resolving the fraud-related problem, 50% of US cardholders visiting Europe have experienced some sort of problems when using their card over the last four years, and this situation can only worsen if no action is taken.

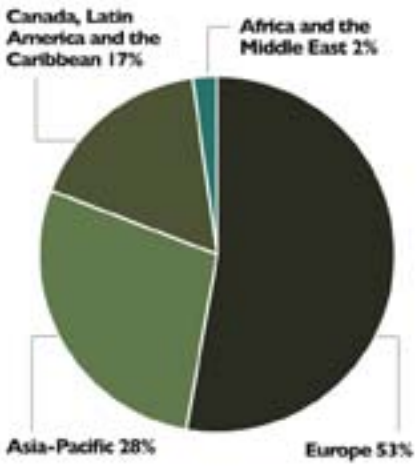
US migration to EMV has therefore been prevented from becoming reality primarily due to cost-saving implications. A recent report by Bell ID shows the potential consequences that the EMV implementation would produce in terms of loss of profitability for US issuers.

Estimates take into account the total US transactions value. Based on this value, the US magnetic stripe interchange and expected US interchange volume are calculated, with the difference between these two values leading to the total reduction in debit interchange.

Bell ID's projection shows that US issuers would face a $1.68bn loss in combined PIN and signature debit fee per year. As illustrated before, US yearly card fraud losses total $8.6bn. Therefore, the $1.68bn profitability loss is far lower than the costs borne by US issuers every year due to card fraud. Estimates are illustrated in figure 5.9.

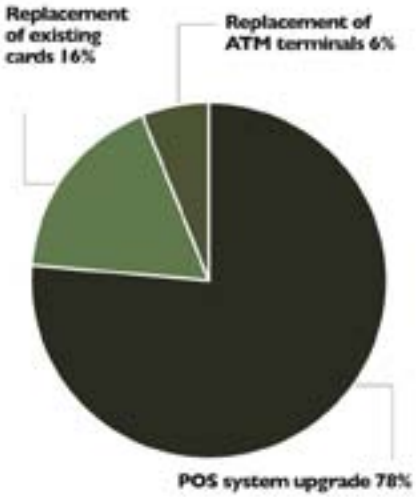
For more information on this report go to http://bit.ly/zuxsTz. Alternatively contact Rahul.Solanki@vrlfinancial news.com or call him on +44 (0)207 563 5646.

Figure 5.7: EMV cards share across the world, September 2010



Source: EMVCo

Figure 5.8: US EMV implementation costs



Source: Javelin Research and Strategy, 2010

Figure 5.9: Bell ID estimates regarding the US reduction in debit interchange following EMV implementation

	PIN Debit	Signature
Europe: Magnetic stripe interchange (it is assumed by Bell ID that the difference between magnetic stripe and EMV interchange in the US will stand at the same level as Europe)	0.16%+€0.05	n/a
Europe: EMV interchange	0.14%+€0.05	n/a
Europe interchange difference (supposed the same for signature debit as there is none from MasterCard within this category in Europe)	-12.5%	-12.5%
US magnetic stripe interchange rate (the average between 0.62%+$0.13 and 0.70%+$0.15 for US retail signature debit, and between 0.45%+$0.08 and 0.55%+$0.04 for PIN debit is taken)	0.50%+$0.06	0.66%+$0.14
US EMV interchange rate	0.44%+$0.06	0.57%+$0.14
US total transactions value (2008 volumes)	$527bn	$1,513bn
US reduction in interchange	$0.32bn	$1.36bn
US total reduction in interchange	$1.68bn	

Source: Bell ID

Contactless Cards

Driven by the success of contactless transit system pass cards, contactless payment cards are increasingly being catered for by retailers and leisure operators. This extract is from *Cards International's* exclusive research report *Contactless Cards*

Countries in the Asia Pacific region have been receptive to contactless payments, not least in Hong Kong, Japan, South Korea and Taiwan. The payment systems have been proprietary and closed-loop and, although successful locally, they have not been exported to scale beyond their countries of operation.

Octopus Cards has been at the forefront of contactless card innovation. The scheme was started in 1997 as a cashless solution to using the transport network in Hong Kong and has since developed to include retailers and other merchants. Locally, the scheme has been very successful, with 95% of Hong Kong residents owning an Octopus card and more than 20m cards in issue, almost three times the country's population. The company handles, on average, 11m transactions per day worth an estimated US$12.9m.

As with the Oyster scheme in London, Octopus cards are available to tourists for temporary use, which explains why the number of cards in issue exceeds the population size.

Octopus is a closed-loop scheme that has been exported to three other countries – the Netherlands, Dubai, New Zealand and two Chinese cities, Macau and Shenzhen.

In 2010, Octopus announced that it was in talks with ten cities in mainland China to become the provider of citizen cards that will have the functionality to pay for public transport, carry money, and hold personal information such as medical history and insurance data.

Manufactured by Sony, the card contains a FeliCa microchip that operates using RFID technology. On making a payment, the user holds the card against a reader and the transaction is complete – often without the need to remove the card from a bag or wallet. Octopus cards and readers only operate within the closed-loop Octopus system – consumers cannot,for example, use their Octopus cards when visiting London to access the Oyster payment system. Visa and MasterCard versions, on the other hand, will be developed to be interoperable, making them much more flexible with the potential for wide availability. Due to the length of time that the Octopus scheme has been in operation, it predates current international standards and (unsurprisingly) does not comply. Other Asia Pacific countries, such as Australia and Malaysia, have opted to deploy Visa and MasterCard contactless solutions, which do conform to international standards and pose a potential competitive threat to locally developed schemes like Octopus.

When initially set up, the Hong Kong Monetary Authority restricted the scheme's ability to generate non-transport related revenue. In 2000, this restriction was lifted to allow Octopus to be more widely adopted. In 2003, the Hong Kong government began a programme to replace all of the country's 18,000 parking meters with an Octopus card payment system, completed by the end of 2004. Octopus cards are now accepted in a wide range of outlets in Hong Kong, including the following:

- Transport
- Fast food
- Self-service – including photocopiers and vending machines
- Leisure facilities – including racecourses, swimming pools and cinemas
- Parking
- Access control to commercial and residential buildings
- Miscellaneous – including access to schools and hospitals

The merchants that accept Octopus include convenience and fast food retailers like 7-Eleven, McDonalds, KFC and Delifrance. Despite having been in discussions with taxi companies since 2003, the company has only recently (December 2010) launched a pilot programme to test the use of Octopus payments in 30 taxis in Hong Kong.

There are a number of different types of Octopus cards available to consumers, with further variations based on age and travel fare concessions. On-loan cards do not contain any personal information and no identification is required to take out this type of card. Sold cards are more like limited edition souvenir products issued from time-to-time and they can take the form of key rings, neck straps and ornaments.

Unlike On-loan cards, Sold cards do not usually have any initial stored value and must be kept in credit as no deposit is taken in case of a negative balance. On-loan Octopus cards cost HK$50, HK$30 of which is the cost of the card with the remainder a provision for negative value. The initial stored value on the card differs according to the age of the cardholder. Adult cards must have initial stored value of HK$100, making the total cost of the card HK$150. Child and Elder cards both have HK$20 of stored value resulting in a total cost of HK$70. The maximum that can be stored on an Octopus card is HK$1,000.

Monetary value is added to the card in a number of ways, through Add Value Machines at the MTR, at authorised service providers, or through the Automatic Add Value Service (AAVS) whereby HK$250 is added to the Octopus card whenever the amount stored on it reaches zero or less. The credit card from which the money is taken must be issued by a provider that participates in AAVS. The maximum negative value on an on-loan card is HK$35.

A contactless credit card is also now available from Octopus. The Octopus Citibank Credit Card acts as both a credit card and can also be used wherever Octopus is accepted. The Octopus aspect of the card works on a prepaid basis and when the Octopus balance reaches zero or is in debit, the card is automatically reloaded with HKD250. The card can also be used in merchant outlets that accept Visa payments. The Octopus card is accompanied by a loyalty and rewards programme that equates to at least 0.5% of the value of transactions. The number of companies that participate in the scheme is limited at present and the opportunity to earn points appears to be Hong Kong-centric. Real monetary value can only be derived from the scheme by people living in or regularly visiting Hong Kong.

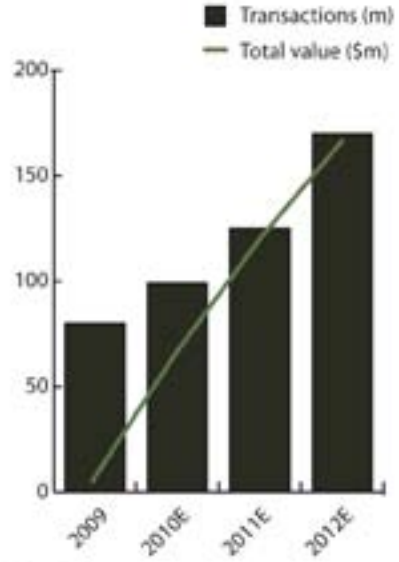
Although an innovator in the field of contactless payments, the Octopus scheme is not a global solution and it has limited applications outside Hong Kong. Its niche in the Hong Kong payments system will ensure that it continues for at least the next five years, although the Visa and MasterCard solutions pose a longer term threat. International brands like Mc-

Donald's currently accept Octopus in their fast food outlets in Hong Kong, but this is unlikely to be the solution adopted in other countries, as already evidenced by the introduction of Visa PayWave to McDonald's outlets in Australia and the proposed UK roll-out. If companies like McDonald's force franchises to adopt a common contactless solution, Octopus card readers are eventually removed from outlets in Hong Kong to make way for Visa / MasterCard technology.

A further issue is the cost of the cards. A number of card issuers are providing customers with contactless technology on their credit and debit cards free of charge and without the need for a minimum level of stored value, Barclaycard in the UK being an example.

The extent to which Octopus will be able to compete with this will be a real test of customer loyalty to the scheme.

Figure 5.2: Contactless mobile payment transaction and value growth rate, South Korea



Source: Celent

Asia Pacific

In Asia Pacific, contactless payments have been available since the beginning of this century. In Japan, approximately 70% of mobile phones are e-wallets, containing a FeliCa NFC chip and contactless card payments have been present in the country since 2000. A number of the schemes developed in the Asia Pacific region are country-specific and few have been exported outside their country of origin. Notable exceptions are Australia and Malaysia, both of which have adopted MasterCard's PayPass solution, albeit in a limited number of retail outlets.

South Korea

Contactless mobile payments are predicted to expand in the Asia Pacific region over the next 2 years, with Frost and Sullivan predicting a 14.8% CAGR in m-payments alone from 2010 – 2015 across the region. In South Korea, analyst Celent is projecting a 50% increase in all types of contactless payments from 2010–2012, as illustrated in table 15, below. Companies including Korea Smart Card Co (KSCC), Hana Card and SK Telecom have been working together on creating contactless mobile payment offerings, such as Mobile T-money and in

view of the transaction volume and value projected over the next 2 years, this is a key market for mass adoption of this payment technology.

Japan and Malaysia

In Japan, Frost and Sullivan predict that NFC payments will account for almost a quarter of m-payments by 2015, double the volume of transactions in 2009. A trial using an NFC add-on is underway in Japan in a partnership between Softbank Mobile, Orient Corporation and

Credit Saison. The trial involves Gemalto's NFlex technology that operates in a similar way to OTI's antenna solution, thereby negating the need for the development of the handset

hardware for the time being. The programme is expected to be rolled out to 21m subscribers in Q1 2011 and it will enable consumers to use their non-NFC compatible handsets to make contactless mobile payments in, for example, convenience stores, fast food restaurants

and theatres. Although often cited as proof that the mass adoption of contactless mobile payments can be achieved, research findings from Celent suggest that just 24% of

Japan's 117m contactless payment accounts are registered for mobile payments.

The research, conducted with mobile payments industry providers such as banks and mobile network providers, also found that, of those accounts that are registered for mobile payments, 71% were active. The research was conducted in 2010 and highlights a misconception that the majority of Japanese consumers are mobile payments users, despite it being arguably the most developed country in the world for this payment technology.

Elsewhere in the Asia Pacific region, a number of other contactless mobile trials are taking place.

In 2009, Visa Inc partnered with wireless carrier Maxis, Nokia and Maybank of Malaysia to launch an NFC enabled handset and the facility to download credit card details directly to the phone that can then be used to make payWave payments at the point of sale. Some 1,800 merchant outlets participated in the trial and the device can be used at more than 3,000 points on transit networks, bus terminals, toll gates, and car park facilities in metropolitan areas.

In comparison, contactless payment growth in Australia, Hong Kong, Singapore and Taiwan has been driven by cards rather than mobile handset, although contactless mobile trials are underway. Given the level of development of these countries' contactless infrastructures

and consumer education, a move towards contactless mobile payments would not require

too much additional development NFC payments would appear to be the desired way forward in the case of Singapore, where a central Trusted Third Party (TTP) has

been established to co-ordinate the development of NFC payments to ensure compatibility and interoperability. In addition, the country's Infocomm Development Authority

(IDA) is helping to fund the installation of contactless terminals in various convenience outlets – such as food courts, vending machines, and fast food outlets – to the tune of S$16m Singapore dollars (US$12.5m). Also in Singapore, network operator StarHub is launching an invitation- only trial of NFC payments in partnership with DBS Bank. As with the Japanese trial, Gemalto's add-on NFC technology is facilitating payments. The government of Singapore see clear benefits from the switch from cash to contactless and expects to generate an additional S$60m in annual revenue from mobile payments and advertising.

Add-ons

Supporters of contactless mobile payments, such as card issuers and mobile operators, have been waiting for the handset manufacturers to develop and launch NFC compatible handsets, assuming that the NFC antenna would need to be built into the hardware itself.

The speed at which this is happening has been very slow, with manufacturers like Nokia announcing the scrapping of its latest NFC enabled handset due to problems with creating the right customer experience, and disagreements regarding who controls the NFC element of the handset.

Nokia was not keen to hand this element of control over to the mobile operators. The recent developments in add-on NFC technology look set to accelerate the development of contactless mobile payments in the Asia Pacific region, eventually to be replaced by more permanent solutions from the manufacturers.

For further information on this report go to http://bit.ly/zuxsTz. Alternatively contact Rahul. Solanki@vrlfinancial news.com or call him on +44 (0)207 563 5646.

Alternative Payment Channels

The combination of rapidly evolving technology and global dispersal of wealth is leading to an explosion of payment systems that are very different to the traditional card-based POS and ATM infrastructure of the developed world. This extract from *Cards International's* exclusive *Alternative Payments Channels* research report provides a flavour of the innovations

Alternative payment channels are the result of tech-savvy innovators providing payments systems for the unbanked and the underbanked. BRIC nations have low banking penetration with only 30% of their populations having access to formal financial services such as savings and checking accounts. Micro Businesses and SMEs also have limited access to financial services (see figures 4.2 and 4.3).

In most of the African nations banking penetration is less than 10%. Around 50% of the population is below 20 years old, an attractive demographic for the banking sector. Nigeria, with a population of 150m has only 24 banks and Kenya has 45 banks, very low coverage compared to 8195 banks in the US and 336 banks in the UK. Kenya had witnessed a mobile banking revolution, allowing person-to-person transfers through mobile phones and to pay bills. Mobile banking has successful penetrated the unbanked population and contributed to reducing the costs of conducting business. The success of mobile banking is illustrated by the exponential growth of Safaricom's M-Pesa, a 'one-stop shop' for integrated and converged data and voice communications solutions; launched in March 2007, it had reached 9m customers by January 2010.

In Brazil, with a very young demographic, only 43% of the population have access to financial services. To increase access to financial services, banks in Brazil have formulated a robust delivery channel called "banking correspondents" (BCs). The banks in Brazil operate through nearly 150,000 BCs, comprising 62% of the total number of point of service in the financial system. The services offered by BCs include:

- Deposits
- Withdrawals
- Bill payments
- New account openings
- Money transfers
- Insurance
- Airtime top-up
- Government benefit
- Pension receipts

Figure 4.2: Financial access – number of branches per 100,000 adults, 2009

Country	Commercial banks	Co-operative & credit union	Specialised state financial institution	Micro-finance institutions	ATMs	POS terminals
Brazil	12.7	3.1	1.5	0.03	112.1	2,247.40
Russia	2.6	–	–	–	76.5	293.1
India	10.1	2.8	–	–	7.3	67.1
China	–	–	–	–	–	–
Kenya	4.4	–	–	0.02	8.3	–

Source: Financial Access 2010

Figure 4.3: Financial access – percentage of population with access to financial services

	% of population with access to financial services
Brazil	42.7
Russia	68.6
India	47.5
China	41.9
Africa	55.0

Source: Financial Access 2010

The largest operators of BCs are:

- Caixa Economica – 15,200
- Banco Bradesco – 424,200
- Banco do Brasil – 8,600
- Lemon Bank – 6,700

Boleto Bancário, is the most popular form of payment method used in Brazil. Boletos are is gaining widespread acceptance through online transactions, and are used to pay any kind of statement, bills (water, gas, phone). Boletos accounted for 75% of bill payments transactions conducted through BC's in 2008. Brazil is the only Latin American country with 100% mobile penetration, but even here mobile payments are at a nascent stage. Hyper-inflation in Latin America means that the need for real time money transfer is high, supporting the growth of e-payments. Brazil has a substantial history of Epayments, with a large number of Point of Sale (POS) terminals in retail outlets across the country. Extending e-payments to mobile devices can accomplish the objective of real-time transactions – much desired for a country with highly volatile inflation (see figure 4.4).

As a payment method, cheques have been declining since 2005. Debit transactions rose at a CAGR 7.3% between 2004 and 2008, reaching 871.3mn in 2008. During the same period credit payments increased from 1,015.7mn to 6,649.6mn, a CAGR of approximately 60%.

The average number of credit cards increased from 1 card per 3.4 inhabitants in 2004 to 1 card per 1.4 inhabitants in 2008. Similarly there was a rise in the number of debit cards from an average of 0.8 cards per inhabitant in 2004 to 1.1 cards per inhabitant in 2008 (see figure 4.5).

Interbank credit transfers include Electronic Funds Transfer, Credit Transfer Document, Special Credit Transfer and those related to "bloquetos de cobrança". In 2008, credit transfers amounted to approximately BRL18.1tn ($10.9tn), of which 31.5% were interbank transactions. In 2008, payments of BRL217.9bn ($130.7bn) were cleared through credit cards. Financial institutionissued charge cards accounted for payments worth BRL535mn ($320.9mn). Retailer cards, mainly issued by major stores, rose by 101% and the transaction value reached BRL53bn ($31.8bn). E-commerce sales accounted for BRL6.7bn ($4.0bn) in the H110, a 40% rise y-o-y. The Central Bank of Brazil (CBB) has had discussions with Anatel, the National Agency of Telecommunications in order to set minimum requirements on the entry of MNOs into mobile banking. A lack of interest by Anatel has meant there has been little progress. The nation operates two highvalue settlement systems:

- Operated by CBB
- Operated by private banks – National

Financial System Network (Rede do Sistema Financeiro Nacional). In March 2009, CBB extended access to its Reserve Transfer System (RTS) (which controls the payment system in Brazil) to brokers, credit cooperatives, credit and financing societies authorized by CBB. CBB is in the process of developing a platform to provide access to RTS through the internet. As per the payments system law in the country, the CBB supervises the National Payment System. The CBB is also authorised to license certain types of service providers.

CBB monitors only large ATMs and the POS networks while the small non-bank ATM and POS networks are out of CBB supervision. India – registering the fastest developing country growth rate The mobile market in India is growing at a fastest pace than other developing countries. The total number of mobile subscribers in India reached 752.2mn in 2010, an

Figure 4.4: Brazil payment instrument by volume (mn)

	2004	2005	2006	2007	2008	2009E	2010F
Cheques	1,996.9	2,526.8	2242	1,999	1,962.8		
Direct Debits	657.4	781.1	840.1	852.6	871.3	934.9	1,003.1
Credit transfers*	1,015.7	4763.9	5,296.3	5954	6,649.6	10,636.6	17,014.2
Payments by cards	2,653.7	3218	3,927.7	4711.5	5636	6,803.8	8,213.5
Debit card	912.1	1,140.7	1,427.7	1,700.1	2,097.2	2,582.5	3,180.1
Credit card	1,252.6	1,501.3	1814	2,160.42	2,519.8	3,000.9	3,573.9
Retailer and fidelity cards	489	576	686	851	1019	1,224.3	1471

*includes interbank & intrabank transactions. E= estimate. F=forecast
Source: Banco Central do Brasil and market institutions, (banks, debit and credit card administrators, and ABECS).

Figure 4.5: Brazil payment instrument by value (BRLbn)

	2004	2005	2006	2007	2008	2009E	2010F
Checks	1,002.6	2,213.1	2,080.7	2,191.8	2,553.7		
Direct Debits	118.5	148.7	154.5	180.5	217.9	253.7	295.5
Credit transfers*	2,714.4	7,776.4	9,417.8	14,215.4	18,050.8	28,986.9	46,548.7
Payments by cards	156.4	198	249.1	310.2	376.1	468.3	583.2
Debit card	42.2	52.9	66.9	83.1	105.3	132.3	166.3
Credit card	92.5	116.6	145.8	181.6	217.8	269.8	334.2
Retailer and fidelity cards	21.7	28.5	36.4	45.5	53	66.3	82.8

*includes interbank & intrabank transactions. E= estimate. F=forecast
Source: Banco Central do Brasil and market institutions, (banks, debit and credit card administrators, and ABECS).

increase of 43.2% as compared to 525.2mn in 2009. The wireless subscription market share rose from 70.4% in 2006 to 94.1% in 2010. These developments are in favour of growth of alternative payments. Key technologies available in India for mobile payments are:

- Short message services (SMS)
- Unstructured Supplementary Services Delivery (USSD)
- Wireless Application Protocol (WAP)
- General Packet Radio Services (GPRS)
- Java based J2ME for GSM phones
- BREW (Binary Runtime Environment for Wireless) for CDMA phones mCommerce services such as mobile ticketing, mobile coupons and other mCommerce services contribute approximately 4% to the mobile value added service revenues.

The payment system in India has evolved over the years owing to innovations in technology and business practices. The Reserve Bank of India (RBI) initiated various programs to promote e-payments which include:

- High-value payments through real-time gross settlement (RTGS)
- Electronic Clearing System (ECS debit and credit)
- Nationwide bank transfers through National Electronic Funds Transfer (NEFT)
- Payments processed by the National Payments Corporation of India (NPCI)

In 2009, the volume of ECS (Credit) transactions reached 883.9mn; a threefold increase compared to 2004 and it is expected to have grown by 11.5% in 2010. Similarly, the volume of ECS (Debit) transactions rose significantly over the same period, but it is thought to have declined in 2010 (see figures 4.6 and 4.7).

The EFT/NEFT transactions are also expanding and it is expected to double in 2010 year-on-year. Despite the fact that electronic payment transactions are increasing in volume, the same growth has not been reflected by value largely owing to lack of consumer confidence to conduct high value transactions. The value of e-transactions fell by nearly half in 2009 y-o-y. The retail sector is still dominated by cash transactions. The RBI needs to play an important role in the evolution of payment systems across India (see figure 4.8).

Spanco and the State Bank of India have a strategic alliance through which it will be providing Mobile Banking services. Recently both entities signed an agreement to roll out a pilot banking services in rural Maharashtra, under which Spanco will provide services such as opening of accounts, cash deposits and withdrawals, remittances and loan applications on behalf of SBI. Itz Cash Card Ltd, a "Multi Service Prepaid Card company", received RBI approval to issue mobile wallets in mid 2010. Obopay is looking into expanding its mobile money service beyond India to the other BRIC countries.

The company runs a partnership based model and successfully established partnerships with Nokia, MasterCard, AT&T, Verizon, Essar, Union Bank of India, Yes Bank in India, Blackberry and Societe Generale. Another factor in the growth of e-payments are rising internet subscriptions and access to computers on a daily basis. In 2010, the internet subscriber base in India reached 16.2mn, up 19.5% y-o-y. The share of broadband subscriptions increased from 6.2mn in March 2009 to 8.8mn y-o-y. In India, only 11% of working men and women use the internet for e-commerce, specifically for bill payments, booking tickets, shopping and online banking, while 7% of students choose e-commerce facilities, mainly for online shopping. With a large, almost untapped market, India is considered a lucrative market for alternative payment Market experts speculate that the adoption of an electronic platform

may save the Indian government approximately $22.4bn annually, 10% of the total payment flows between the government and household.

China – a lucrative market for alternative payments

In 2009, POS machines in the country reached 2.4mn, up 30.3% y-o-y, an easing from the 60% growth experienced in 2008. The latter figure was significantly buoyed by the Beijing Olympics (see figure 4.9).

The preferred payment instruments in China are remittances, collection and debit transfers.

China is a lucrative market for alternative payments, and the online payments system in the country was little affected by the financial crisis in 2009, recording volume growth of 73.1% y-o-y and 100% growth in value y-o-y, yielding RMB430bn. The trend continued through 2010 with a y-o-y growth of 24% in Q410. Despite this expansion, the difference between rural and urban areas in China remains stark. People in rural areas largely relay on cash, as neither the banking infrastructure nor the ATM network is sufficiently strong enough. Given the high mobile penetration rate, the market for mobile payments is very high. One of the bottlenecks for the growth of alternative payments is the low rural internet penetration rate, which stands at 5.1% vs. 21.6% in urban areas (see figure 4.10).

Russia is ahead of other BRIC nations in terms of alternative payments. The Bank of Russia plays an important role in regulating noncash settlement in the country by:

- monitoring the activities of private payment systems
- setting guidelines for the functioning of private payment systems
- establishing non-cash settlement rules, forms, terms and standards
- organising cash circulation
- establishing the procedure for compiling and presenting statistical reports on the Russian payment system.

In 2002, electronic payments accounted for 84% of the total value of payment transactions in the Russian payment system. According to the National Association of Participants of Electronic Trade, e-payments increased by 36% in 2008 and 15% in 2009 in spite of the global recession. Total transactions reached RUB630bn in 2009 compared to

Figure 4.6: Indian retail electronic payment instruments by volume (mn)

	Total electronic payments	NECS/ECS (credit)	ECS (debit)	Electronic funds transfer (EFT/ NEFT)	Credit card payments	Debit card payments
2004	1,669.6	203	79	8.2	1,001.8	377.6
2005	2289	400.5	153	25.5	1,294.7	415.3
2006	2,850.1	442.2	359.6	30.7	1,560.9	456.9
2007	3,787.1	690.2	752	47.8	1,695.4	601.8
2008	5,353.1	783.7	1,271.2	133.2	2282	883.1
2009	6,678.2	883.9	1,600.6	321.6	2,595.6	1,276.5
2010E	7,193	985.5	1,502.1	663.6	2,340.7	1,701.1

E=estimate Source: RBI

Figure 4.7: Indian retail electronic payment instruments by value (INRbn)

	Total electronic payments	NECS/ECS (credit)	ECS	Electronic funds transfer (EFT/ NEFT)	Credit cards	Debit cards
2004	521.4	102.3	22.5	171.2	176.6	48.7
2005	1,087.5	201.8	29.2	546	256.9	53.6
2006	1,463.8	323.2	129.9	612.9	338.9	59
2007	2,356.9	832.7	254.4	774.5	413.6	81.7
2008	10,419.9	7,822.2	489.4	1,403.3	579.8	125.2
2009	5,003.2	974.9	669.8	2,519.6	653.6	185.5
2010E	6,880.1	1,178.3	698.2	4,110.9	628.5	264.2

E=estimate Source: RBI