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WHERE IN THE WORLD IS INNOVATION?

- DEBATE: Profitability
- ANALYSIS: Payment Systems
- REPORT: Card Fraud
- GUEST COMMENTS: Certeco & FICO

timetric

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EDITOR'S LETTER

Credit where credit's due

The UK credit card market represents almost one-third (32.5%) of all unsecured personal borrowing in the UK with around 30 million cardholders holding at least one credit card.

In January 2015, around 46% of credit cardholders held two or more credit cards.

With total outstanding balances worth about £60bn ($92bn), it is no surprise that UK regulator the Financial Conduct Authority (FCA) has spent the past nine months investigating if the credit card is working for consumers.

The FCA will, one trusts, avoid advocating any draconian action. It will find, in contrast to the personal current account market, very healthy levels of switching.

More than one in seven cardholders each year with a credit card take out a new one; around 6 million new credit card accounts were opened in 2014.

This compares very favourably to the miserable current account switching rate of 1 in 40.

By no stretch of the imagination can anyone seriously argue that there is a lack of competition in the credit card market.

No doubt the card issuers will have hammered home the message that they are getting their act together to assist customers who get into difficulty with initiatives such as 'breathing space' and forbearance options.

An interim report will be released shortly with a final report slated for the second quarter of 2016. It will be a major surprise if the FCA proposes a clampdown on the credit card sector or interferes by imposing rules as to credit affordability along the lines of the retail mortgage market.

Meantime, just in case the FCA is tempted to take a hard line, UK card issuers might do well to ration eye-catching 0% zero balance transfer promotions. Indeed, the approach being taken by RBS NatWest in the cards sector might be one to follow.

Contactless attracts senior fans

I am obliged to Saga for flagging up the popularity of contactless among the over 50 segment of the market. Apparently, one in five people aged over 50 years old now uses a contactless card three times a week.

The contactless stats can only go in one direction, especially once major retailers such as Sainsburys finally get their act together and finally roll out, belatedly, contactless across its 1,500 outlets.

Sainsburys is not alone in deserving to be named and shamed.

The writer, 50 and a few months as it happens, tried to use contactless in a Tesco in Edinburgh's main shopping street, Princes Street, the other day.

This followed a failed attempt to use contactless at Tesco, Southend, one of the larger town in Essex.

In both cases, not only was the payment terminal bordering on antique, the shop assistants were clueless as to what contactless might be.

Staff training and hardware investments clearly remain a work in progress. ■

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The innovation hole: How do banks stimulate change?

Just about every bank, established or start-up or challenger, says that innovation is at the heart of their operation. Just how fair are such claims and how can lenders, encumbered as they are by their size, culture and regulatory environment – truly be innovative asks **Phil Tootell**

Innovation. It's the Holy Grail in banking isn't it? The golden egg that everyone is set on chasing and understandably so. Innovation sets you apart – it allows you to deliver products and services first, enables you to get ahead of the competition and keeps your customers interested.

And yes, everyone pays lip service and says they are innovative. But are they really?

The answer is a resounding no. But it's not for the want of trying. Banks by their nature are extremely risk averse – and as a society, that is exactly how we want them to be. Regulation is there to enforce that risk averse culture. But being innovative in a regulatory environment is a bit like trying to juggle whilst having your hands tied behind your back. Risk aversion and innovation aren't the most natural bedfellows.

Hurdles for innovation

Another issue is size. The banks that dominate the global landscape are financial behemoths, with infrastructures to match. Not all innovation is tech-related, but much of it is. Innovation is about being nimble and responsive.

The sheer size of banks, the usual complex network of systems, software and processes that underpin them and also their 24/7 availability is the death knell to any flexibility, creativity and innovation they hope to achieve. Innovation relies on the ability to develop and fail, and banking, with its round the clock opening hours, just isn't an environment that can support that.

Leadership is another important factor. Innovation tends to require an entrepreneurial mindset, but many banking executives have grown up in banks.

They might have operated in that environment for 20 or 30 years and its impossible for them to change - they have no other industry experience to channel.

In terms of innovation, unsurprisingly challenger banks are forging ahead. Take digital start up, Atom Bank. Launching this year, the fact that it is "digital only" means that it will have lower operating costs than traditional banks and be able to offer more competitive interest rates as a result.

And for true innovation in banking, many analysts think media companies might well enter the fray. Imagine if KYC was mandated on Google. It would be looking at how it could be used as a platform for wider innovation and how it could improve customer service. Companies like Google, Apple and Amazon would be responding to regulation in a very different way to the banks.

So how can banks - encumbered as they are by their size, culture and regulatory environment - be innovative?

One answer is developing innovation hubs. In their essence, these are start-up organisations that operate independently of the principle organisation. They could be created through acquisition (a fin-tech company, for example) or simply setting up a different business, dedicated to innovative thinking and ideas generation.

The important thing is that they are liberated from the bank's risk averse culture to act in a free-thinking, entrepreneurial way. It is vital that the two organisations are separate and operate independently, so the culture of the bank does not contaminate the start up. And from an organisational point of view, a flat, non-hierarchical structure tends to inspire more innovative thinking than having layers of management.

Letting ideas off of the leash

Senior managers from the bank should not be influencing it in the slightest. In fact, it often works best if a third party manages the innovation operation. If its people start thinking "but what about the constraints of our operation" or "what will shareholders think?" is the day they begin to compromise their start-up spirit.

They must also be allowed to fail. Brainstorming and testing different ideas is an important aspect of innovation.

It doesn't matter if something doesn't work. From failure, the best ideas come. But in a 24/7 banking environment, banks can't afford to fail.

This further enforces the need for separate hubs, where ideas are allowed to fully mature before being implemented into the wider organisation.

Although this phenomenon has been around for a while, it is still relatively new in banking. Back in June, Deutsche Bank announced that it is setting up innovation hubs to boost technology development in London, Berlin and Silicon Valley.

Through these hubs they will be starting to work with start-ups and academics to come up with digital ideas that will revolutionise customer products and how the bank operates internally.

They are aiming for 500 ideas a year – obviously, not all will be taken on board but it underlines the point that prolific idea generation plays a key part in innovative thinking.

It's a good starting point for banks. They shouldn't worry about creating innovation directly in the organisation - they need to think about fostering it externally in these hubs, populating them with their most entrepreneurial talent and cross pollenating with external experts.

They need to be given a free reign to come up with the ideas, unencumbered by preconceptions or market perceptions of what others expect.

This is how banks can continue to innovate and develop. ■

Phil Tootell is a founding director at business change consultancy Certeco

PRODUCTS

National Bank of Kuwait launches Titanium MasterCard credit card

National Bank of Kuwait (NBK) has rolled out the new NBK Titanium MasterCard credit card, developed exclusively for its business banking customers.

The new card will offer cardholders a high level of financial flexibility, allowing easy access to their funds anytime with global acceptance.

The card offers a range of benefits such as complimentary airport lounge access, concierge service, and global offers from MasterCard, particularly in the travel and entertainment category.

It also offers cardholders exclusive privileges in Kuwait with the NBK Rewards program at nearly 650 partner outlets such as dining, shopping as well as various lifestyle offers.

The NBK Rewards Program allows instant redemption at partner outlets where cardholders can instantly redeem cash back rewards when paying for their purchases.

Cardholders are also offered complimentary travel insurance coverage up to $250,000, and fraud protection up to $2,000.

NBK general manager, consumer banking group, Ahmed Al Khader said: “The NBK Titanium MasterCard credit card provides a new superior experience-based service platform for Business Banking customers.

“The new card delivers not only smart financial solutions but also a wide range of exceptional benefits and global acceptance.” ■

STRATEGY

Barclaycard US, priceline.com extend credit card agreement

Barclaycard US, the payments unit of Barclays in the US, has extended its co-branded credit card agreement with online and mobile travel services provider priceline.com, under which Barclaycard issues the priceline.com rewards Visa card.

The credit card, equipped with chip card technology, allows leisure travellers to earn points for rewards when they use the card to pay for online travel deals and everyday purchases such as gas and groceries.

Each dollar spent also earns points that can be redeemed for statement credits, gift cards and merchandise starting at $25.

Cardholders can receive 5,000 bonus points after their first card purchase, five points for every $1 of eligible priceline.com purchases, and one point for every $1 spent on all other purchases.

Cardholders can also secure 10% points back every time they redeem points for statement credits toward eligible priceline.com or travel purchases of $25 or more made in the last 120 days.

Besides, the card does not charge any annual fee or any foreign transaction fees on purchases made while travelling abroad.

Barclaycard US director of travel and entertainment partnerships Ann-Marie Archino said: “We are thrilled to extend our partnership with priceline.com. Since 2009, priceline.com has been one of our fastest-growing travel portfolios.

“We share a mutual commitment to providing great value and service to our customers. We look forward to building on our shared success in the years to come.” ■

RESEARCH

Brits to make 120 million payments per day by 2024: Payments UK

Brits will make 44 billion payments in 2024, up 3.4 billion over 10 years, equating to 120 million payments per day, due to rises in card, internet and mobile banking payments, according to a research by Payments UK.

The study projects a significant rise in the overall number of one-off payments processed as Faster Payments from 771 million in 2014 to 1.94 billion by 2024.

Direct debits are expected to record steady growth over the next decade and reach 4.2 billion payments in 2024.

The most significant rise in the next decade is projected to come from debit cards, the study cites.

In 2016, the total volume of all non-cash payments made by consumers is expected to exceed the volume of consumer cash payments for the first time.

Also, debit card volume growth is forecast to be driven by increasing contactless card and ecommerce usage.

By 2024, debit card payments are expected to represent 42% of consumer payment volumes compared to 26% of consumer payment volumes.

Cards, including both debit as well as credit, are projected to account for 60% of non-cash transactions by 2024, up from 51% in 2014.

The volume of debit card purchases is slated to increase from 9.2 billion in 2014 to 16 billion in 2024.

The strongest growth over the next ten years will be recorded by one-off automated credits processed through the Faster Payments Service, which is projected to nearly double by 2024.

Meanwhile, the number of cash payments is set to drop by 30% from 18.1 billion consumer cash payments in 2014 to 12.6 billion in 2024.

In addition, cheque payments are projected to decrease from 2.8% of all non-cash transactions in 2014 to 0.8% in 2024. ■

PRODUCTS

DC Valor to launch new prepaid card

Dinamismo Con Valor (DC Valor), a Mexico-based provider of corporate financial services, has expanded into consumer finance with the launch of a new prepaid card, ValorCard, and the ValorPay platform.

ValorCard and E-Wallet will facilitate in-store and online shopping, cost-effective foreign currency exchange, domestic and cross-border money transfers, as well as cash withdrawals from ATMs across the world.

The debit card will allow instantaneous transmission of funds by phone or internet at reduced costs from standard banking fees, and with real-time availability of funds. The product will be phased in on a staggered basis across five countries.

DC Valor financial services operations managing director Hanspeter Wachter said: "Although the mainstream banking industry has made formal banking far more accessible and inclusive, there remains a significant percentage of individuals for whom cash is the only way they can conduct their financial affairs. We aim to change that with ValorCard." ■

SECURITY

ID Global Solutions launches new IDComplete solution to fight card fraud

ID Global Solutions, a fraud management and global payment solutions provider, has introduced a new pin-based verification solution to eliminate credit card fraud.

Dubbed IDComplete, the new solution has been designed to improve the security of existing non-chip and new chip cards at the issuer level by enabling consumers to authorise card present and card not present transactions in real time through their registered smartphones.

The solution makes use of a token vault technology as well as out of band three-factor authentication to allow secure real-time cardholder verification.

On a registered smartphone, the cardholder is presented, in real-time via a push notification, with the merchant's name, transaction amount, and is provided the choice to approve or reject the transaction.

The new solution, operating within the guidelines of current Cardholder Association rules, does not need software modifications within the acquiring network or merchant point of sale terminals.

ID Global Solutions CEO Thomas Szoke said: "The goal of IDComplete is to eliminate card fraud, which has benefits for all players in the transaction process including issuers, merchants, consumers, acquiring banks, as well as payment gateways and mobile payment platform providers." ■

M&A

Scotiabank to buy JPMorgan Chase's Canada credit card portfolio

Canadian lender Scotiabank has agreed to acquire JPMorgan Chase's MasterCard and private label credit card portfolio and the related credit card operations.

The credit card portfolio comprises about $1.7bn in receivables as well as two million well-performing active customer accounts.

The deal also includes the acquisition of JPMorgan Chase's credit card operations in Canada, which include a bilingual call centre in Ottawa with fraud, collections, recovery and customer service expertise.

Scotiabank's common equity tier one capital ratio will be impacted by less than 10 basis points, mainly from the acquired assets.

The deal, subject to regulatory approval, is not financially material to Scotiabank or JPMorgan Chase.

Scotiabank group head of Canadian banking James O'Sullivan said: "This transaction is in line with our strategy to grow Scotiabank's payments business, including credit cards, while providing our shareholders with attractive risk adjusted returns.

"Upon closing of the transaction, Scotiabank will become the first bank in Canada to offer customers Visa, AMEX and now, MasterCard credit cards." ■

PRODUCTS

Marks & Spencer to launch new loyalty card

UK-based clothing and food retailer Marks & Spencer is set to introduce a new loyalty card known as Sparks.

The new scheme, slated to be launched nationwide on 22 October 2015, will offer cardholders a range of benefits including discounts, priority access to collections and invitations to events.

Shoppers signing up to the scheme will be able to collect Sparks points every time they shop, whether in store or online, depending on how much they spend.

Shoppers can earn 10 points for every visit to the till, and ten points for every £1 spent in stores.

They can also earn 25 points for writing product reviews and 50 points for donating an old clothing item when buying a new outfit.

The card will be valid across various departments such as food, fashion, home and beauty, though the points will not have any direct monetary value to be used in store.

Instead, members will secure a fortnightly selection of offers and can get priority access to ranges after collecting 3,000 sparks.

They will also be offered the benefit of shopping for sale items 24 hours before everyone else after collecting 5,000 sparks.

On securing 14,000 points, members will be allowed access to invitation-only events and master classes, and after earning 17,000 members will be allowed to enter draws to win 'money can't buy' experiences. ■

SECURITY

European ATM fraud incidents up 15% in first half of 2015

ATM related fraud incidents rose 15% in the first six months of 2015 when compared to the same period last year, mainly due to rise in card trapping and transaction reversal fraud, according to a report published by European ATM Crime Report from the European ATM Security Team (EAST).

The study found that ATM related fraud attacks surged to 8,421 in the first half of 2015 from 7,345 in the year ago period, driven by an increase of 18% in card trapping attacks and 985% in transaction reversal fraud attacks.

However, card skimming incidents dropped 18% to 1,986 from 2,425 in the first half of 2014, while domestic skimming losses were up by 11% over the same period.

Losses owing to ATM related fraud attacks increased 18% to €156m ($176m) from €132m in the first half of 2014, mainly owing to an 18% rise in international skimming losses.

The Asia-Pacific region, in particular Indonesia, as well as the US recorded majority of such losses, the report pointed out.

ATM related physical attacks increased by 19% versus the first half of 2014, with a 1,013% rise in reported robberies. Losses due to robbery increased to €10.5m from €0.4m.

Meanwhile, losses due to ATM related physical attacks increased 100% to €26m from €13m in 2014.

The first half of 2015 also witnessed five ATM malware incidents, with related losses of €0.14m.

EAST executive director Lachlan Gunn commented: "International skimming losses have risen for the past four reporting periods and EAST is working closely with Europol to raise awareness of this issue in Asia-Pacific and the Americas." ■

SECURITY

Gemalto unveils new payment security solution to combat CNP fraud

Gemalto has introduced a new payment security solution, known as the Dynamic Code Verification, designed to offer protection against card-not-present (CNP) fraud online and ensure an easy user experience.

The CVV/CVC solution features an EMV payment display card that secures traditional in-store and ecommerce payments, ATM withdrawals, a mobile version, a validation server as well as associated services.

The new solution enables issuers to swap the static three-digit visual cryptogram conventionally used for online purchases with a time based dynamic CVV/CVC displayed on the customer's payment card or on their mobile.

The code is refreshed every 20 minutes, thereby improving the security level of online transactions and in turn cutting costs related to CNP fraud management.

Gemalto senior vice president of ebanking and ecommerce Håkan Nordfjell said: "Gemalto's Dynamic Code Verification solution provides banks with complete flexibility to meet individual customer preferences - card or mobile - and refine their customer segmentation model while maximizing reach.

"Gemalto is unique in being able to offer banks a complete CNP security solution, further supported by an extended portfolio of services such as consulting, integration, personalisation and fulfilment." ■

STRATEGY

TSYS and Tangerine sign long-term agreement

TSYS has inked a deal with Scotiabank's direct banking arm Tangerine to offer processing and risk management services for the bank's new consumer credit card portfolio.

Tangerine, previously ING Direct, was rebranded following its acquisition by Scotiabank in 2014.

The bank now provides the new Tangerine money-back credit card, which helps users earn 2% money-back rewards on all purchases in two categories of their choice as well as 1% money-back rewards on all other purchases, without any annual fee.

TSYS North America services segment president Bill Pruett said: "The Canadian market is important to our North American strategy.

"We are committed to a long relationship with Tangerine providing innovative products and services that give their accountholders more accessibility and flexibility while delivering the superior service their customers deserve."

Tangerine president and CEO Peter Aceto added: "We are pleased to be working with TSYS as a trusted partner to provide our new Money-Back Credit Card to Canadians. Their experience and expertise will serve us well as we move forward with our revolutionary new card that allows Canadians to spend and save at the same time."

Both the parties have not disclosed financial terms of the agreement. ■

REGULATION

UK government announces new rules to cap card fees

The UK government has announced new rules to introduce an EU-wide cap on the charges paid by a business when a customer makes a card payment.

The new rules, due to be effective from 9 December 2015, form part of the Interchange Fee Regulation that was agreed by the EU earlier this year.

Under the new rules, fees banks can charge for credit card transactions and domestic debit card transactions will be capped at 0.30% and 0.20% respectively.

The Economic Secretary to the Treasury Harriett Baldwin said: "Ensuring the EU has a competitive financial services industry that works in the interests of consumers and supports the wider economy is a key pillar of our reform agenda.

"That's why we are determined to tackle the unfair fees that Britain's businesses are often charged when their customers pay by card - fees which are often passed on to consumers.

"And that's why I am delighted that we reached an agreement to reduce the fees that banks can charge businesses for processing card transactions. I expect businesses to pass on these savings to consumers in the form of lower prices."

In addition, the EU is also set to finalise a revision of the Payment Services Directive (PSDII) to prevent businesses from making money from customers who opt to make card payment. ■

RESEARCH

Mobile banking and debit cards vital to gen Z Americans: TD Bank

Mobile banking and debit cards are significant to generation Z Americans (ages 17 - 20), according to data from the 2015 TD Bank Checking Experience Index.

About three quarters (74%) of the gen Z customer segment said that debit card was essential, compared to 56% of overall Americans.

Also, 41% of gen Z respondents cited that their bank's mobile app was essential, compared to 22% of overall Americans.

The survey further points out that 86% of Americans feel positive about their banking relationships, rating their checking accounts as 'excellent' or 'very good'.

Out of the respondents, 39% in the gen Z segment ranked mobile banking as a top day-to-day banking service or feature, versus 17% of overall Americans and 32% of millennials.

Moreover, 93% of gen Z respondents rated their banks debit offerings as excellent or very good, as against 84% of overall Americans and 88% of millennials.

Nearly half of the survey's respondents (53%) further cited that they have used a payment platform, including PayPal or Venmo, to pay a person in the past three months.

On the other hand, only 11% have utilised a payment platform such as Apple Pay or Google Wallet to make payment to a business in the past three months, the report highlights.

Eighty-three percent of the respondents said that they are either extremely or very satisfied with their primary checking account.

And, 86% of respondents ranked their bank as excellent or very good when it comes to offering friendly and helpful service, which is a rise of 3% from 2014.

TD Bank head of deposit products and non-real estate lending Ryan Bailey said: "It's encouraging to see that most Americans are still satisfied with their banks and their checking accounts.

"Our findings about gen Z validate the increasing significance of mobile, and suggest that traditional financial services, like debit cards, will remain valuable to consumers and a priority for banks." ■

"We need to earn the right to be profitable"

In the Digital Banking Club's latest debate, experts coming from established banks, start-ups and technology vendors debated the issue of profitability in banking. Should banks target customers just because they are 'profitable' or should they make existing customers profitable? **Patrick Brusnahan** writes

During the Digital Banking Club's third debate of the year, focused on the question 'How can financial institutions increase their profitability by better targeting more profitable digitally engaged customers?', many schools of thought were considered.

Simon Cadbury, head of strategy and innovation at Intelligent Environments kicked off the debate by stating that 89% of consumers consider the strength of a financial institution's as a crucial factor in choosing their bank, yet many are 'not meeting customer needs and expectations' in this area.

This dissatisfaction is shown in Capgemini's recent 2015 World Retail Banking report which stated that in Western Europe, customers of five out of eight banks surveyed posted negative experience increases of more than 10 percentage points.

Cadbury said: "The traditional players have invested billions in digital. Yet there is no end in sight.

"Instead they are faced with ever-evolving digital strategies that require a continuous rethink of their business models, modus operandi and skill set requirements.

"While banking executives come to terms with the growing investment that digital requires, they are also beginning to realise the opportunities to reduce the cost, acquire more profitable customers, increase retention and grow revenue."

Terry Cordeiro, Head of Product Management (Shared Components, End to End Transformation) at Lloyds Banking Group, believed that digital was the way forward, not only in improving customer satisfaction, but in garnering profit.

He said: "Digitally engaged customers tend to have a higher product holding. If I have a great onboarding process, I'm more likely to tell people about it."

New entrants getting involved

The banking market is currently experiencing an influx of new start-up banks attempting to offer something different than traditional banking giants and gain a foothold in the market.

One of these is Starling Bank, a fully mobile banking proposition, and its CEO, Anne Boden, said: "As an industry, we need to give the customer something they actually want. We want customers we can look in the eye."

She went on to say that cross-selling and up-selling might end up as miss-selling. Her thinking was to offer something that customers need and want, then service those needs and wants. Only afterwards, should profits come into the equation. She added: "[Banks] need to earn the right to be profitable."

Venkataraman Bala, Global CTO of Banking and Capital Markets at CSC, on this topic, said: "Selling products etc is a by-product [of banking]. You can't be profitable serving everybody."

Cordeiro, who is in the middle of leading a £1 billion transformation plan at Lloyds, remarked that a lot of investment is needed to create the perfect digital experience for consumers.

He said: "The big money goes into end-to-end transformation of the entire journey. And [a consumer's] journey never ends with a bank."

Convenience v.s. Security

One aspect of this is convenience and speed of transactions and services, particularly with regards to branches.

Cordeiro commented: "Next year, we won't be talking about people going to a branch to open an account. I wouldn't wait a week to open an account, I'd go elsewhere. Branches need to be less transactional and more about advice and service."

Michal Panowicz, SVP & Deputy Head of Digital Banking at Nordea (and the Digital Banking Club Power 50's Personality of the Year), spoke on the profitability of the digital consumer.

He quipped: "We could be profitable by throwing out everyone who didn't have an iPhone, but focusing on one channel forces people to go elsewhere."

On the point of digital not being purely online or mobile, he continued: "Even a branch can be a digital touchpoint.

"Transformation is not about technology or products. It's about the change of minds and hearts."

Cadbury believed that branches were crucial for a bank and said that 'branches are the best billboards'.

Panowicz disagreed slightly and stated that 'there are cheaper billboards. Branches have more value than that'.

Boden concurred and said: "There will always be a need for some people to have face-to-face interaction."

Moreover, Boden then talked about her new offering, Starling will focus on one type of customer rather than attempting to get everybody on board.

She stated: "We're focusing on people who live their lives on their phones. Our proposition is not for everyone. We're going to do one thing really, really well. We're not going to be greedy and offer everything.

"We can listen without trying to protect the status quo. At the moment, all the big banks look the same. We're going through a period where the competition barrier is coming down."

Bala concurred: "Now is the perfect time to be a start-up."

Boden continued: "In the UK, the process of starting a new bank is understandable. In the US, it is not really possible."

Panowicz argued that there are banks in the market 'moving very fast' compared to the traditional banks.

On that point, Bala said: "The very same regulators that are complained about are the reasons that banks do not need to move as fast. What is regulation? It is the fear of the unknown."

The debate moved onto what the actual role of a bank was. There was a consensus that a bank was there more to service its customers rather than gain a profit.

Bala said: "The customer needs to be able to trust that you can do the journey with them."

Cordeiro added: "We have a duty to help you understand you financial health. The majority of UK adults are financially illiterate, which is why companies such as Wonga

Debate Panelists

Douglas Blakey, Group Editor of Consumer Titles, Timetric
Douglas is Group Editor, Consumer Finance at Timetric, chief of judges for the annual Retail Banker International Awards and lead market advisor for Timetric's retail banking research division. This division produces and maintains more than 50 market leading research reports and has undertaken bespoke consultancy projects for banks, vendors and their advisors. Douglas practiced as a solicitor in Scotland before moving into business information and analysis. He maintains an editorial advisory board of leading bank executives and is a regular guest banking analyst with BBC, NBC, New Statesman and other leading media.

Michal Panowicz, SVP & Deputy Head of Digital Banking, Nordea
Michal is a Harvard Business School Alumnus of 2006. He has 14 global innovation awards, with expertise in the reinvention of mobile and online banking. Michal previously held the position of managing director at mBank after he was appointed to manage the new mBank Project. BRE Bank launched mBank in 2000 as Poland's first online only bank, which developed into the country's third largest retail bank with more than 4m clients in three countries. He also worked for Boston Consulting Group where he led projects for Fortune 500 financial institutions and consumer goods companies in the CEE region.

Anne Boden, CEO, Starling Bank
Anne Boden, previously chief operating officer heading the post-crisis transformation at Allied Irish Banks PLC (AIB), is now working on the launch of Starling Bank- a new digital bank for the European market. At AIB, Anne was in charge of the bank's transformation agenda, tasked with reducing its operating costs by €350m over two years as the bank strived to return to profitability. Previously, Anne headed transaction banking at ABN AMRO and Royal Bank of Scotland across 34 countries. Anne was also chief information officer and a member of the board of directors of Aon Ltd.

Terry Cordeiro, Head of Product Management (Shared Components, End to End Transformation), Lloyds Banking Group
Terry is the head of proposition development, digital and transformation at Lloyds Banking Group. He had over 15 years' experience in the telecoms and mobile industry working in both the public and private sector before joining RBS UK (Retail) as head of solution design for mobile in November 2011. In this role, Terry owned the strategic direction and delivery of the RBSG (incl NatWest) UK retail mobile banking service. As head of solution design for mobile, Terry was the design authority for the business architecture and solution design of the RBSG retail banking mobile application which had over 2m active users.

Venkataraman Bala, Global CTO, Banking and Capital Markets, CSC
Bala is the Chief Technology Officer for the Banking & Capital Markets Industry at CSC. In this role, he helps to define the solution strategy for the industry, lead subject matter expert teams across industry issues and set the technology direction for our solutions. Previously Bala was a Client Managing Director at Xerox overseeing complex global relationships in the Financial Services Sector. He has also held roles at IBM (as Managing Partner and CTO for Asia Pacific region), Shearson Lehman Brothers (as CTO), Reuters (as SVP in charge of Partners & Global Alliances) as well as a start-up in the Wealth Management space. A proven leader, Bala has worked in global and regional roles in the USA, India, Singapore, Hong Kong, Taiwan and China.

Simon Cadbury, Head of Strategy & Innovation, Intelligent Environments
Simon joined Intelligent Environments in November 2013 as Head of Strategy & Innovation. He came from Lloyds Banking Group (LBG) where he was responsible for payment technology and also sat on the Credit Cards leadership team. He has a deep understanding of contactless (working with Transport for London in the early stages of their project to enable payment with contactless), mobile contactless (LBG, as part of its London 2012 sponsorship, worked with Visa and Samsung to deploy handsets capable of making contactless payments), Person to Person payments (including Paym, the UK Payments Council's solution to use a customer's mobile number as a proxy for their current account) and reward programmes (such as the card linked Halifax Cashback Extra product). Prior to LBG he held a range of strategic and product development roles in the TMT sector; including at BT (where he helped develop Europe's first Blackberry product as well as the public Wi-Fi service, BT Openzone), Vodafone (launching 3G in Australia) and BSKYB (part of the Sky HD product team).

Terry Cordeiro and Simon Cadbury

Michal Panowicz accepting his award

do so well."

Boden took this opinion a little bit further: "The customer wants to be able to rely on their bank for all situations. We have an obligation to make sure people have enough money for the rest of the week, the month, the year, and their lives."

That service aspect was considered tricky by the panel. The common view was that it was not quick enough or flexible enough.

Cordeiro said: "Service currently is predominantly reactive. At the moment, we treat different circumstances in the same way."

Digital culture

A solution for this that has been bandied about is Big Data, something that Panowicz was quick to dismiss.

He claimed: "Big banks and big institutions just want to go to Big Data because it is big. There's no need for big data, just some data."

On the future of banking, he said that there will 'absolutely be a banking revolution'.

Cordeiro said: "The biggest threat to banks like us is culture. The banks need to fight hard to survive, but so will the start-ups."

Boden responded: "Big banks won't fail because of [start-ups]."

Simon Cadbury highlighted the importance of new technology and said: "Digital is here to stay and constantly requires investment."

Cordeiro retorted: "Banks don't go after digitally-engaged customers. We use digital to give a better service."

As the CEO of a bank completely centred on digital solutions, mobile in particular, Boden said: "We're focusing on a service we can do very well on mobile. Omnichannel is not our problem."

On that note, Cordeiro believed that 'context is the right thing' with regards to mobile, while Panowicz said that the 'debate between mobile and the rest is misjudged'.

Cadbury concluded: "Digitisation is already disrupting traditional retail banking.

"The new digital-only players are set to radically influence the way we bank. Their potential for significantly lower operating costs and profit potential, combined with a favourable regulatory environment, threaten to erode the market share of traditional retail banks.

"Those who are willing to fully embrace this will not only cut costs but, more importantly, offer an engaging and relevant proposition to a group of customers who are largely unsatisfied by an industry that is not keeping up with the pace set by other around them." ■

Issues regarding recent developments in payments

2015 has been a year of significant change in the payment services sector. The potential uses of digital currency and blockchain technology are continuing to generate excitement. **Mike Pierides**, Partner, and **Sarah Atkinson**, Associate of law firm Pillsbury Winthrop Shaw Pittman write on this optimism

As of 1 April 2015 the new Payment Systems Regulator was created with the intention, amongst others, of opening up the industry to new and emerging providers, and July saw the high profile launch of ApplePay. This article considers some of the key issues arising from these developments.

Payment systems are a huge part of everyday life – in the UK, in 2014 more than 21 billion payment transactions were made with a value of £75trn ($115trn). Payment systems can be either interbank, such as Bacs, CHAPS and cheque and credit clearing, or card payment systems, for example, MasterCard and Visa (Payment Systems) and customers are able to process transactions through banks, or through payment service providers that interact with banks (PSPs).

PSPs need either direct or indirect access to Payment Systems to provide payment services. The UK's 'big four' banks (Barclays, HSBC, Lloyds and RBS) have direct access to most of the interbank payment systems, whereas indirect PSPs must connect to the Payment Systems through a relationship with a direct PSP (often known as a Sponsor Bank).

The New Payment Systems Regulator and improving access

The UK payments industry has been subject to criticism that it is slow to innovate with significant barriers to entry. The UK's Payment Systems Regulator (PSR) was created to regulate the payments industry and to target these criticisms. The PSR is a subsidiary of the Financial Conduct Authority, however acts independently and has its own executive and objectives, key among these being the promotion of innovation and competition and ensuring that payment systems are developed and operated in the interests of service-users.

A key focus of the PSR is to open up access by PSPs to Payment Systems. To access Payment Systems and thereby process payment transactions, PSPs need to be able to communicate either directly or indirectly with Payment Systems (Technical Access). Direct Technical Access is achieved by a PSP connecting directly to the infrastructure of a Payment System, whereas indirect access involves the PSP either using the infrastructure of a Sponsor Bank or a third party service provider.

There are concerns that the requirements and criteria applied by operators in order to grant Technical Access can be onerous and disproportionate. An added complexity is that the requirements and criteria vary depending on the Payment System. In response, the PSR has proposed that operators take a risk based approach to the requirements for Technical Access to ensure that access requirements are proportionate to the related risks of each operator.

The PSR is in favour of the development of accreditation arrangements for technology providers, which PSPs could use to gain Technical Access rather than relying on the solutions provided by Sponsor Banks. Accreditation would assure interested or prospective PSPs that the technology provided complies with the criteria of the accrediting operator. Faster Payments is promoting its 'New Access Model' and intends to have at least three accredited technology vendors by the end of 2015, one of which may be AccessPay, and it has announced that it expects to have 'a dozen new PSPs active by the end of 2016'.

Technology developments

Currently, settlements are made at regular times each day. As part of its New Access Model, discussed above, in order to offer real-time payments, Faster Payments is proposing a new prefunded settlement system, which would require all PSPs participating in Faster Payments to have a segregated, pre-paid account to cover the value of their net transactions.

An alternative to using prepaid accounts to make real-time payments is use of digital currency and blockchain, which has the potential to lead to significant changes to payment processing.

Banks are now looking at how the technology can be used to reduce both the time and cost of processing payment transactions, and the Bank of England (and other central banks) are considering how this would work in practice. In September, nine banks including Barclays and RBS announced that they are working together to consider potential uses of blockchain technology.

Blockchain is the database where irreversible ledger entries would be made pursuant to a payment. It creates these in near real time (currently around 10 minutes) to show the sum as having moved between the transferor's and transferee's accounts, and is able to validate transactions without requiring a third party institution. Blockchain has the potential to replace years old back-office payment processing systems of banks that can take hours or days to process a payment.

The social and practical challenges that would need to be overcome are not insignificant.

Andrew Haldane, Chief Economist, Bank of England said in a speech on 18 September: "Whether a variant of this technology could support central bank-issued digital currency is very much an open question. So too is whether the public would accept it as a substitute for paper currency. Central bank-issued digital currency raises big logistical and behavioural questions too. How practically would it work? What security and privacy risks would it raise? And how would public and privately-issued monies interact?"

Therefore the challenges include: how would the digital currency be put into circulation? Establishing an exchange rate; business to business, business to customer or both? Can concerns about capacity and security be overcome?

Mobile payments

Continued innovation in mobile payments is resulting in a dynamic and changing field of PSPs and solutions available to users. The Next Generation of Payments Report issued on 9 September 2015 by Vocalink amongst other things discusses the role that traditional banks can continue to play, given their longstanding relationship with customers.

However, those banks that want to build on their client base need to continue to innovate with new applications and solutions, either to grow or avoid erosion to new entrants such as Apple.

Over the coming years and months there will be continued and significant changes in the payment services sector, the most disruptive of these likely to be the use of digital currency and blockchain. That is for the future; current trends are increasing competition in mobile payment and more generally in the payments sector.

This will be characterised by an increased number of PSPs entering the market as a result of efforts to open up the payments industry and consequently an improvement in innovation and competition between PSPs. ■

Does Poland consider itself a modern payments market?

Poland is often first up when considering regions at the forefront of non-cash payments with multiple financial institutions bringing innovation to the market. Technology infrastructure provider SIA looked into whether Polish consumers held the same opinion or if they even used emerging technology. **Patrick Brusnahan** reports

According to Capgemini and RBS' World Payments Report 2015, the number of non-cash transactions per inhabitant in Poland grew 11% between 2012 and 2013. Timetric's research finds that there were 28.2 million debit cards in Poland in 2013 as well as 4.2 million prepaid cards.

In addition, contactless cards have grown with aplomb. Between 2008 and 2012, the number of cards with contactless functionality grew from 875,000 to 21.4 million at an astounding CAGR of 122.31%.

All major banks have replaced magnetic-stripe cards with EMV chip-based contactless cards, or are at least in the process of doing so.

M-payments have been growing significantly in Poland as its value grew from PLN780m ($323.7m) in 2008 to PLN2,415.8m ($741.8m) in 2012. Timetric expects this to continue skyrocketing to PLN5.9bn ($1.8bn) in 2017.

The consumers' insight

SIA surveyed 800 consumers about their attitudes towards modern methods of non-cash payments to see what they actually considered to be modern.

41% of respondents felt that contactless payments were the most modern solution available in the Polish market. This was followed by payments via mobile devices with 36% and payment cards and online bank transfers both received 35% of the vote each.

However, this does not necessarily translate into usage. With payment systems, such as PayPal, SkyCash, and MobilNET, 75% of respondents were aware of their existence but only 14% of them actually utilised the solutions.

Even less regarded were payments via NFC-enabled mobile phones. 74% of those surveyed had heard of these products, but a mere 4% declared themselves as users.

The exception to this was contactless cards. 96% of respondents had heard of the technology and this translated into 82% of them being actually users; a 9% increase from the previous year.

Speed and saving times was the biggest reason (55%) for consumers to use electronic payments, with convenience (35%) and not needing to carry cash around (20%) were two other important reasons.

PREFERRED DIGITAL PAYMENT METHODS IN POLAND, 2015

Online Banking	45%
Visa	22%
MasterCard	18%
Cash-based methods	13%
PayPal	2%

Source: Statista

In addition, the report stated almost 40% of respondents claimed they were denied payment by card for purchases of minor amounts.

This confirmed that one of the biggest barriers to the further popularity of these types of payments is the sellers.

What do you think of when you hear electronic payments?

When asked what they thought the values of electronic payments were, the respondents replied with user friendly (90%), innovation (43%) and security (36%).

The report stated that transaction security is a widely discussed issue when the subject of modern payment methods is highlighted in Poland.

However, in general, different payment methods are believed to have similar levels of security, but SIA found that in the last three years, contactless cards have been judged to be more secure than mobile payments.

Despite misgivings about security, only 15% of respondents knew anyone who had been a victim of fraud. In addition, 24% of that group believed it to be the fault of the victim's own negligence and recklessness.

45% of those surveyed were becoming less interested in new, novel payment instruments, mainly due to the fact that the market is so congested.

Promoting additional forms of non-cash payment will be a tough task as the level of competition is at a high level and it will be difficult to gain a significant level of attention or market share.

With more and more solutions coming into the market, including those from technology heavyweights such as Google and Apple, the majority of consumers do not have an opinion of whether it is the right product for them or not.

As a result, launching an innovative payment method, while still a great opportunity, requires a greater, and smarter, level of communication to consumers.

The mix of old and new

Close to two-thirds of respondents admitted that both banks and customers are beneficiaries of modern non-cash payment methods. However, when it comes to banks' benefit, the most frequent factors pointed out were profit and promotion of the institution.

On the other side of the coin, convenience and speed are praised from the customers' perspective.

On this note, 56% of respondents considered innovative solutions to be very or rather important when selecting their bank.

In contrast, just being new isn't enough for the Polish consumer. A non-bank institution offering a bank account is seen as an attractive proposition by only 17% of those surveyed and 38% of respondents didn't have a strong opinion on it either way.

"The findings of our survey about the payment transformation confirm Polish consumers love innovation," says Roman Pogorzelski, Executive of Business Development at SIA, when speaking to **CI.**

He adds: "Indeed, contactless technology is gaining importance in Poland: most of the payment cards issued in the market use contactless as well as all new POS terminals. Making payments has never been easier.

"For this reason we expect in the next 2-3 years mobile payments will gain popularity among Poles. "

Despit SIA's optimism, and the view shared by outsiders that Poland is an innovative market, these results show that is may take a while before the Polish consumer gets on the same page. ■

How to craic European card acquiring

Two technologists and three bankers founded OmniPay in 2000 to provide multicurrency payment services across Europe for big American blue chip companies, stepping in when banks were preoccupied with euro conversion and Y2K bug anticipation. Timetric analyst **Miguel Stein** caught up with its vice president, John Power

Ireland is a very small, open domestic economy. The only way in which businesses can be successful and thrive is to have a view on external markets. Payments expertise heritage can be traced back 25-30 years. The IDA (Irish Development Authority) attracted foreign direct investment into Ireland and successfully recruited large US based multinational companies to Ireland.

What has made Ireland such an attractive destination for so many card processors?

It's an English-speaking market with a young and highly educated workforce; from an infrastructure/telecommunications point of view it is well-positioned; there is an entrepreneurial spirit, investment capital available, and favourable corporate tax for companies moving from the US into Europe. Throughout the 80s and 90s big blue chips like IBM, Microsoft, Netscape, America Online AOL, Yahoo, and more recently, LinkedIn, Facebook, PayPal have come here.

Explain how OmniPay came into being

In the year 1999/2000, a company called Gateway (Dell's main competitor), manufactured and sold PCs directly over the internet. Gateway came to AIB- one of the main Irish acquiring banks, asking them to provide acquiring services pan-Europe. Gateway wanted to work with one acquiring bank, rather than different ones for different markets, in support of their business across all EU member states.

At the time in Ireland there were two things going on in an IT context- the Y2K transition concerns all major banks had, and the conversion to euro. Banks at that time were not well positioned to serve the needs of companies like Gateway. IBM, Microsoft, Netscape were all looking to achieve the same thing- to grow their e-commerce business out of Ireland and work with acquiring banks for their payments solutions in Ireland, to extend their business into European markets. So the company OmniPay was founded on the pain point that the banks were simply too busy with Y2K and with euro conversion.

It started with Amazon, probably the first large e-commerce merchant to step outside of the US. Europe was the first launchpad internationally. From Europe Amazon has further expanded to international markets. The European experience set the model for them to globally expand. PayPal did the same thing. In 2014 Europe became in size and opportunity terms, as big in card turnover in the e-commerce space as the US marketplace, which is incredible.

From an ecommerce perspective, how has the new SEPA framework facilitated cross border ecommerce in the direction of Ireland?

The network that now exists for free movement of funds, cost-effectively, really has opened it up and made it much easier for businesses to expand. This is why you'll see similar high street retailers in a lot of the major cities. This and the regulatory changes are the two main impacts. PSD 1 and 2 and the new interchange fee cap has made it very viable for the first time for domestic acquirers to support their customers who also operate in other international markets and take on some of the market share.

That assumes the underlying infrastructure and payment technology can support things like language difference and multi-currency and FX services. Irish acquirers have embraced new technologies whereas the traditional closed markets- specifically Spain, Portugal and France, typically have a small number of very large players who haven't necessarily advanced on the technology spectrum and aren't positioned to go outside their borders in support of their client. So I foresee a lot of change and more Irish domestic acquirers going after, and successfully providing cross-border acquiring services to big e-commerce businesses.

Do you envisage larger players taking on acquiring?

Amazon, like PayPal is registered in Luxembourg for corporate tax benefit reasons. Much of the large multinational e-commerce businesses are registered in Luxembourg. Amazon does not have its own payment acquiring processing capability- it works with Chase. It's actively looking to work with other acquiring entities in Europe. As far as I am aware, it doesn't have any intention to register itself as a payment institution. PayPal is a merchant. It aggregates on behalf of lots of sub-merchants. and has its own payments institution, registered in Luxembourg and its own principal membership of Visa. PayPal has not set up as an acquirer yet but at some point probably will as it has many of the components with which to do so.

At the moment PayPal and Amazon are not taking on the risk. As long as the services are provided cost-effectively, it's unlikely that the likes of Amazon and PayPal will move into that space themselves. But who knows, look at Apple, we would never have said Apple is a payments company and today it's not but they're making significant investment in payment services so it is a dynamic marketspace.

How about face-to-face e-commerce, such as Uber?

The last five years in payments has been incredible- very exciting for anyone working in the industry- many new models challenging the long-established processes, making it more cost-effective and operationally efficient, collapsing the value chain or consolidating three points in the value chain down to one. For us, it's important to stay close to all this innovation. We work with Stripe, and many of the mobile POS providers. The lines are being very much blurred between card present and e-commerce transactions.

In certain retailers in the US, there is an option to pay with your PayPal account at point of sale. This has also been launched in the UK and Germany. It is the first real example of an online brand moving and providing payment services in a face-to-face channel, it normally goes from face-to-face to online. This illustrates the blurring of the lines.

Do start-ups depend on a partnership with a large organisation?

Definitely, I've seen many ideas die on the vine because they can't get to the scale that they need to survive. They don't have the brand identity. ■

60% of UK consumers victims of card fraud

UK banks are basing decisions to repay victims of card fraud based "on a hunch", according to an investigation by Which? The consumer watchdog found that three in five people had experienced card fraud, out of a survey of more than 3,000 respondents. **Franchesca Hashemi** reports on the consequences of this mentality

While a quarter of this number lost nothing because the transaction had been blocked, some respondents had to wait more than a month for reimbursement. Interestingly, the investigation found 64% of its surveyed victims experienced the fraud within the past two years. While some victims had their cards cloned or stolen, more often fraudsters were spending money on the card while it was still in the rightful owner's possession, the Which? report found.

Encouragingly, the majority of surveyed fraud victims said their provider had been quick to react.

However, the average loss for debit card holders came in at £677, while credit card victims lost an average of £624. While almost all victims got their cash back eventually, the downside is that many consumers had to wait longer than what is considered acceptable by UK regulators.

The Financial Conduct Authority (FCA) states that banks must refund unauthorised payments immediately unless they have reason to suspect wrongdoing.

But 23% of the surveyed consumers had been waiting for one to four weeks for a payment, while 64% received money back within seven days.

Resolving disputes

According to the report, The Financial Ombudsmen Service (FOS) said it upholds one in four complaints relating to card fraud and other disputes in favour of the customer.

The report stated: "While we've seen improvements in the way businesses look at disputes, it's disappointing that we're still seeing many cases where banks have rejected complaints on a hunch and without conducting a full investigation."

Between April 2014 and March 2015 the FOS ordered Barclays to pay up in 56% of card disputes where reimbursement had been denied. Within the same time frame, Santander had to refund 47% of disputed transactions.

A spokesperson for Barclays told **CI**: "We are disappointed with our performance and are confident that we will see the position greatly improved in the future – because we must."

The spokesperson added that Barclays has an experienced fraud team available 24/7 for customers to report frauds and scams:

He said: "We have significantly improved and will continually to review our processes for the speed and accuracy in which we process fraud claims so that our customers are satisfied with the outcome."

According to the figures Which? obtained from the FOS, Nationwide had been ordered to pay up in 37% of card related disputes, and Lloyds Bank in 36%.

The Which? report has described 'disputes' as transactions that may include credit and debit cards, misplaced transactions, missing payments, ATM disputes and debits applied incorrectly by retailers, as well as potential cases of fraud.

Speaking to **CI**, Nationwide said it takes the safety of its members' money very seriously, especially in light of the reported increase in Pension Freedom related scams.

It said: "The Society has done a targeted mailing to selected customers who were a higher risk from being targeted by these types of fraudsters. Also, when customers log in to our online bank they are warned that the Nationwide would never ask them to transfer money to another account."

Nationwide said it uses alternative channels to educate account holders on traditional scams, as well as internet based frauds:

It added: "Fraud awareness pages are on our website and articles are posted on our Your Nationwide and social media pages. Nationwide regularly travels the country and holds member talkbacks where leaflets are handed out on fraud scams.

"These same leaflets are available in our branches and on our website and vishing warning messages are published quarterly on customers' current account statements."

Phishing, or vishing, scams are essentially emails sent by criminals posing as legitimate companies such as a bank, eBay or government body. Clicking the URL included in the message can result in a customer being led to virus-ridden website that steal personal financial details left on a computer. Increasingly, phishers are copying banks' logos onto the scam email for added authenticity.

Cases Referred to FOS

Which? obtained its figures by submitting a Freedom of Information Request to the FOS. 'Some banks and credit card providers are getting it wrong when it comes to fraud…'

	Upheld in favour of customer	New cases received (Apr 14 – Mar 15)
Barclays Bank/ Barclaycard	56%	598
Santander	47%	397
Nationwide	37%	131
Lloyds Bank	36%	316
HSBC	30%	230
Bank of Scotland	29%	253
RBS	24%	112
NatWest	22%	384

'Figures cover all disputed transactions for credit and debit cards which may include misplaced transactions, missing payments, ATM disputes and debits applied incorrectly by retailers. New cases don't relate directly to the uphold rate, as resolved cases can include older cases, but the numbers are broadly similar.'

Yet a similar type of phishing can take place on a landline, where fraudsters pose as bank managers and trick consumers into emptying their accounts.

Richard Lloyd, Which? executive director, said: "Banks have a duty to resolve cases of fraud quickly and can only delay a refund if there is suspicion of wrongdoing."

According to Which?, John Lewis handles credit card fraud best, with 93% of customers regarding its service as 'good' or 'excellent'.

Contrastingly, Barclays' handling of debit card fraud came last, with 61% of Which? respondents describing the bank's overall response as 'good' or 'excellent'.

Financial Fraud Action UK, an organisation that works with retailers, consumers and police to combat fraud, has said it is good news Which? has found that customers have been repaid in almost all cases:

"Fraud cases can be extremely complex, so it can take time for a full investigation to take place into the specifics of an incident, however banks always endeavour to make the process as fast as possible." ■

How to bring innovation to market

With the myriad of fintech and start-up companies entering the financial field, it becomes harder for people to predict which ones will make the grade and which will fall off the radar. No businesses, particularly banks, will invest in something that will disappear in 18 months. **Patrick Brusnahan** writes

Fintech is in the middle of a boom. Forbes recorded a quadruple-fold rise in investments for fintech, going from just over $3bn in 2013 to over $12bn in 2014. With so much attention being poured into the sector, it is hard for one new company to garner attention, let alone investment, all by itself. However, CEO of myPINpad Phil King believes that he has cracked the code.

When speaking to **RBI**, King said: "You're right to point out that there isn't a day that goes by without a new payments process or new company or new method of authentication. There's no question that there is a lot of innovation.

"However, the reality is that innovation which cannot be applied simply and to immediate benefit, at a low cost and at the convenience of the customer is never going to succeed."

Banks keeping their distance

Without these factors in place, banks are always going to be reluctant when approaching a new entrant to the market.

King said: "I think the banks and the retailers are rightfully cautious at the speed in which they choose to progress in innovation.

"They have customers that are exceedingly valuable to them. Customer acquisition is a costly process, they're not going to risk losing them all because they decided to do something that has been poorly thought through."

On the other hand, King believed that not all of the blame should be placed at start-ups' feet. The banks and retailers also need to be more willing to embrace change in the market.

He said: "Banks are not known for innovation. They're not known for rapid employment. They take their time. We're in discussions with a number of banks and companies in the financial services sector and it takes a long time to get through. There is definitely a lag.

"However, there is a demand on the retailer side for things which will improve the position they've found themselves in. They are now being presented with a plethora of payment solutions and authentication options and they don't have the time or money to tackle all of them."

A 'pragmatic approach' to overcoming this, according to King, would be to make sure that your piece of tech can fit in with existing legacy systems. While legacy infrastructure is 'one of the issues', being able to slot into that is key, so banks' 'investment in those legacy systems does not have to be thrown away'.

The regulatory struggle and a level playing field

Another commonly stated stumbling block in technological development in banking is regulation.

King commented: "I think it's certainly a feature. Whether it's a stumbling block depends from whose perspective you're looking at it. There are certain technologies, particularly in the area of mobile, where the regulations have simply not caught up and there is a sense of uncertainty as to how to deal with some of those things.

"The regulators have an important role to play and the standards are in place for a good reason. The banks and the retailers rely on those standards and expect some form of compliance.

"When your solution can't comply as it isn't designed like that, that's when you get some interesting conversations about how we go forward."

King stated that banks will need to look outside themselves for the innovation that consumers want, and are even driving.

He said: "I think the culture of a financial institution isn't going to change and they are, by nature, not innovators. There are some banks in the world that are very innovative, as well as new banks which are not impeded by legacy systems or cultures that impede speed of thought, movement, and flexibility.

"There is no monopoly on a good idea. Every bank in the world is looking at mobile as an example. Everyone will have some people doing their own work, but the reality is that they can't move fast enough.

"My view would be that most of the innovation is going to come from outside of the banks and it will need to be presented in a way that makes it easy for the banks to use.

myPINpad

- Technology company founded in 2012
- King describes the company's offering as a 'state-of-the-art authentication service offering multichannel on what were previously regarded as unsafe devices [mobile phones]'.
- This basically amounts to entering your card's PIN number on your mobile phone for transactions for a process similar to an ATM of POS terminal.
- Not in the market yet, but expects to go live this year and is in conversation with 5-6 major brands.

You can't threaten the establishment; you have to take them with you unless you have a massive brand. Companies like ours do not, but companies like Apple are clearly a different category.

"However, even a giant such as Apple worked hand-in-hand with banks because you simply have to. I think the innovation will come from outside, but it will need to fit within the environment of the bank and there are certain things that the banks will never give up. Ownership of their customers, for example, is something that they are simple not going to give up for the sake of innovation."

A factor that is not to be neglected in the wave of innovation for the consumer is security. While it is not the flashiest of features, it could be considered to be the most important.

King concluded: "The consumer is absolutely driving this move towards mobile. All the research tells us this. The consumer carries their mobile with them every day and they don't understand why they can't get what they want through that device.

"On the other hand, they also want it to be secure. There is a balance to be struck and the newer generations are going to want it even sooner.

"They may not care about privacy, but they do care about security." ■

Germany preparing for interchange change

While Germany's card market is one of the strongest Europe, it is set to face one of its biggest challenges: the new interchange fee cap. Will companies, sucha s Girocard with its debit card stronghold, be able to keep up with the changing regulation incoming or will e-commerce have to pick up the pieces?

Germany is one of Europe's largest payment cards markets, and is the third-largest in terms of annual card transaction value. It is still far from being recognised as a fully mature market, however, as the average number of monthly card transactions by consumers in Germany was 2.5 in 2014; much lower than France (9.4) and the UK (6.5).

Despite the gradual growth in non-cash payments over the last decade, consumers in Germany still have a strong inclination towards cash for the majority of transactions. Payment cards are still predominantly used to withdraw cash from ATMs.

Girocard maintains its stranglehold in the German debit card market

Consumers in Germany use debit cards for most transactions and the national debit card scheme, Girocard is the most frequently used payment card, including Visa and MasterCard debit cards.

Girocards are enabled with EMV technology, which offers enhanced security for POS terminal transactions. Payment guarantees to retailers by all the participating banks makes the Girocard a popular choice of payment card among retailers.

The interchange fees charged for Girocard are between 0.2% and 0.3%, which is much less than Visa with 1.08% and MasterCard with 1.10% in 2014.

As Girocard transactions accounted for 90.2% of the overall debit card transactions, the low interchange fee charged for Girocard reflects to a great extent on the merchant service charges prevailing in the market.

In Germany, the average merchant service fee for debit cards was 0.34% in 2014. The combination of factors collectively led to the higher acceptance of Girocards at retail outlets in Germany between 2010 and 2014.

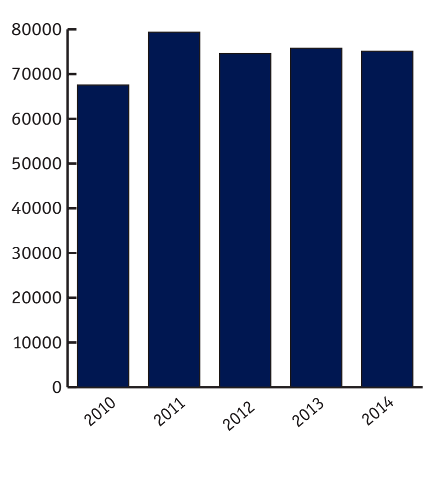
However, with the new regulation capping interchange fees at 0.2% for consumer debit cards, effective from June 2015, Girocard is anticipated to face stiff competition from Visa and MasterCard over the next five years.

Effect of interchange fee on the German credit card market

In Germany, credit cards occupy a trivial share in the overall payment cards market. Due to overdraft facilities on the majority of regular bank accounts, the need for short-term credit facilities is reduced.

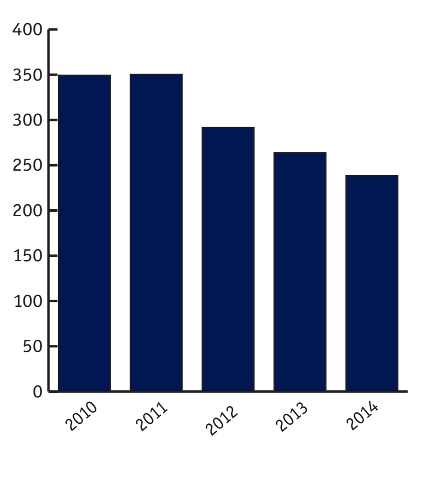
Consumers in Germany are using credit cards to benefit from interest-free credit periods; this facility is not available for over-

VALUE OF CREDIT TRANSFERS (US$ BILLION) IN GERMANY, 2010–2014



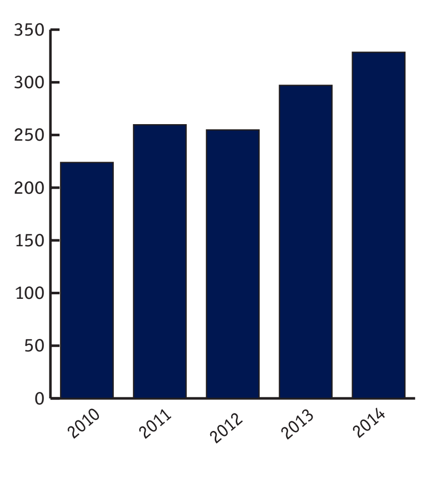
Source: European Central Bank and Timetric

VALUE OF CHEQUE PAYMENTS (US$ BILLION) IN GERMANY, 2010–2014



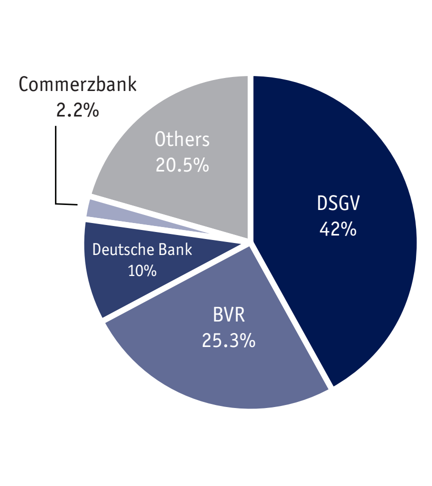
Source: European Central Bank and Timetric

VALUE OF PAYMENT CARDS (US$ BILLION) IN GERMANY, 2010–2014



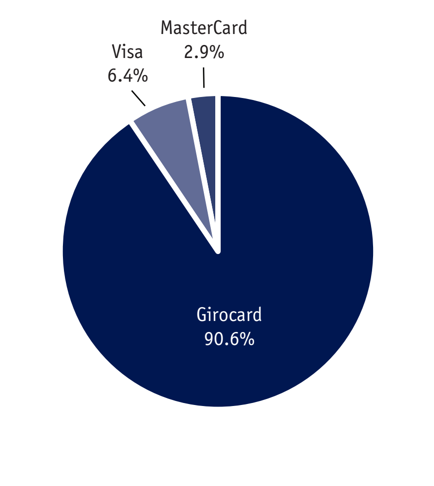
Source: European Central Bank and Timetric

GERMANY DEBIT CARDS MARKET SHARE BY ISSUERS (%), 2014



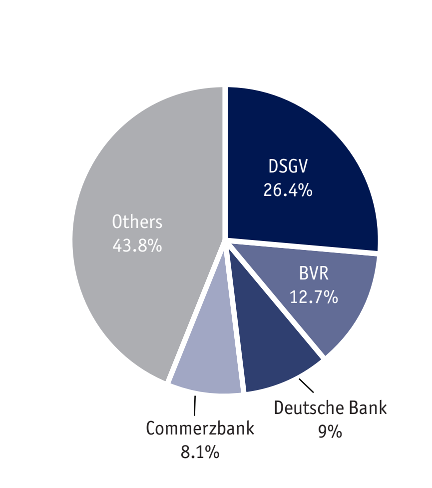
Source: Timetric

GERMANY DEBIT CARDS MARKET SHARE BY SCHEMES (%), 2014



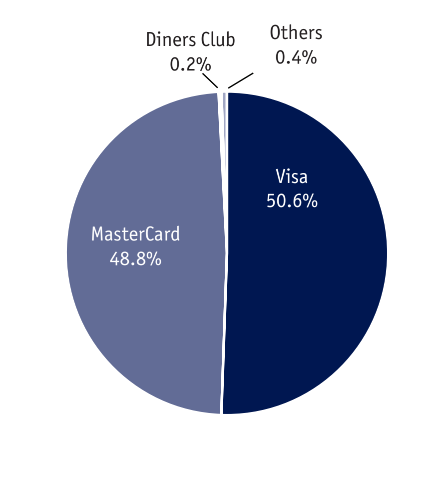
Source: Timetric

GERMANY CREDIT CARDS MARKET SHARE BY ISSUERS (%), 2014



Source: Timetric Note: issuer share includes credit and charge card transaction values

GERMANY CREDIT CARDS MARKET SHARE BY SCHEMES (%), 2014



Source: Timetric

drafts, and banks calculate the interest rate from the day the overdraft facility is utilised.

The German credit card market is anticipated to be affected negatively by the interchange fee cap at 0.3%, especially for banks that issue Visa and MasterCard-brand credit cards.

These banks are anticipated to witness severe revenue erosion and to compensate, banks are anticipated to increase annual fees or reduce reward benefits to credit cardholders, limiting credit card market growth potential.

Mobile contactless payments are gaining prominence in Germany

NFC-based mobile payments are gradually gaining prominence in Germany, as retailers and mobile operators actively promote NFC technology to improve their business. Consumer preferences for secure payment services that allow them to purchase products are also gaining ground in Germany.

Many of these services are based on NFC technology, and companies are embracing this technology to benefit from the expansion of the mobile payment (m-payment) market.

In April 2015, for instance, Vodafone Germany, Deutsche Telekom and Telefonica, along with six major German retailers, launched a program in Berlin to introduce upgrades to 2000 POS terminals across 500 retail outlets that accepted mobile contactless payments.

Likewise, in February 2014, MasterCard announced collaboration between Deutsche Telekom, Telefónica Deutschland, Vodafone and MasterCard's subsidiary, Trevica, to offer mobile contactless payment for customers of MasterCard's partner banks.

The service will allow banks' to connect to a single platform instead of connecting to individual mobile operators.

Postbank announced the launch of mobile contactless payments pilot in May 2015.

During the pilot, Postbank will be using mobile contactless payments platform provided by payment and the transaction services provider Worldline. Users need to have a NFC-enabled smartphone to make payments at any of Visa's payWave terminals in Germany.

According to Worldline, upon the successful completion of pilot, the service will be expanded to other areas such as couponing or ticketing.

E-commerce market growth offers prospects for card-based payments

Germany is the second-largest e-commerce market in Europe after the UK.

E-commerce registered a CAGR of 21.32%, between 2010 and 2014, to reach $99.9bn (€75.3bn) in 2014.

The growth of e-commerce in Germany was facilitated by internet and mobile penetration, and the enhanced availability of faster broadband connections.

The use of video and social media for enhanced product presentation and services in e-commerce is further fuelling growth.

The integration of video in e-commerce improves the overall shopping experience, and therefore, greatly increases customer loyalty.

The leading companies in the German e-commerce market are Amazon, eBay, Weltbild.de, Otto.de and Tchibo.de.

With a high internet penetration, the German e-commerce market is expected to grow at a CAGR of 17.05% between 2015 and 2019, to reach $188.6bn in 2019.

An increasing number of online retailers are offering a same-day delivery service to enhance the customer's experience. Amazon is offering an 'Evening-Express' same-day shipping option.

Similarly, eBay is also testing 'eBay Now', a shopping app aimed to offer delivery in less than two hours.

German shoppers also opt for alternative online payment services such as PayPal, Sofort and Giropay for online purchases. ■

Argentina bringing people into the fold

The Argentinian government is making great strides in bringing the unbanked population of the country into the system. This has driven the demand for payment cards and increased the size of the Latin American country's retail and e-commerce markets. Can it keep growing at this rate and remain sustainable?

According to the World Bank Global Findex Survey 2014, Argentina has made substantial progress in terms of financial inclusion, with the percentage of the Argentine population aged 15 or above with a bank account increasing from 33.1% in 2011 to 50.2% in 2014. Although financial inclusion has improved, a significant proportion of the population in the country still does not have access to the formal banking system.

Cash is the most preferred payment instrument in Argentina, accounting for 82.1% of the total transaction volume in 2014. However, the share of cash-based transactions, in terms of transaction value, gradually decreased between 2010 and 2014, from 47.1% in 2010 to 34.3% in 2014, due to the government's sustained efforts to reduce dependence on cash. Even during the country's financial crisis, the government promoted the use of payment cards by offering tax incentives and by strongly promoting the use of payroll cards.

Government efforts to drive demand for payment cards

The implementation of mandatory wage accounts regulation by the BCRA has encouraged cashless transactions. The regulation requires payroll funds to be directly credited into wage accounts. It was first introduced in 1997 and came into force in 2001; it is now strictly enforced in Argentina. The account is also used for the administration of government benefits such as retirement, pension and social welfare funds. As reported by the BCRA, there were 7.7 million wage accounts in Argentina as of March 2014. Increasing number of wage accounts has led to high use of payroll debit cards.

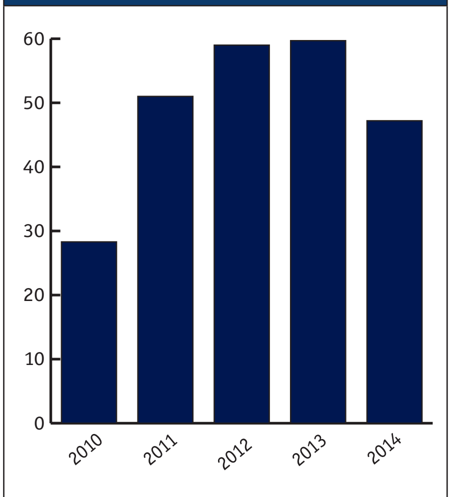
Argentina's government implemented the Forced Bankarization policy in 2001 to encourage use of payment cards. Under this policy, consumers are reimbursed 3% of value added tax (VAT) on purchases made with a credit card, and 5% on those made with a debit card. This has led to a significant increase in debit and credit card transactions over the last five years.

Cash-based vouchers remain a preferred mode of payment – a hindrance for the less-cash society

Payment companies are developing voucher-based payments to cater to the significant unbanked population, allowing consumers to make payments without the need for a bank account or payment card. Cash-based payments through vouchers such as Pagofacil and Rapipago remain the preferred mode of payment among consumers. Pagofacil users make a purchase, print a voucher and take it to a local payment location to make cash payment. Payments can be made at 4,000 Pagofacil locations across the country. Similarly, Rapipago vouchers are also accepted at 6,000 locations.

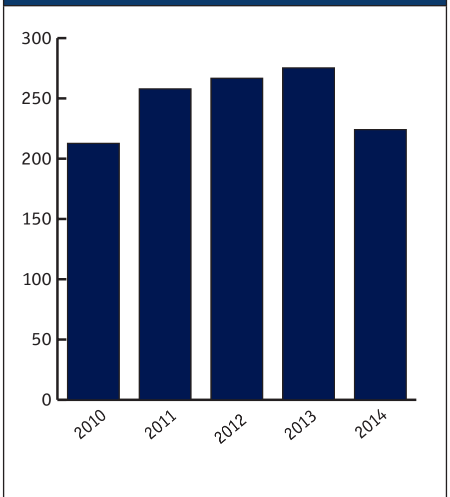
Although voucher-based payments provide a convenient shopping experience for consumers due to its wide acceptance, it

VALUE OF CREDIT TRANSFERS (US$ BILLION) IN GERMANY, 2010–2014



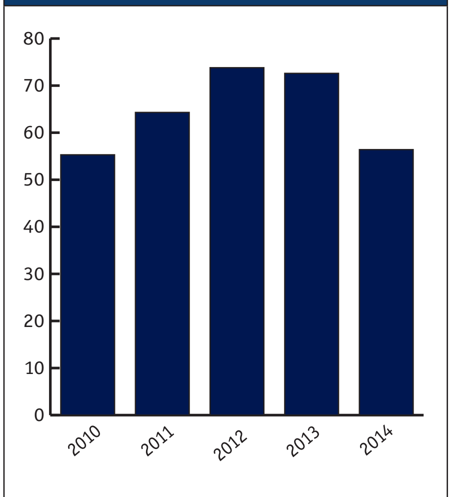
Source: Timetric

VALUE OF CHEQUE PAYMENTS (US$ BILLION) IN GERMANY, 2010–2014



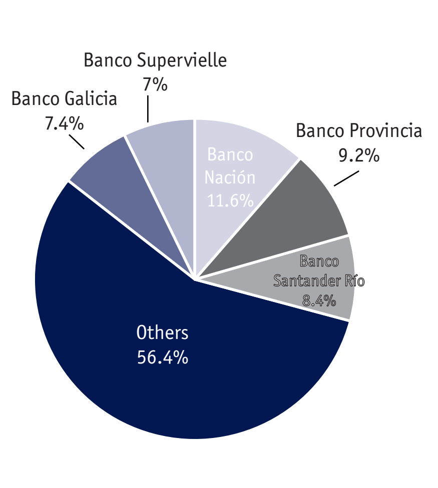
Source: Timetric

VALUE OF PAYMENT CARDS (US$ BILLION) IN GERMANY, 2010–2014



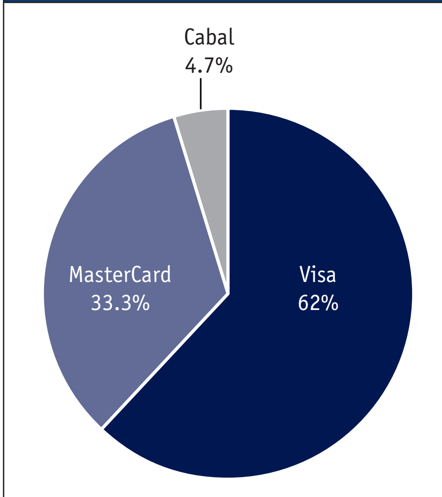
Source: Timetric

VALUE OF CREDIT TRANSFERS (US$ BILLION) IN GERMANY, 2010–2014



Source: Timetric

VALUE OF CHECK PAYMENTS (US$ BILLION) IN GERMANY, 2010–2014



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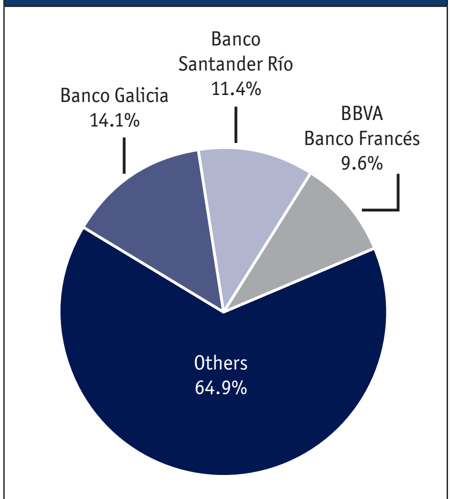
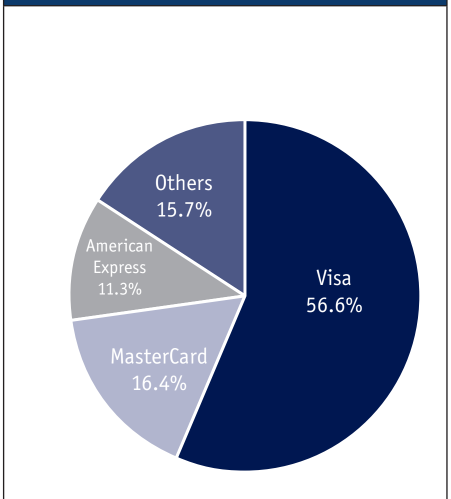
VALUE OF PAYMENT CARDS (US$ BILLION) IN GERMANY, 2010–2014



Source: Timetric Note: issuer share includes credit and charge card transaction values

VALUE OF PAYMENT CARDS (US$ BILLION) IN GERMANY, 2010–2014



Source: Timetric

is also a hindrance for the government's vision to turn Argentina into a less-cash society.

Restrictions on transactions abroad is anticipated to hinder transaction volume

In an attempt to control drops in foreign currency reserves, which fell by 29% in 2013 to $30.9bn (ARS168.7bn) – a seven-year low – in December 2013 the government of Argentina introduced restrictions on online shopping and use of payment cards abroad. Consumers may make tax-free online purchases up to $25 from foreign websites, with 50% tax charged on purchases above this amount. Products imported through foreign online retailers need to be collected from the customs office.

Argentina's government increased tax on all credit and debit card purchases made abroad from 20% to 35% in December 2013, and also made it mandatory to report every purchase to the tax authority – Administración Federal de Ingresos Públicos (AFIP). These restrictions are expected to result in slow growth in card transaction values over the next five years (2015-2019).

Growing infrastructure provides scope for card payments

The number of ATMs in Argentina increased from 12,806 in 2010 to 19,522 in 2014, at a CAGR of 11.12%. It is anticipated to increase further between 2015 and 2019, at a CAGR of 4.52% to 25,107 in 2019. This growth was primarily due to the increase in banked population, as well as competitive pressures that forced banks to launch ATMs and self-service branches in areas covering the unbanked population to attract new customers.

Banks in Argentina have encouraged the direct deposit of salaries through the use of debit cards, which contributed to the increase in overall use of ATMs. In addition to basic financial transactions, cardholders can carry out operations at ATMs, including payments for water, gas and electricity.

The number of POS terminals in Argentina increased at a CAGR of 8.70%, from 330,210 in 2010 to 461,000 in 2014. With the increased number of installed POS terminals at retail outlets, the potential for card-based payments is expected to grow. In addition, the market for POS terminals is expected to grow significantly over the next five years due to the expansion of the retail sector.

Growing retail and e-commerce markets

The retail industry declined during the in the last five years from $130.7bn in 2010 to $117bn in 2014, though it recorded positive growth in local currency terms. Retail industry expansion has been driven by improved annual disposable income, rising consumer demand for high-quality products and rapid urbanisation.

The number of shopping centers, supermarkets and hypermarkets has grown across major cities in Argentina.

Demand for food, apparel, furniture, consumer electronics and automobiles maintained steady growth from 2010 to 2014. Retail sales and increasing consumer adoption of payment cards are expected to drive growth in the overall cards and payments industry over thenext five years.

E-commerce in Argentina increased recently, from $1.9bn in 2010 to $5.9bn in 2014.

Increasing internet penetration is driving e-commerce. Domestic operators such as Americanas, Submarino and Shoptime provide various online payment options and are expanding their online presence to attract new customers.

Argentina's e-commerce market is still in its early stages, but studies indicate that the country has a growing community of internet users, with a penetration rate of 64.7% – the second-highest in Latin America.

Banco Itaú Argentina partnered with Atrapalo, a Spanish online entertainment website, in August 2014. Banco Itaú Argentina customers with Visa and MasterCard in Argentina will have access to products offered on Atrapalo.com.ar. ■

Transforming Chile's payments market

Throughout the last five years, Chile has undergone a series of changes, such as the entrance of multinational banks, an uptick in branchless banking and governmental financial inclusion programmes. Is this having a suitable impact on the consumers of Chile or on the financial sector in general?

Chile's cards and payments industry underwent a transformation between 2010 and 2014, helped by the entrance of multinational banks, government initiatives such as the financial inclusion programme, and infrastructure modernisation.

As cheque use has declined, debit and credit cards have benefited. Government efforts to provide basic banking and financial services to the unbanked helped a large proportion of the population to become banked, which also benefitted the industry.

According to the World Bank's Global Findex, its global financial inclusion database, the percentage of individuals aged over 15 with an account grew from 42.2% in 2011 to 63.3% in 2014.

Changing lifestyles, and rises in the economically active population, disposable income, the popularity of online shopping, and acceptance of cards at retail outlets supported the growth of payment cards during the review period, a trend that is anticipated to continue over the next five years.

With the adoption of contactless technology, the Chilean payment cards market is projected to grow at a healthy rate in both volume and value terms between 2015 and 2019.

CuentaRUT supported the growth of the debit card market

The government-owned bank BancoEstado offers CuentaRUT, a debit account primarily for the low-income population who do not qualify for conventional accounts.

There are no maintenance charges associated with the account. Documentation is minimal, and it is available to the entire population. Accounts can be easily opened in person, by telephone, online, or through banking agents, contributing to their popularity among Chilean consumers. Account holders are issued debit cards, which will increase the debit card market's volume and value growth over the next five years.

There were 7.4 million CuentaRUT account holders at BancoEstado as of 2014, representing 41.6% of Chile's total population. However, the CuentaRUT is anticipated to face competition from the Chile Account, a new checking account introduced by Banco de Chile in November 2014, aimed at the low-income and unbanked populations.

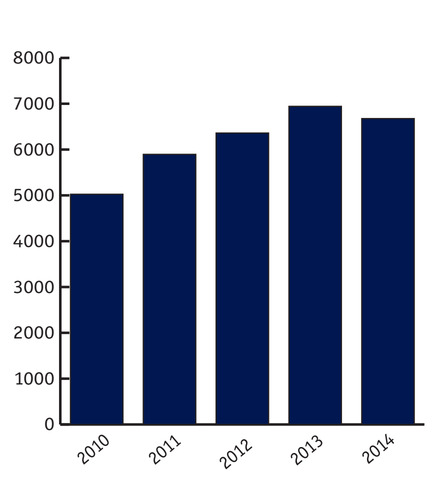
Growing preference for both bank-issued and private label credit cards

Growing employment and disposable incomes led to increased demand for consumer credit, fueling demand for credit cards.

A decrease in interest rates on consumer credit also facilitated demand for credit cards between 2010 and 2014. According to central bank statistics, the average interest rate on credit card consumer loans fell from 34.3% in January 2013 to 24.0% in December 2014.

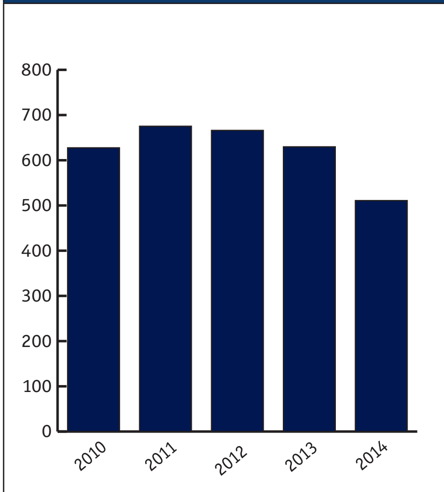
Another important driver of credit card transaction value and volumes recently is the option to convert purchase amounts into monthly installments. BBVA Chile offers six-to-12-month installment facilities for purchases at Enjoy hotels and restaurants. Banco Santander Chile and

VALUE OF CREDIT TRANSFERS (US$ BILLION) IN CHILE, 2010–2014



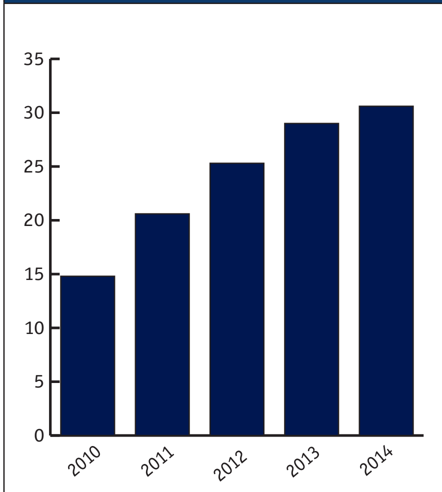
Source: SBIF, CCA and Timetric

VALUE OF CHEQUE PAYMENTS (US$ BILLION) IN CHILE, 2010–2014



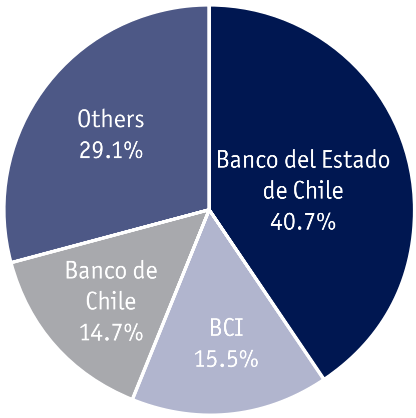
Source: SBIF, CCA and Timetric

VALUE OF PAYMENT CARDS (US$ BILLION) IN CHILE, 2010–2014



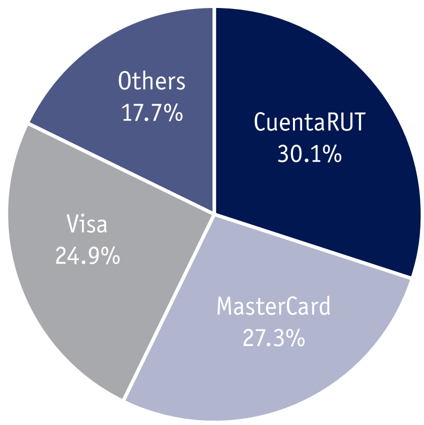
Source: SBIF, CCA and Timetric

CHILE'S DEBIT CARDS MARKET SHARE BY ISSUERS (%), 2014



Source: Timetric

CHILE'S DEBIT CARDS MARKET SHARE BY SCHEMES (%), 2014



Source: Timetric

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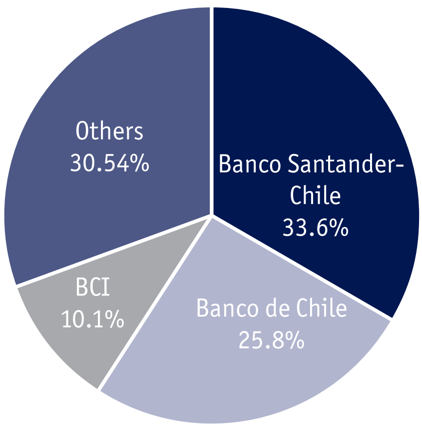

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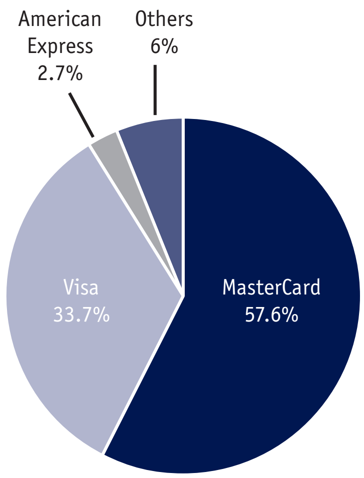

Source: Timetric

BancoEstado also offer installment facilities to credit cardholders.

However, credit card issuers in Chile face competition from private-label credit cards, for which qualification criteria tend to be much less stringent than for bank-issued cards.

As a result, retailers in Chile have long had much greater access to the sizable unbanked population. Several large Chilean retailers not only have wide store networks, but also operate travel and insurance agencies, and have wider customer bases as a result.

Branchless banking model to increase payment cards penetration

Branchless banking is expected to increase the volume of payment cards over the next five years. For instance, BancoEstado offers its services through Caja Vecinas banking terminals, enabling it to serve consumers over extended hours, including Saturday and Sunday.

This channel differentiates the bank from others that normally operate five hours per day, five days a week. Caja Vecinas offers all normal banking products, and enables individuals in remote areas to conduct transactions through POS terminals in retail stores. Caja Venicas is expected to play a major role in extending card-based payments to the country's rural population.

Growing retail and e-commerce markets

Despite the economic slowdown, Chile's retail sector registered healthy growth due to infrastructure improvements and the expanding network of retail outlets.

Key operators in the sector include Walmart, Cencosud and Ripley. During the last five years, the retail sales value registered a CAGR of 6.60%, increasing from $55.8bn (CLP28.5 Tr) in 2010 to $72bn in 2014.

Further growth is expected in line with economic recovery and a growing number of retail establishments across the country.

An increasing numbers of internet and smartphone users in Chile led to a rise in online retail sales, at a CAGR of 18.86%, going from $845.1m in 2010 to $1.7bn in 2014.

The country's growing online market is attracting international online payment service providers. In April 2013, for instance, PayPal entered into an agreement with Multicaja to extend its services in the country. The expanding e-commerce market is driving payments through online shopping.

Prepaid card market offers growth prospects

Prepaid cards are gaining acceptance among Chilean consumers, as they offer control over spending and do not require a bank account. The prepaid cards are available for various sectors such as commercial sector, public sector and for individuals with customised benefits.

For instance, MasterCard offers Teen MasterCard prepaid card for students, which facilitate them to manage their money with parental control.

MasterCard also provides corporate prepaid cards including payroll prepaid MasterCard, incentive prepaid MasterCard and welfare prepaid MasterCard.

Gift cards are also gaining prominence in Chile.

A popular strategy employed by prepaid card issuers is to organise contests and lucky draws where the customer is given a prepaid card as a gift.

A similar strategy was followed by Ripley. Ripley introduced a Pinterest contest in August 2012, where customers were given an opportunity to enter a lucky draw where they could receive a gift card worth $102.8.

The strategy was effective in introducing the product to customers shopping at Ripleys.

In 2015, the central bank introduced a new regulation on prepaid cards.

According to the regulation, the customer's identity must be verified before offering a prepaid card, to curb activities such as money laundering and terrorist financing activities. ■

Will the US adoption of EMV impact the UK?

October was a big month for fraud. The US finally adopted the liability shift for EMV, bringing its security measures more in line with those Europe adopted over 10 years ago. The US has been a target of unnecessary card fraud for far too long. **Martin Warwick**, FICO's fraud chief for Europe, comments

According to the July 2015 Nilson Report, US card issuers lost £2.5bn ($3.8bn) to counterfeit fraud alone in 2014, which accounts for 24% of total global fraud losses.

Earlier this year, FICO reported worrying stats about fraud on UK debit cards: cross-border fraud rose 25% in 2014 over 2013 – but, more to the point, 47% of the cross-border counterfeit transactions were taking place in the US. Clearly, this added layer of security on US cards and payment terminals will help cut some of this cross-border fraud. The real question is how will the shift to EMV impact the UK, and where will this fraud migrate to?

Prior to 2005, card issuers in Europe suffered the loss for counterfeit fraud. The liability shift in 2005 meant that if a chip card met a mag stripe POS device and resulted in mag stripe counterfeit fraud, the merchant had to write off the loss.

This basic policy change meant that, within Europe, counterfeit became a thing of the past as merchants were incentivised to update their technology and properly authenticate payments. However, cross-border counterfeit fraud still exists in Europe, particularly in the UK where half of cross-border debit card fraud takes place in the US. The introduction of EMV in the US is expected to significantly reduce this, although not entirely.

The critical difference

When Europe implemented EMV we brought in chip and PIN, which not only protects against counterfeit, but also against lost & stolen and intercept fraud thanks to the PIN.

Unfortunately, the US is moving to chip & signature only. This leaves criminals the opportunity use stolen cards in the US and further afield. Theft of US cards, even with a chip, will grow as criminals seize the chance to steal cards and still use signature at POS as they were able to pre-EMV.

The whole European market saw the benefits of a reduction in counterfeit fraud after the rollout of chip & PIN. In the UK, losses due to face-to-face fraud were virtually wiped out in the two years following the rollout. However, these benefits are expected to be less significant in the US, partly due to the lack of PIN security and partly because only 20% to 30% of merchants are estimated to have purchased and deployed EMV-capable point-of-sale terminals and the software they will need to handle chip cards. So, all consumers travelling to the US need to remain alert and remember that it is still not as secure as Europe.

Delays in effectiveness

Another major area of concern is that the US has delayed the liability shift by two years for ATMs and UPTs (Unmanned Petrol Terminals). These two areas have been a chronic source of skimming globally.

For the US to delay this shift means that customers using compromised ATMs or UPTs could be subjected to card skimming. Indeed, the US has already seen a spike in skimming attacks. From January to April 2015, the number of attacks on debit cards at ATMs reached the highest level in at least 20 years. In addition to this, specific holiday destinations in Mexico have reported criminals bribing ATMs engineers to allow them to place sophisticated skimming devices in the ATM. These limitations to the US's already late adoption of EMV will impact fraud in Europe.

We expect to see an increase in account takeover, first-party fraud, application fraud, and in particular card-not-present (CNP) fraud as a result of the US adopting EMV. Fraud always migrates to the weakest link, or technology in this case. EMV is very strong as it is backed by cryptograms, so CNP is the easiest target.

Criminals are safer if they remain the 'grey man' in the crowd, and compromising cards by using them in the CNP environment through e-commerce is the least risky path. E-commerce spending has doubled in the last few years, so hiding fraudulent transactions in the most dominant environment is still the best way to go, and will be only more so as the US fully transitions to EMV.

It is important to note that while counterfeit dropped in Europe after the roll out of EMV, CNP fraud, which includes online purchases, rocketed. It is likely that the US market will have the same experience as Europe, but with perhaps more complexity as we expect to see fraud migrate and increase over the next couple of years as everyone tries to grapple with fraud in the digital age.

We are still fighting basic CNP fraud in Europe as more and more people shop online. As the US enters this post-EMV landscape, it will be interesting to see how global CNP losses are impacted.

That said, while Germany and the UK reported 70% CNP fraud losses in 2014, evidence suggests that we are slowly winning the battle. E-commerce spending in the UK more than doubled between 2008 and 2014, going from £41bn to more than £91bn, but CNP fraud losses grew by just one percent in the same period.

We are already at that tipping point where stronger authentication has to be adopted for digital transactions to ensure that customers can spend when and where they want to. The next wave of fraud protection around the world will involve authentication of both customers and their devices.

Two-factor authentication using crytograms, as already exists in online banking, will play a part, as will proximity correlation technology that can identify whether a cardholder's mobile device is in the same location as the card being used and thus automatically flag if it is a higher risk transaction.

However, when stronger authentication has been adopted, that will inevitably push criminals back to basics. They will look at ways to obtain a good card and PIN together or resort to identity theft, and unfortunately that means that originations will have to become more robust. CIFAS is already reporting increases in identity theft attacks, so this shift has already started.

The key is to maintain the fight against CNP and ID fraud as new challenges crop up. While EMV strengthens protection in the US, criminals will be looking for the next lucrative opportunity. Fraud that once migrated to the US is likely return to the UK and other countries.

UK card issuers will need to maintain their vigilance to counter fraud activity during this transition and prepare for a rise in lost and stolen fraud from the US in particular. ■