

# CARDS

INTERNATIONAL

## PREVENTION AND CURE



## HAS THE DA VINCI CHOICE JUST SOLVED THE CARD FRAUD EPIDEMIC?

### COUNTRY SNAPSHOTS

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The future of the ATM and its role in delivering banking services

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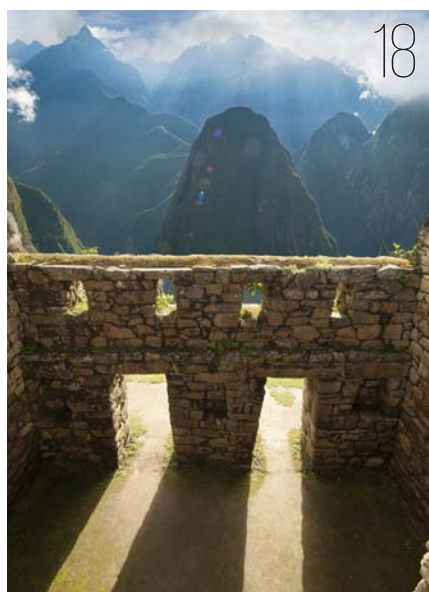
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Cash remained the predominant payment instrument during 2012-2016 accounting for 87.3% of the UAE's payment transaction volume in 2016. Local consumers generally see cash as a quicker and safer payment option

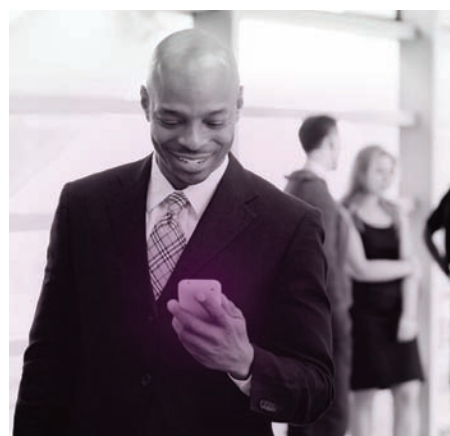
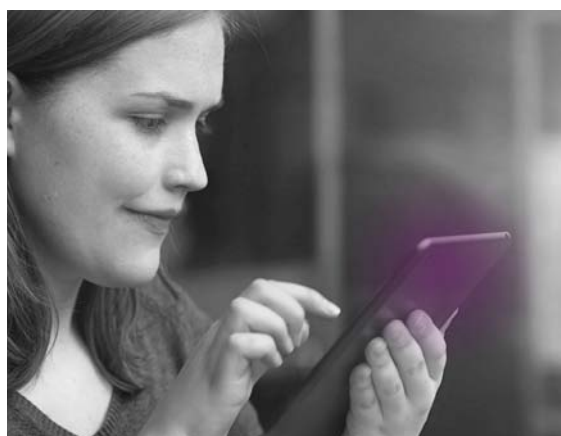
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# WILL THE IPHONE X BE A CARDS KILLER?



Douglas Blakey, Editor

**H**ype for the new Apple iPhone X is reaching a crescendo. We are past the gushing reviews stage. Next came the totally predictable news that pre-orders for the new handset exhausted supply within minutes of going live. That came on 27 October. Now comes launch day on 3 November.

By common consent the highest profile aspect of the iPhone X is Face ID. And by just about common consent it is simple and intuitive to use. Face ID not only unlocks the handset but is also used to authorise users for mobile payments. There is, says Apple, only a one in a million probability of a random person unlocking an iPhone with Face ID.

So we may now expect to receive a rush of comments from payments experts commenting on the Apple X potential to revolutionise payments. The Apple X will remove friction; the biometric technology is so class-leading that consumer concerns about data security will be allayed; the Apple X will be a key inflection point in driving consumers away from cards to mobile as their preferred method of payments.

That is how the arguments will go, and no doubt they will come from numerous influential industry thought leaders. And they will of course be premature and over the top. Predictions of the collapse in cards use are about as accurate as the industry experts prophesying that cash is on its last legs.

We do not all live in China, where WeChat and Alipay – with 960 million and 450 million users respectively – continue to clean up as the dominant forms of payment. But no matter – the Apple evangelists have a new toy, albeit at a cost of the best part of £1,000 or \$1,000.

The potential offered by mobile payments will attract widespread consumer press interest, and that is all to the good.

## *Visa, Mastercard go from strength to strength*

In the meantime, Visa has posted another stellar set of results, and as CI goes to press, Mastercard has chipped in with third-quarter results boosted by revenue growth of 17% – easily beating analyst forecasts.

Mastercard enjoyed double-digit volume and transaction growth across most of its markets. It is also bullish about its latest acquisitions, NuData Security and Brighterion, enhancing its capabilities in the fields of behavioural biometrics and artificial intelligence.

Its partnership with PayPal in the US and Asia-Pacific has extended to Europe, the Middle East, Africa, Canada and Latin America – so all in all Mastercard had reason to be upbeat. Other highlights include its new prepaid programme with ADP, the largest payroll provider in the US.

Back at Visa, its fourth-quarter earnings witnessed solid transactions growth of 13% globally, and net revenue growth of 14%.

But arguably the most interesting story of the past month, ahead of the Apple X launch, comes from Australia. ANZ is going it alone with Apple while Commonwealth Bank, Westpac, and National Australia Bank have formed an independently run joint venture to develop a mobile wallet and payment system for smartphones on iOS and Android.

The app, dubbed Beem, will be available to all customers – not just those of CBA, Westpac and NAB. Beem will be released at some stage later this year and will initially be targeted at P2P transfers rather than contactless payments at merchant terminals.

So early days, but for Beem to take off, the earlier it includes an ability to make payments at point of sale, the better. ■

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# NEWS DIGEST

## DOHA BANK ROLLS OUT INSTANT ISSUANCE CARD OFFERING

Qatar-based Doha Bank is to offer instant card issuance to make the account-opening process more convenient for customers.

The instant card issuance facility enables customers to receive personalised debit cards at selected Doha Bank branches when opening a bank account. It also enables customers to have lost or stolen cards replaced immediately in-branch.

Doha Bank group CEO Seetharaman said: "We are very proud to introduce these new products and facilities to our customers, especially our unique card issuance benefit."

"By offering instant issuance, customers can receive high-quality, personalised, ready-to-use permanent debit cards while opening an account, avoiding any waiting time for the cards to be produced and couriered, and allowing customers to make immediate purchases."

Doha Bank's chief retail banking officer, Gul Khan, said: "Our new instant card issuance will give customers a faster and better customer experience. Our main goal at Doha Bank is to offer a great customer experience, be it online or in-branch support, to all our customers. ■

## *New York Subway to go contactless*



New York Subway network operator the Metropolitan Transportation Authority (MTA) has approved a \$573m contract for a new payment system.

The MTA's move marks a significant step towards a more modern form of payment for passengers riding the New York Subway. Starting in late 2018, New Yorkers will be able to pay fares using a system similar to that operated in London, where passengers can tap mobile phones or credit and debit cards at the turnstiles.

MTA chair Joseph Lhota described the move to phase out the New York Subway's current proprietary card system, the Metrocard, as "transformational", adding: "The move to a truly 21st century method of payment represents a critical step in our overall efforts at modernising the subway system and improving service for all our customers."

With the New York Subway system often suffering from delays and overcrowding, the move to contactless is seen as a potential solution to ease congestion for passengers getting into and out of stations.

The new system also means passengers will no longer need to top up Metrocards every month. Metrocards will still be valid until the new system is fully operational. ■

## Wirecard to power German Aldi gift cards



Germany-headquartered payment and internet technology company Wirecard has expanded its gift card customer roster with the addition of discount retail chains Aldi Nord and Aldi Süd.

The company's gift cards, which can be purchased at the till, can now be used to pay at all Aldi branches in Germany.

The latest software has been linked with bank services to cover a range of gift cards, including e-money cards for both physical stores and online stores. Previously, customers could buy gift cards for other retailers, including platforms such as Google Play or prepaid service providers such as Aldi Talk.

Wirecard will manage the whole gift card platform, assuming responsibility for card issuance and payment processing.

Wirecard sales consumer goods executive vice-president Christian Reindl said: "We are delighted that Aldi Nord and Aldi Süd – two of the largest retailers in Germany – have decided to make Wirecard their technology partner."

"With our extensive experience in the field of e-money cards, Aldi is able to offer its customers throughout Germany added value. With our tailored solutions, they will benefit from a seamless shopping experience with a flexible omnichannel approach – both online and at the point of sale."

Aldi Süd's customer relationship management communications director, Natascha Vrchocticky, added: "More and more of our customers have been asking us when we will finally start selling Aldi gift cards in addition to those of other brands."

"It seems that a lot of our customers are fans of the brand. They are really enthusiastic and would like to receive a gift card." ■

# FIRSTDATA, UNIONPAY EXPAND US PARTNERSHIP

UnionPay has teamed up with First Data to expand its card acceptance offering across the US.

The agreement will enable visitors to the US from China to use UnionPay credit and debit cards at First Data's US-based merchant clients. By 2021 it is expected that there will be up to 23 million Chinese visitors to the US.

The partners will complete the chip migration of First Data's payment platforms and then extend the acceptance of UnionPay credit cards to the 4 million

merchant locations that First Data serves in the US.

Both businesses will target online retailers in the travel and entertainment industries, including airlines, cruise lines, and entertainment theme parks.

UnionPay International general manager June Chen said: "We are very glad to strengthen our partnership with First Data. We believe this new partnership will not only offer safer payment services to our cardholders visiting the US, but also lay a solid foundation for the future rollout of

UnionPay's innovative products based on chip cards in the US."

First Data's executive vice-president of global business solutions, Dan Charron, added: "As the world becomes increasingly borderless, First Data is dedicated to supporting merchant clients with flexible payment options for their customers, wherever and however they shop.

"We are extremely proud to work with an innovative partner like UnionPay International to expand their card acceptance throughout the US." ■

## Mastercard, Western Union collaborate on debit card transfers



Mastercard and Western Union have agreed to integrate Mastercard Send into the Western Union Money Transfer service, facilitating direct fund transfers to debit card holders.

The partnership will enable US consumers to send money via Western Union to debit cards, including non-Mastercard-branded cards. The new service will initially offer digital funds transfers within the US via the Western Union website and mobile app, enabling senders to use US debit, credit and bank accounts to fund the payment. A 16-digit debit card number is required to complete the transfer.

Mastercard enterprise partnerships senior vice-president Leigh Amaro said: "With Mastercard Send, Western Union customers now have a powerful new way to send funds directly to the debit cards of millions of Americans.

"Today's consumer is busier than ever, and any option to make everyday tasks like money transfer more convenient is hugely important. Western Union is giving consumers one more option to make the service work for their needs."

Western Union's chief strategy product and marketing officer, Libby Chambers, added: "Western Union is synonymous with fast, reliable global money transfer and payments.

"We're offering customers more choice and convenience when they send and receive money.

"This new capability we have developed with Mastercard means customers will be able to send funds directly to their receivers' debit cards, with speed and ease," Chambers added.

The new money transfer and payment service is expected to be available for use in early 2018. ■

## UK MILLENNIALS' P2P PAYMENTS SOAR: VISA

Technologically aware millennials in the UK are abandoning traditional forms of banking in favour of mobile banking, and mobile payments specifically.

Visa's third annual *Digital Payments* study reports that the percentage of people that have made a P2P payment stands at 34%, with millennials surging ahead at 59%. Millennials are also showing a growing preference for biometric technology when authenticating a payment. For digital payments, 35% of 18-34-year-olds would rather use biometric authentication, compared with a national average of 30%.

Visa surveyed more than 42,000 Europeans, including more than 2,000 UK respondents. It revealed that 69% of UK consumers aged 18-34 use a mobile banking app, with 53% using it regularly. Although the results revealed an increased appetite among millennials for digital payment methods, 31% of millennials surveyed stated they had never used one.

Jonathan Vaux, executive director of innovation partnerships at Visa, stated: "Mobile technology has revolutionised the retail banking industry. Until relatively recently, simple transactions such as transferring money between accounts meant visiting a bank branch in person.

"We are now seeing banks embrace the flexibility offered by apps to reduce the pain points for customers and allowing them to stay on top of their finances while on the move," Vaux continued.

"In essence, anyone with a smartphone or tablet is now able to take their bank branch with them wherever they go." ■



## Transcorp introduces platinum prepaid card



Transcorp International, a provider of foreign exchange and inward remittance solutions, has launched a platinum prepaid card in association with India's Yes Bank and the National Payments Corporation of India-powered Rupay.

The move is in line with the Indian government's aim to promote cashless

transactions and eventually become a 'less-cash society.' The card enables transactions in stores and ATMs across the country, allowing organisations to pay wages and salaries to employees who do not have a bank account.

The cards can be co-branded with an organisation's logo and certain merchant categories, and ATM withdrawals can be restricted in accordance with the client organisation's requirements.

The platinum card also reduces the risk of fraud as customers can restrict amounts loaded onto the card, and bank account details are not revealed. The maximum amount that can be loaded is INR10,000 (\$154) for non-know-your-customer (KYC)-compliant cards, and INR100,000 for KYC-compliant cards.

Transcorp chair Hemant Kaul said: "These cards can replace cash payment for all value transactions up to INR100,000. Being very convenient, this card gives the cardholder freedom to use it wherever and whenever needed, including online.

"The cardholder can limit or control the balance in the card and conveniently use it for all their payment needs.

"Corporations, institutions and other organisations which need to disburse wages, salaries, incentives and such other recurring payments to their employees or beneficiaries can seamlessly do so with ease."

The card will be available at 40 Transcorp branches across the nation, and at most of the 7,500-plus Transcorp franchises. ■

## MASTERCARD, YOCO PARTNER FOR SOUTH AFRICAN SMES

Mastercard has teamed up with smart technology payments company Yoco to provide 15,000 mobile point of sale (mPOS) devices to South African SMEs by the end of the year.

Business owners using the service will be able to connect Android or iOS devices to a Yoco card reader to accept payments. The hardware is paired with an mPOS application and business intelligence portal to give SMEs real-time access to sales insights and analytics to boost revenue through informed decision-making.

"Small and medium-sized merchants that have never accepted card payments are turning to mPOS solutions to expand their customer base and increase sales," Mastercard said in a statement.

Yoco's pay-per-use transaction pricing model with no fixed monthly fees benefits smaller merchants, compared to more costly traditional card terminals.

Yoco CEO Katlego Maphai said: "Small and medium businesses employ over 60% of the labour force in South Africa, yet they lack the basic tools necessary to accept electronic payments and run their businesses effectively.

"Through this partnership, we will empower even more small businesses that previously did not accept card payments, while growing the market and make a contribution to our economy."

Mastercard Southern Africa division president Mark Elliott added: "While the number of South Africans with access to formal banking products has grown substantially over the last few years, the number of card acceptance locations – especially at small businesses – has not grown in parallel.

"Solutions like Yoco enable small and medium businesses to respond to customers' increasing desire to pay for goods and services with payment cards rather than cash, which is higher risk, without large upfront investments in infrastructure or high transaction costs."

Yoco launched its mobile card-acceptance offering in 2015. Since then it has grown its base to over 14,500 merchants, and is now adding over 1,200 new merchants every month. ■

## NGC EXPANDS API FOR OVER 500 BRANDS

National Gift Card (NGC), a provider of B2B digital and physical gift card solutions and fulfilment services, has upgraded the technology, content and customisation of its gift card application programming interface (API) for over 500 brands in the US, Canada, the UK and Europe.

The gift card API processes and delivers digital gift card orders in real time as users redeem points, miles or cashback. It also accepts orders for physical gift cards in real time, processing them within 48 hours. The API provides fraud protection using measures such as IP-based security threshold access limits, intrusion detection and event logging for suspicious activity. It supports specific dollar increment reward levels for brands in the US starting at \$1.

NGC offers a global catalogue of gift and e-gift cards for iTunes, Walmart,

Target, Amazon, Visa, Kohl's, Best Buy and Starbucks, as well as numerous other brands.

NGC president Eric Thiels commented: "Gift card API services are the path of the future in the incentive industry, and our updated platform and API gift card catalogue offers a new standard on security, speed, quality and choice for B2B buyers looking for a digital reward service provider for their programs.

"We have a commitment to deliver the best in gift card sourcing and fulfilment technology in a way that focuses on the foundation of security, quality and speed."

Companies looking for single API integration to send both digital and physical gift card orders can integrate NGC API as their gift card sourcing and fulfilment engine within a few days. ■



## ANZ makes more than 3 million Visa debit cards accessible

ANZ has introduced specially designed Visa debit cards, through which it aims to make everyday banking tasks easier for customers with a disability.

A total of 3.4 million Visa debit cards will now have tactile indicators, larger fonts, and high-visibility leading edges to help customers identify their cards and which way to insert them into terminals.

The new cards work with ANZ's mobile payment options including Apple Pay, Android pay, Samsung Pay and Fitbit Pay. They also feature Visa PayWave, so customers can make contactless payments wherever they are accepted.

ANZ's senior manager of everyday banking, Steve Price, said: "We know that one in five Australians lives with a disability

of some sort, so it's really important we develop products all our customers can use conveniently.

"We have a commitment to inclusive design and accessibility standards in all aspects of our product development, so the extension of these features to a further 3.4 million cards is a significant part of delivering on that." ■

## HSBC US LAUNCHES PREMIER WORLD ELITE MASTERCARD CREDIT CARD



HSBC has launched the HSBC Premier World Elite Mastercard credit card – a luxury credit card HSBC says will provide best-in-class travel benefits and privileges for cardholders.

Pablo Sanchez, head of retail banking and wealth management for HSBC in the US and Canada, said: "We listened to what our customers wanted in a premium credit card and built a product that provides the ultimate support for their lifestyle.

"Our new HSBC Premier World Elite Mastercard credit card is a highly competitive offering and represents the most valuable collection of features and benefits ever offered in an HSBC credit card."

The card offers worldwide rewards on a broad list of travel purchases from traditional airfares, hotels and trains to ride-sharing apps through credits with Uber and Lyft.

The new credit card, which is available to HSBC Premier clients, has an \$85 application fee. The main cardholder benefits include:

- 50,000 Rewards Programme bonus points after spending \$4,000 or more in the first three months;
- Triple points on travel worldwide, double points on dining purchases worldwide, and points on all other purchases;
- \$100 annual air travel statement credit as reimbursement for flights, baggage fees, upgrades or air travel purchases;
- Unlimited Boingo Wi-Fi at over 1 million hotspots worldwide;
- Up to \$100 annual statement credits for rides with Uber and Lyft, and
- 50% more value than cash when cardholders redeem points for air travel through the HSBC Travel Rewards website. ■

## CITI EXTENDS QUICK LOCK FEATURE

Citibank debit card customers can now use the Quick Lock facility to temporarily lock and unlock their cards, either online or via Citi's mobile app, to prevent unauthorised transactions.

The functionality was made available to credit card members last year, and has now been extended to debit card customers. More than 1.6 million locks and unlocks have been completed by credit card holders since it went live. Since the extension to debit cards in September, debit card customers have used it at an average rate of 900 requests per day.

The Quick Lock for debit cards joins a suite of new mobile app features, such as ATM and debit card PIN reset, activation of new or replacement cards, mobile cheque deposit with increased limits, and other user experience enhancements. Other features include personalised contact information for Citigold relationship managers and Citi personal wealth management advisers, enabling users to request appointments from the app.

Citibank digital, client experience, marketing and analytics head Elyse Lesley said: "Citi is constantly looking for ways to make banking more convenient by connecting with our customers when and how they want to be served, especially with respect to security and protection.

"Since our customers are increasingly active on mobile or online, we're giving them another tool to control their account activity across the bank."

Citi has reported that the number of active digital customers in the North American Consumer Bank rose 13% year on year in the third quarter of 2017, while the number of active mobile users increased by 22%. ■

# ANALYSIS: ATM CHARGES ON THE CARDS?

The days of free ATMs in the UK may be coming to a close as LINK proposes a drop in interchange fees. *Patrick Brusnahan* looks at the implications



**L**INK, the UK's largest ATM network with around 70,000 machines – 55,000 of which are free – in the market, has proposed a 20% reduction in interchange rates over the next four years, from 25p to 20p.

According to LINK, this is to “give ATM operators the opportunity to reduce their costs through efficiencies and minimise any reduction in ATM numbers”.

LINK's CEO John Howells comments: “LINK is committed to maintaining an extensive network of free-to-use cash machines. Free access to cash is vital for UK consumers, and LINK intends to maintain this for many years to come.”

However, this may not be the case as a lower interchange fee could cause free ATMs to become unprofitable, bringing forward a case to shutter them.

The ATM Industry Association believes this could have the opposite effect and put free ATMs in jeopardy. Ron Delnevo, executive director Europe at the ATM Industry Association, says: “Make no mistake, the proposed reductions in LINK Interchange

may well lead to a vast reduction in free access to cash for British citizens and businesses.

Any money saved by a tiny number of banks, which some estimates put at tens of millions of pounds each year, will effectively be at the expense of already hard-pressed consumers. This at a time when ATM costs in the UK are already amongst the lowest in the world.

“We already have thousands of bank-branch deserts in the UK. The proposals for interchange reduction are likely to create ATM deserts, where communities will wither because there is no local, convenient access to cash and other financial services.

“The regulators and the government need to step in immediately to stop a potentially catastrophic situation developing.”

The views of LINK members and the LINK Consumer Council are being sought by 30 November 2017. It is expected that the board's final decision will be published by 31 January 2018, and implemented by 1 April 2018. ■

## ATM NUMBERS IN THE UK

2005	58,286
2006	60,468
2007	63,476
2008	63,916
2009	62,192
2010	63,137
2011	64,369
2012	66,134
2013	67,963
2014	69,000
2015	70,270
2016	70,020

Source: Cards International



## COMMENT: SIMON BLACK, CEO, PPRO GROUP

ATM trade body LINK has warned that thousands of free-to-use cash machines could be axed from UK high streets, due to plans to cut the fees they receive, further indicating that Britain is well on course to becoming a cashless society.

It was the 50th anniversary of the world's first ATM this year, but we predict this will be the last major milestone ATMs see in the UK. In fact, our latest research shows that, given the option, 26% of us would never choose to pay cash when buying an item in a shop, and more than a quarter of us (26.35%) find it irritating when we have to pay by cash rather than by card.

These findings are mirrored by the fact that 38 million transactions were made in 2016 using mobile payments, accounting for £288m spent using mobile phones, an astonishing 247% increase on the year before. Pubs, bars and restaurants made up for 20% of all mobile payments processed, and ‘meal deal’ hotspots for workers buying lunch – such as supermarkets and grocery stores – accounted for 54%, further emphasising the decreasing demand for physical cash.

This announcement indicates that it is unlikely that the ATM will reach its 60th anniversary, and with 44% of us stating that we rarely use them to remove cash from our accounts anymore, it will not be long until ATMs are consigned to the history books.

The ATM was groundbreaking in its initial purpose to reduce the need for people to go into a bank branch to withdraw money, but the rapid adoption of digital payments means the core function of an ATM – distributing cash – is fast becoming redundant. In the digital age, cashless payment methods are king. ■

# A FRAUDPROOF CARD: TOO GOOD TO BE TRUE?



Card fraud is rife in the UK. According to Financial Fraud Action, £768.8m (\$1bn) was lost to fraud in the UK in 2016, with 80% of this through payment cards. Is there a way to prevent this? ScramCard thinks it might have a solution. *Patrick Brusnahan* reports

**A**ccording to UK Finance, £287.3m was lost to card fraud in the first half of 2017. Is there a way to limit this crime?

ScramCard has launched the Da Vinci Choice card as a response. It is a electronic payment card that generates one-time PIN and security codes for purchases.

It is the same size as a standard card, but includes a display, battery and touch numerical keypad. According to the press release, it is “fraudproof”. But can anything really be fraudproof?

Speaking to *CI*, Simon Hewitt, chief executive of ScramCard, says: “Too good to be true? To an extent, I don’t think there’s anything infallible. In terms of having something a notch above in the hands of the consumer, that’s actually desirable and does what it says on the tin? That’s long overdue.

“There are solutions out there that do those things, but nobody likes them and they only service one particular thing. That was the intent of this, to embed something that everybody carries and provides a multitude of capabilities that the banks can choose for themselves. Too good to be true? I’d like to think not.”

On paper, the security seems tight. The usage of one-time codes for every transaction, from contactless to ATM withdrawal, seems to provide a healthy barrier. Even if the card is lost, the Da Vinci app would be needed. In addition, cards can be blocked instantly in case of theft. So who is going to take up the Da Vinci card?

“Da Vinci Choice was definitely aimed at early adopters and lovers of technology,” Hewitt explains. “Similarly, those people have maybe been defrauded and have suffered the pain of trying to get their money back. Some

may look at it as an insurance policy, some people may think of it as innovative. There are multiple reasons to buy the product.”

## “ DA VINCI CHOICE WAS DEFINITELY AIMED AT EARLY ADOPTERS AND LOVERS OF TECHNOLOGY

One aspect that might hinder its success is the cost. While banks hand out free cards with a current account, Da Vinci Choice is £75. While it can hold eight accounts on its mobile wallet, the price may appear steep.

Hewitt explains: “The price point is something, but we’re dipping our toe. What we’ve done – and spent a bit of time doing – is

realise that we can’t hide the fact that it just looks like a card.

“We don’t stick it to a piece of paper; it comes in a nice box. It’s very much an ‘unboxing an iPhone’ type of experience,” Hewitt continues.

“What’s fundamental, at the business model, is that it’s all relative. It’s a sophisticated piece of technology. It’ll eventually fit into the normal model. We know, at the moment, some people won’t find the price point palatable.”

So why are the banks not producing something like this? With their resources, surely something more can be done to prevent card fraud?

Hewitt concludes: “It’s one of the reasons I did Da Vinci. You know what banks are like. They’re making so much money that there’s a trade off between doing something and not. They need something palatable, and to see that customers are using something and make them think they’ve got nothing to lose.

“I don’t think the banks are doing enough, but I don’t think there is a solution out there that would allow them to do so, which is why I wanted to give them something that would give them half a chance.” ■





# CARD-LINKED OFFERS AND THE NEW DRIVE FOR CUSTOMER LOYALTY

Nearly every business will have considered using vouchers to increase sales or loyalty. People once scoured newspapers and magazines to clip vouchers for offers, but the digital age allows no time for that, writes Collinson Group's *Mark Jackson*

**T**here have been many attempts at digital vouchers, from customers downloading offers and printing out vouchers, to showing a text or QR code on their smartphone at the point of sale. But all of these bring their own issues, including customer and till friction, and the need for staff training.

There has not been a method that is effective for building loyalty and repeat sales – that is until the development of the card-linked offer (CLO).

More than just a voucher for the digital age, CLOs enable organisations to drive loyalty, but also better understand customer behaviour. Having opted into the CLO programme by

providing credit or debit card information, an offer can be loaded directly onto the consumer's card and then automatically redeemed when they pay.

The offer can be paid as loyalty rewards, or cashback onto a card statement. For example, an offer of a 10% discount with a retailer could be loaded onto a person's card, then after making a purchase with that retailer, the customer would automatically receive a 10% refund onto the same card once the payment has cleared. It is great for both consumer and merchant because it is completely frictionless, which makes a big difference.

Collinson Group research into the global affluent middle class – the top 10% of earners

– revealed that 59% would spend more with a brand if it offered a loyalty programme where it was easy to earn and redeem rewards.

It should not be surprising that CLOs have evolved to become a key element of a loyalty programme, boosting customer engagement for retailers, airlines and financial institutions across the globe.

CLOs also provide a valuable ability to link a customer's online and in-store purchase behaviour. They enable a brand to see if an offer made online, through an email or social media for example, was redeemed through a purchase made in-store or online.

This attribution plays a vital role measuring and driving online and in-store continuity. It also appeals to customers – Collinson's research revealed that 60% of those questioned want to be able to earn loyalty currency both online and in-store. CLOs can play an important role in meeting this demand in-store, seamlessly and effectively.

Finally, CLOs provide an abundance of valuable data. Leveraged effectively, brands can use the insights to deliver more personalised offers and experiences for customers – which will drive loyalty and increase engagement.

In the US, 78% of internet users said personally relevant content from brands increases their purchase intent, according to a OneSpot/Marketing Insider Group survey.

Through CLOs, the humble voucher has entered the modern age, helping businesses in highly competitive markets to better understand and reward their customers, as well as increase sales and boost loyalty. ■

## AI TO BOOST THE PERSONALISED BANKING EXPERIENCE

With the evolution of digital banking, there are fewer opportunities for face-to-face customer interactions. Is it therefore becoming harder to drive customer devotion, attracting and retaining loyal customers in an era of digital self-service?

Banks are investing huge amounts in digital capabilities such as chatbots, artificial intelligence (AI) and open APIs. According to Goldman Sachs, machine learning and AI will enable £26bn-£33bn in annual "cost savings and new revenue opportunities" within the financial sector by 2025. The availability of new technologies such as cloud computing and machine learning algorithms have created the perfect conditions for the expanded use of AI in banking.

However, the increased use of AI does

not have to mean a less personalised experience for customers, for banks trying to maintain customer loyalty, increase Customer Satisfaction and Net Promoter Scores – it is essential that it does not.

We examined the banking motivations of the affluent middle class in Brazil, China, India, Italy, Singapore, the UAE, US and UK. Those who feel loyal to a bank are 72% more likely to purchase a product from it in the future, and 70% would be prepared to recommend a banking brand to friends and family. Furthermore, if a customer purchases additional products through their bank, over half are less willing to switch provider.

Although customers are increasingly comfortable using digital financial services, some still want face-to-face

interactions with their banks. When we asked how the global mass affluent customer likes to bank, 26% said they prefer to visit a branch, 24% bank via an app, 29% favour using a website and 21% showed a preference for the phone.

In today's dynamic and aggressively competitive environment, financial services brands need to work harder to understand their customers, to engage with them, to reward them appropriately, and ultimately retain them.

Through the effective application of AI, banks can leverage technology to offer enhanced products, services, communications and programmes that achieve the ultimate in customer behaviour – devotion to a brand. ■

# WILL OPEN BANKING BREATHE THE NEW LIFE INTO THE INDUSTRY?

With the deadline for PSD2 just around the corner, banks and fintechs must be prepared for the challenges it brings as well as the opportunities that come with it. *Briony Richter* reports from the latest Digital Banking Club debate

**W**ill open banking really be transformational? The latest Digital Banking Club debate of 2017, powered by Intelligent Environments, discussed just that.

Hosted at the formidable Law Society in London, the debate featured an outstanding panel to debate the challenges and opportunities posed by the implementation of open banking.

## Why is it a good time to be discussing open banking?

Simon Cadbury, director of strategy and innovation at Intelligent Environments, began the debate by expressing his thoughts on the introduction of open banking.

He said: "It is the topic on everyone's lips. The most interesting thing for me is that every article I read and everyone I speak to is incredibly positive about open banking.

"I agree that it is a very exciting time, but actually when you scratch beneath the surface

there is a little reservation. Is it really going to live up to its promises? Do consumers really understand it and will they embrace it? It is quite a confusing time for a lot of people, and it needs to be carried out carefully.

"If customers allow it, licensed AISPs [Account Information Service Providers] and PISPs [Payment Initiation Service Providers] will enjoy unprecedented access to a platform on which they can develop entirely new kinds of products, services and experiences."

Anne Boden, CEO of Starling Bank and the 2017 Digital Banking Club Power 50 Personality of the Year, added: "It could completely change retail banking forever – if it happens. There is a huge amount of opportunity out there but implementing it in traditional banks could prove difficult.

"The opportunities that PSD2 will open up are great; they are good for consumers, but those changes actually attack the heart of banking as it is at the moment."

Hilda Jenkins, digital experience and engagement director at Barclays, argued that it is the customer that should be the priority. "The way we go about it has put the customer at the centre of everything. The big banks, the fintechs are all looking to come in and create new ways to excite our customers. If we do that then it can only be a good thing for all of us.

"At Barclays we put the trust of our customers first. If data is shared securely and open banking is approached in a mature way by all, then it could work."

Boden emphasised this point: "Customers should come first and they should own their data. It is up to the industry to educate

consumers about the benefits of open banking and sharing data in a responsible way.

"Unless we do this, the customer interface will be hijacked by the social media companies. If we do this as an industry correctly then we will continue to own the interface. If we do not, it may go to Google, Facebook and the rest."

Roberto Ferrari, chief digital and innovation officer at Mediobanca group, said: "Open banking will force banks to use the data they have to its full potential."

In agreement with Ferrari was TSB Bank's digital innovation and transformation director, Pol Navarro, who argued: "Open banking and the introduction of PSD2 is pushing banks to become more oriented towards the customer. Customers seek good experiences from their banks."

Asked if TSB is approaching this from the mindset of an incumbent or challenger, Navarro said: "We are a challenger. We at TSB are making sure that we can take full advantage of the data we receive."

Jenkins argued that data is important, but customers must always come first. "Data is the fuel, but you have to think carefully about the customer experience and what their needs are. We need that creativeness coming into the industry to give our customers something of value. Often, customers are a little anxious about open banking.

"We need to ask ourselves, how are we going to get customers to trust us with their data as much as they trust us with their money?

"We have to answer this together. We have to think about putting the customer first. Some big banks may naturally want to hold onto their customer base, but collaboration is the way forward. If we do it securely with APIs then it really could be phenomenal."

The panel were all agreed that open banking has great potential – if harnessed with the right tools.



Hilda Jenkins, Barclays



Roberto Ferrari, Mediobanca



### Will open banking live up to expectations?

On the topic of whether open banking is more exciting in business than in other sectors, Will Beeson, head of operations and innovation at Civilised Bank, stated: "It is very exciting. There is much broader competition. Banks are doing it because of the changing expectations from customers. Also, if you look across the industry you are seeing fewer and fewer standalone banks wanting to own 100% of customer services."

"It will be much faster to deliver with collaboration, and there will be more comprehensive services for customers."

Boden reiterated the need for collaboration, saying: "We envisage a world where people like us will provide the business current account, and then customers can use APIs to get access to other services. We can provide an alternative and different value chain to the traditional banks."

Customer expectations are at the heart of the debate; they are the main driver for implementing the changes needed.

Ferrari argued that the expectations of customers are clear: They want top service from their banks. Ferrari stated: "Banks are data companies, therefore money and banking is about data."

"There are very high expectations from customers. You can see this from the rapid uptake in mobile banking globally. In the end it is what you give to them."

As well as customer support, open banking will also be beneficial to banks and fintechs. Cadbury emphasised how the business banker has more to benefit from in the short term, but must look to the future in order to secure customer loyalty.

"The open banking component of PSD2 is nothing less than an invitation to rethink banking. The walled gardens that banks have built around their customers' data will start to crumble. The customer loyalty that banks have spent fortunes to build could be challenged."

"Traditional banks are in the driving seat, but if they hesitate, technology heavyweights like Google, Amazon, Facebook and Apple are well placed to take advantage of PSD2."

Navarro stated: "In the long run it will really change the banking industry. If you give good, trustworthy customer service then the customers will continue to come again."

PSD2 follows on from PSD, and could essentially revolutionise the banking and payments industry, affecting everything from the way we pay online to the information that can be seen when making a payment. Adapting to these new regulations will need significant levels of investment and commitment from the banking industry.

Boden talked about the differences that consumers will all see with PSD2. "With PSD we didn't have all these new players providing people with specialised services. PSD2 is going to do that. It has the infrastructure to join up new services to old services. It is going to link the incumbent and traditional banks in new and interesting ways."

For consumers who hold more than one bank account, the changes will allow businesses and providers to show all their account information in one place. Of course, along with these changes come much stronger security checks to ensure safe customer payment.

### Who will be the winners and losers?

With high expectations for all players across the board, the panel were asked who will be the ones that stand up to the challenges and overcome the hurdles.

Jenkins stated: "This is the time to be in banking. These new laws are exciting for us and our customers. Of course the big banks will embrace it. We want to keep our customers and keep them satisfied."

"We need to innovate and take hold of the opportunities opening up. Barclays has been opening up to partner with small players

to create different types of data. With these partnerships we can marry the data gained from them with the data we already hold."

Cadbury said: "I hope the challenges are overcome and there is success, but I do fear that the big brands have an advantage at this time."

Boden added: "The big banks will be pushed to be more creative and make more investments in things that make the customer happy. New entrants will drive innovation and creativity, and hopefully everyone will get a better deal if it works. We must, however, educate our customers in what all this will mean for them."

Navarro believed that it will be the customers that will benefit the most from open banking. Ferrari agreed, but emphasised that it is essential to have the right architecture from the top to the bottom of the bank.

Beeson said the winners will not necessarily be specific companies or individuals, but those who are prepared.

He stated: "Regardless of bank or non-bank, incumbent or new entrant, the winners will be those that have efficient, scalable, open architecture. The losers will be the ones that do not. There are so many factors that are changing and there will be pressure to make changes."

A question from the floor – again the DBC debate played to a full house – referenced seven-day switching and why, as customers, we should switch our accounts for, potentially, another average experience. What unique experience do the panel have to offer?

Beeson began by stating that Civilised Bank's unique experience would be "delivering a face-to-face human interface that would be the single point of contact for all of the bank's resources".

Boden added that when customers come to Starling Bank it is because they want that unique experience, and the mobile app it provides does just that.





IE's Jerry Mulle with Anne Boden

"We built all the functions into the mobile app. We did get an incredible number of people switching over in the first couple of weeks. People want something different and unique. I believe the seven-day switch works.

"By providing the right infrastructure, delivering interesting products and a number of relevant partners, we can gain new customers and keep the loyalty of our existing ones," Boden noted.

### Risks and hurdles

Open banking does not come without conduct risks. In particular, many customers are very concerned about their security and data privacy.

Jenkins discussed the importance of guiding consumers through the process of open banking. "We want to embrace open banking in the right way, building APIs and encouraging customers not to share their log in details. Barclays has just launched a major campaign around being digitally safe, and that is to educate consumers that come into our bank on the right way to engage in this digital world.

"What has to be understood is that there are different types of customer, and we have to provide for everyone across the demographics. There are a lot of older customers who are more vulnerable, and a lot of young people and millennials that are more savvy but do not necessarily think about it on a day-to-day basis, so a bank has to be about protecting all of our customers."

Cadbury said that open banking does come with risks and, when speaking to clients about open banking, the advice given is to start off small and build from there; that way the customer will not be giving away more data than is necessary.

On the risks, he stated: "Because of its open-endedness, open banking comes with substantial risks. There is a risk of banks failing to embrace the opportunities of PSD2

and seeing other banks, retailers or tech companies eat their lunch.

"Equally, there is a risk of overestimating the impact of PSD2 and wasting resources on it, to the detriment of some other left-field advance such as machine learning."

Cadbury also highlighted that customers might not want PSD2. "Some customers like to compartmentalise their financial interests, particularly their debts.

"For some this is a matter of security or an insurance against fraud, for others it's simply because they don't want their bank to have a full picture of their financial lives. Services built on the back of PSD2 will have to overcome this to succeed."

Carrying on the importance of educating consumers, Boden stated: "I believe it comes down to education again. Using methods that are sophisticated will help customers connect with their data and systems.

"We must educate people that it is safer to have all their information stored in one place, with trusted institutions, and use those services to log on to other providers."

Ferrari agreed that it is important to let customers know how their data is being used, and from where it is being accessed. "We need to be much more transparent. The technology to prevent fraud and hacking will become much more relevant, and we need to be prepared for that."

Navarro also emphasised that an important part of it is down to communication. "Security in banks has been good, and it is all about the evolution of technology. What we do need to do is communicate to our customers that we are secure. We have not done that well, and so we must sell it better."

### Killer features

A question from the audience asked, what will be the killer feature that attracts customers?

Boden believed it will not come from the banks. She said: "I don't think that the killer feature will come from the industry or incumbents. That killer feature will come from people who build applications upon our infrastructure. Banks cannot fail: If a project is started it must finish successfully.

"With open infrastructure, with the processes and procedures to vet people and the chance to use APIs with hundreds of people innovating, there will be breakthroughs. Those breakthroughs will come from someone using the possibility of putting data together to create good."

Cadbury said: "I'm very excited, potentially, to see all my money in one place and where it



Jerry Mulle with Will Beeson

all fits together. If open banking can help in a way that is safe, secure, and does not abuse data, then I think it could be a very powerful thing."

Speaking about the opportunities of GDPR, Jenkins said: "It is a great opportunity – how we leverage the trust in our customer base and use the enhancement of privacy laws that GDPR is bringing. It is important to approach it responsibly and expose it to customers in a way that they can enjoy."

Cadbury concluded: "Open banking is a revolutionary concept in financial services, but not in the technology sector. Open APIs are the driving force behind the Internet of Things and an essential feature of almost all successful online platforms – from Twitter and Expedia to Amazon and Uber.

"As banking goes digital, an API-driven future is as inevitable as the internet-driven present that precedes it.

"It is the opinion of Intelligent Environments that PSD2 could sustain entirely new business models, but that regulation needs ultimately to go further – encompassing all account types and financial data – to make open banking the revolution it could be."

The panel all agreed that open banking is incredibly exciting and innovative. There are hurdles to overcome, but with the right amount of collaboration, security and creativity, open banking can be something to look forward to as the next step in banking and payments.

Following the Digital Banking Club debate, Power 50 winners were invited onto the stage to receive their awards, presented by Jerry Mulle, sales and marketing director at Intelligent Environments.

Categories for the awards were: Personality of the Year, Digital Financial Services Power 50, Digital Financial Services Rising Stars, Digital Innovation in Collections, and Digital Innovation in Vehicle Finance. ■

# COUNTRY SNAPSHOT: POLAND



Poland is one of the most advanced and innovative markets in Europe, offering consumers broad access to the latest technology in electronic payments. Cash remains very popular, however, although e-commerce is driving consumer adoption of alternative instruments

**D**espite the country's strong electronic payment infrastructure, cash remains very popular in Poland, accounting for 64.1% of the total payment transaction volume in 2016.

Payment card use is rising as consumers enthusiastically embrace new technologies, moving from cash to payment cards to contactless.

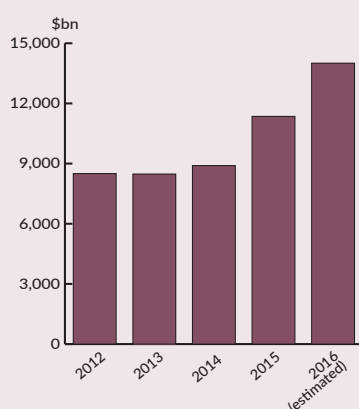
Although cash is very much the dominant means of payment, there was huge growth in the volume of debit card transactions in the four-year period to 2016. This more than doubled between 2012 and 2016 as consumers' preferred debt-free payments and avoided unnecessary expenditure.

The growing banked population also led to a rise in debit card penetration.

According to the World Bank, Poland made substantial progress in terms of financial inclusion, with the percentage of the Polish population aged 15 or above with a bank account increasing from 72.9% in 2012 to 81.7% in 2016.

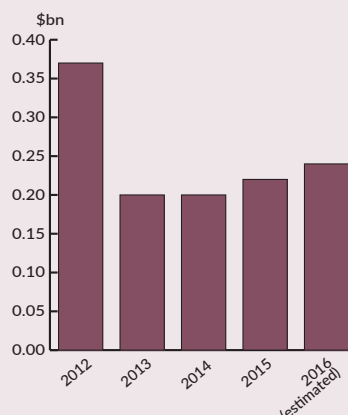
The government has also encouraged businesses to open bank accounts for employees, and salaries are now paid into

### VALUE OF CREDIT TRANSFERS



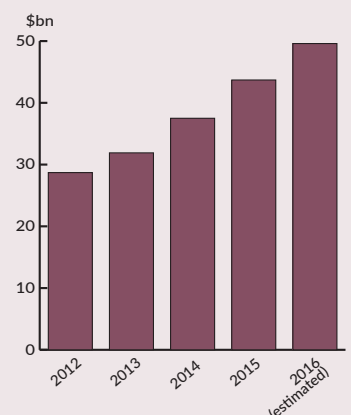
Source: European Central Bank, GlobalData

### VALUE OF CHEQUE PAYMENTS



Source: European Central Bank, GlobalData

### VALUE OF PAYMENT CARDS



Source: European Central Bank, GlobalData



bank accounts, resulting in an increase in the number of debit cards in circulation.

Poland is also focusing on electronic modes of payment to distribute pensions and other retirement benefits. In Poland, nearly 65% of senior citizens receive their pensions and other retirement benefits through a bank account.

## CREDIT CARD GROWTH

The credit card market declined during the 2012-2016 period in terms of the number of cards in circulation, as Polish consumers prefer to maintain a cautious stance towards debt.

Growth rates declined at the end of 2010, as non-performing loans rose. The T-Recommendation issued by the Financial Supervisory Commission in Poland took effect in August 2010, restricting consumer access to bank loans and consumer credit; consequently, consumers faced more stringent scrutiny when applying for a credit card.

The change in regulation imposed additional requirements on banks to check the creditworthiness of new customers. Issuers also deactivated inactive cards, resulting in a decline in the number of credit cards in circulation.

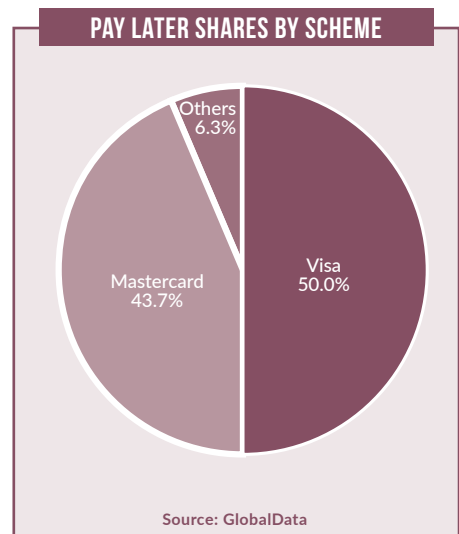
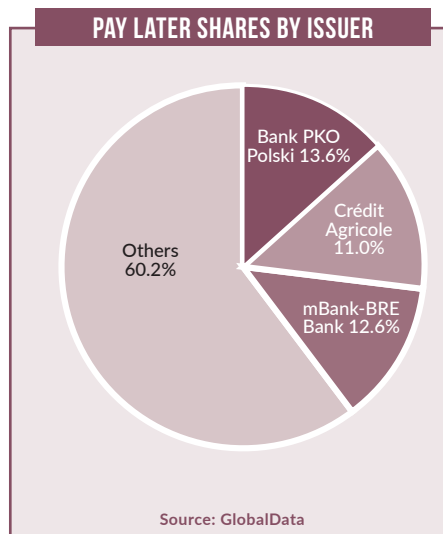
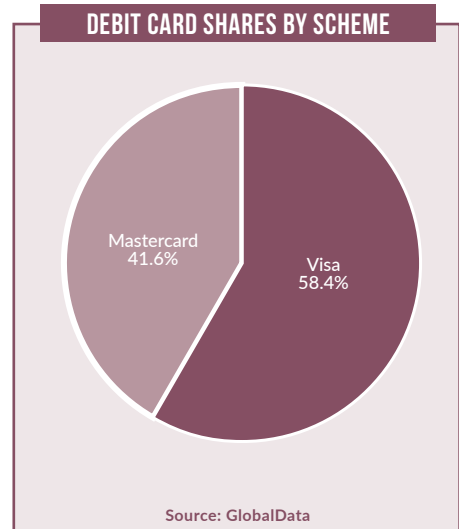
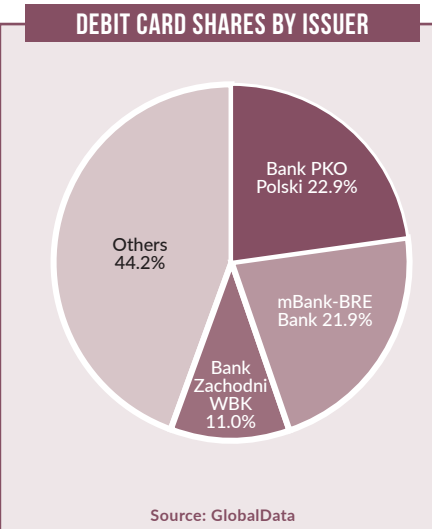
However, despite declining card numbers in circulation, usage has risen constantly. While the recommendations forced banks to adopt a cautious stance towards card issuance, they turned their attention to increase credit card use. Consequently, reward credit cards have started to gain traction, with issuers such as Bank Pekao, PKO Bank WBK, and ING Bank Śląski offering benefits including flexible repayment options, 56-day interest-free credit periods, discounts, reward points, and cashback offers.

Banks are also offering instalment facilities to convert large-value purchases into monthly instalments.

## ALTERNATIVES GAIN

The fast-growing e-commerce market is driving growth in Poland's payment cards market.

E-commerce registered a CAGR of 20.0% during 2012-2016, growing from \$4.1bn (PLN17.2bn) in 2012 to \$8.5bn in 2016. Conventional instruments – including payment cards – remain the preferred mode of payments for e-commerce



transactions, accounting for 60.3% of the total e-commerce transaction value in 2016.

However alternative payments are gaining prominence, with banks, mobile network operators and payment providers launching new solutions in the market. A number of alternative payment solutions, such as PayPal, Blik, Masterpass and Fortumo, are present in the country.

Mobile wallets, digital wallets and carrier billing collectively accounted for 20.5% of the total e-commerce transaction value in 2016 – up from 7.5% in 2012.

## PREFERENCE FOR PREPAID

The prepaid card market recorded a review-period CAGR of 15.9% in terms of the number of cards in circulation, and 17.78% in terms of transaction value. This trend is expected to continue over the next five years. With the growing popularity of contactless cards, especially among the

young population, banks in Poland are designing contactless prepaid cards for this market segment.

For instance, PKO Bank Polski offers the Mastercard-branded Speeder PKO Junior contactless prepaid card for children aged under 13. Cardholders can also opt for a prepaid contactless sticker. The card can be used for both in-store and online payments. Funds can be loaded onto the card by online transfer or in cash at any of the bank's branches.

In view of the growing e-commerce market, banks are also offering prepaid cards targeting online shoppers. For example, mBank offers a Visa-branded prepaid card called Virtual eKarty.

Similarly, ING Bank Śląski offers the Visa Virtual card. This virtual prepaid card can be ordered online and costs \$4.80, but for customers with a Direct 18-26 account, the card is issued free of charge. Online transactions are secured by the 3-D Secure code service. ■



# COUNTRY SNAPSHOT: PERU



Payment cards are gradually gaining prominence in Peru, primarily driven by the government's financial inclusion programme, and supported by commercial banks. As more people gain employment in the formal sector, credit cards are increasingly being used for purchases

In terms of transaction value and volume, Peru's payment cards market recorded growth rates of CAGR 12.4% and 11.8% respectively in the period 2012-2016.

At just 69 cards per 100 inhabitants, card penetration in Peru is the lowest in comparison to its regional peers, ranking behind Brazil (243.1), Chile (196.6), Argentina (178.4), Venezuela (151.5),

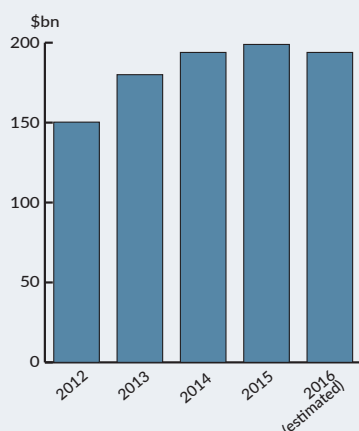
Mexico (138.4) and Colombia (82.3) in 2016. The low adoption rate is a result of the costs associated with cards, low consumer financial literacy and limited accessibility, as well as a lack of an adequate payment infrastructure, especially in remote areas.

A significant share of the Peruvian population does not have access to the

formal banking system. In Peru, the banked population in the age group above 15 years was just 34.3% in 2016.

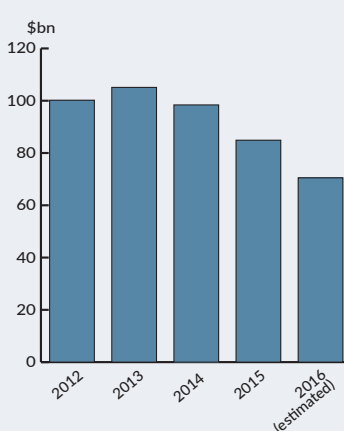
Furthermore, a significant proportion of the population, including farmers, street vendors, domestic servants, and self-employed workers, engage in informal activities that mostly fall outside the formal tax and benefits system.

### VALUE OF CREDIT TRANSFERS



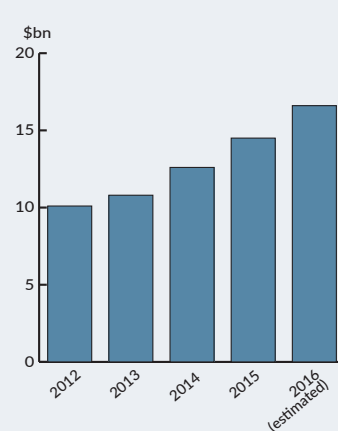
Source: Central Reserve Bank of Peru, GlobalData

### VALUE OF CHEQUE PAYMENTS



Source: Central Reserve Bank of Peru, GlobalData

### VALUE OF PAYMENT CARDS



Source: Central Reserve Bank of Peru, GlobalData

## INCLUSION INITIATIVES

Financial inclusion has become a priority for the Peruvian government, resulting in the development of the National Financial Inclusion Strategy in July 2015. It aims to provide access to a formal financial account for at least 50% of the adult population by 2018, and 75% by 2021.

The main objectives of this programme are improving access to, and use of, quality financial services, promoting electronic payments, and development of the country's banking infrastructure.

With a high mobile penetration rate of 111.9, the Peruvian Banker's Association developed the national mobile payments system, Modelo Peru to create a mobile payment ecosystem for financial inclusion.

Modelo Peru launched Bim mobile money, a fully interoperable payments platform, in February 2016. Through this, Modelo Peru aims to provide much of the unbanked and underbanked population with access to digital financial services.

It enables Peruvian residents with a mobile phone to open a bank account, transfer funds and make utility payments, and can be accessed via any basic mobile phone. Modelo Peru plans to have more than 2 million active Bim mobile money users by 2020.

The agent banking model is also being used to provide financial access in remote areas. It was first introduced in Peru in 2005 with a change in regulations that allows banks to use third-party agents to provide financial services to consumers.

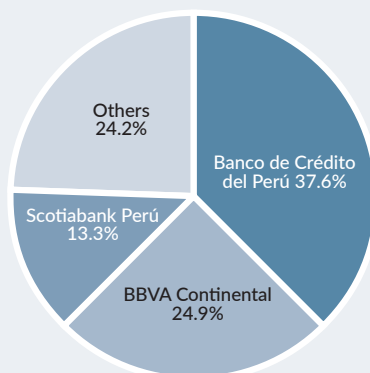
Agents provide a low-cost channel for accessing financial services, as neither banks nor agents charge consumers for agent banking services. The number of agents providing banking services increased from 9,204 in 2010 to 38,000 in 2015. The rapid growth of agent networks in Peru has allowed banks to expand services into areas where the costs of setting up a traditional bank branch would be high. Rising bank penetration is expected to drive demand for products such as bank accounts and debit cards.

## MIDDLE-CLASS POPULATION

The expanding middle-class population and higher consumer spending are expected to increase credit card use in Peru.

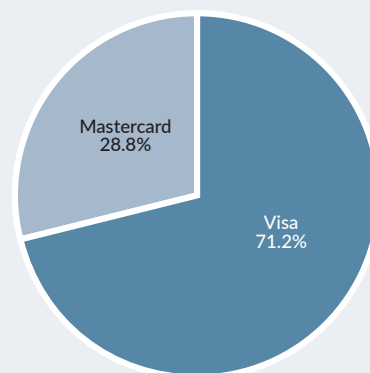
Peru has seen large-scale growth – and the highest rate in Latin America – in

DEBIT CARD SHARES BY ISSUER



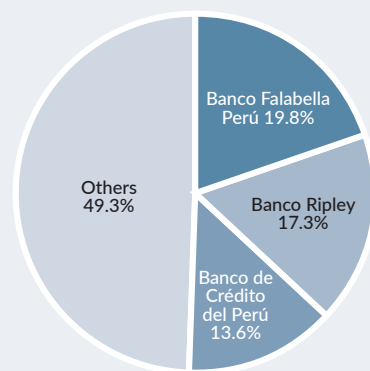
Source: GlobalData

DEBIT CARD SHARES BY SCHEME



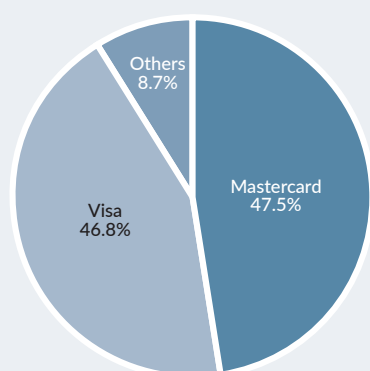
Source: GlobalData

PAY LATER SHARES BY ISSUER



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terms of the number of citizens growing their income from below the poverty line into the middle-class bracket in the period between 2000 and 2012

Falling unemployment and rising minimum wages and pensions have also fueled growth in the credit card market. While wages have grown at a minimum annual rate of 6%, the percentage of the population surviving on less than \$2 (PEN6.3) a day halved to 28% between 2005 and 2014.

Credit card growth has been driven by the growing economy, which has increased the number of jobs in the formal sector. Formally employed citizens are the main potential users of credit cards, and often use cards to purchase services, and consumer goods such as TVs, cars, furniture and clothes.

As more middle-income consumers gain access to financial services, banks are offering products specifically tailored to consumers' needs and incomes.

## POS INSTALLATIONS

The number of POS terminals recorded a CAGR of 8.0% between 2012 and 2016, rising from 120,025 in 2012 to reach 163,514 in 2016.

With the increase in the number of POS terminal installations at retail outlets, the country's potential for consumer card-based payments is also expected to improve.

To increase the uptake of mPOS solutions, Procesos de Medios de Pago, the acquirer for Mastercard payment cards in Peru, started providing EMV-enabled mPOS terminals in 2014. The mPOS terminal can be used by merchants to accept chip-and-PIN card payments from consumers around the world.

The rising uptake of mPOS solutions has allowed merchants to extend their payment acceptance channels, and is anticipated to drive the growth of payment cards in the period to 2020. ■



# COUNTRY SNAPSHOT: THE UAE



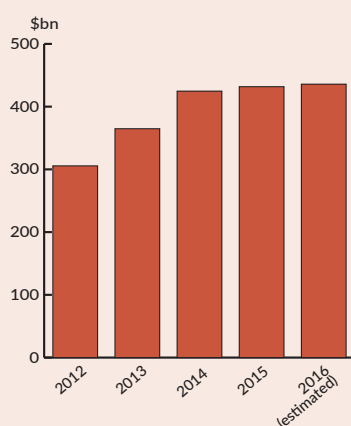
Cash remained the predominant payment instrument during 2012-2016 accounting for 87.3% of the country's payment transaction volume in 2016. This was primarily because consumers in the UAE see cash as a quicker and safer payment option, over which they have more control

**D**espite cash's dominance, card payments are gradually increasing in the UAE, supported by government financial inclusion

programmes, promotional campaigns run by financial institutions, and the growing consumer adoption of EMV and contactless technology.

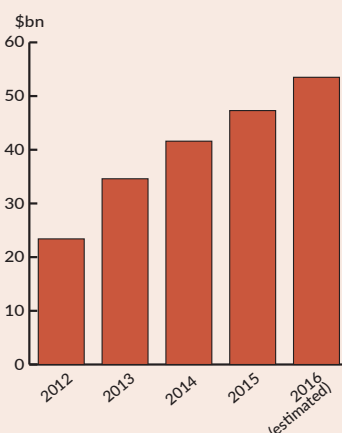
The frequency of use of payment cards in the UAE stood at 49.8 in 2016, higher than regional peers Lebanon (30.9), Oman (22.4), and Bahrain (18.1).

## VALUE OF CHEQUE PAYMENTS



Source: GlobalData

## VALUE OF PAYMENT CARDS



Source: GlobalData

## FINANCIAL INCLUSION

Improving financial inclusion has driven the adoption of debit cards in the UAE.

The government introduced the Wage Protection System (WPS) in January 2009, requiring all wage payments to be made through a bank, bureau de change or other authorised financial institution.

All institutions registered with the Ministry of Labour come under the purview of the WPS. As of October 2015 there were 4.6 million foreign workers registered with the Ministry of Labour, of which 3.5 million were enrolled in the WPS.

In a similar initiative, the Emirates Identity Authority collaborated with AI



Hilal Bank in September 2014 to allow Emirati residents to use national ID cards to withdraw cash from ATMs.

These initiatives brought a large proportion of unbanked consumers into the mainstream financial system during the four-year period to 2016.

The percentage of the population aged 15 or above with a bank account rose from 69.0% in 2012 to 90.2% in 2016. Increasing banking penetration largely supported the growth of the debit card market in the UAE.

## CREDIT CARD UPTAKE

Pay-later card penetration in the UAE stood at 45.5 cards per 100 individuals in 2016, a figure that was higher than those recorded in Kuwait (19.6), Lebanon (16.5), Bahrain (13.8), Saudi Arabia (11.5), Oman (8.9) and Iran (2.1). Israel had the region's highest penetration, at 95.4.

Despite reluctance towards credit card use in the region, banks continue to promote credit cards. Sharia-compliant cards, reward programmes, value-added services and promotional campaigns have all been employed to encourage credit card use among consumers.

The UAE's credit card market has been driven by a rise in leisure spending among consumers. According to Network International, credit card expenditure by Emirati consumers in restaurants and cafes increased by 23% year on year in 2015. Similarly, credit card expenditure at hotels rose by 10%.

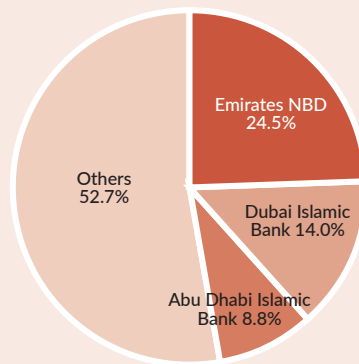
In addition, credit card spending in the country was highest among consumers with UAE-issued cards, followed by travellers from the US, Saudi Arabia, Kuwait, and Qatar.

## IMMIGRANT POPULATION

The UAE's prepaid card market grew at a CAGR of 9.7% in the four-year period to 2016 in terms of the number of cards in circulation, and 14.5% in terms of transaction value, a trend that is expected to continue in the period 2016-2020.

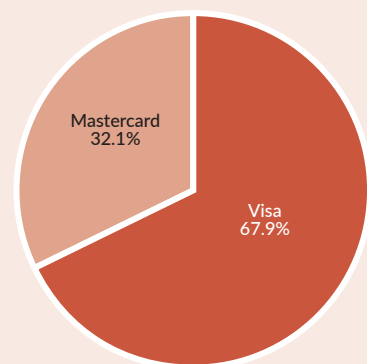
The UAE's immigrant population accounted for 88.4% of the resident population in 2015 according to the International Organisation for Migration IOM. Many expatriate workers use prepaid cards to remit funds back to their home countries.

DEBIT CARD SHARES BY ISSUER



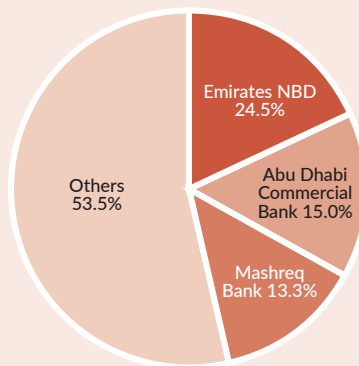
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DEBIT CARD SHARES BY SCHEME



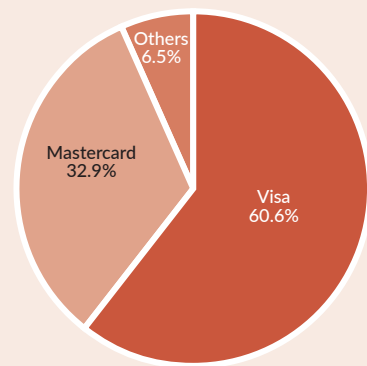
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PAY LATER SHARES BY SCHEME



Source: GlobalData

The government's WPS has resulted in a number of companies in the UAE using prepaid cards for payroll purposes.

In May 2013, Emirates NBD subsidiary Network International launched prepaid cards to enable companies to pay wages to blue-collar workers. In February 2016 UnionPay International collaborated with banks in the UAE to issue a prepaid salary card. These cards are compliant with the WPS and enable banks in the UAE to offer wage payments to workers.

## ALTERNATIVES BUILD

E-commerce has registered significant growth, with its value increasing from \$2.6bn (AED9.7bn) in 2012 to \$6.3bn in 2016, at a CAGR of 24.2%.

This growth was mainly supported by the use of smartphones and tablets, improving internet connectivity, and government initiatives aimed at encouraging a digital lifestyle in the UAE.

The variety of products and services and the convenience of online shopping have driven Emirati consumers to adopt e-commerce, while the development of technology has enabled merchants to sell products online.

Conventional instruments such as payment cards and cash on delivery are widely used payment methods for e-commerce transactions in the UAE. Payment cards remain the most popular method among online buyers, accounting for 61.4% of total e-commerce transaction value in 2016.

However, alternative payments such as PayPal, CashU, and Masterpass are all gaining in popularity for the purposes of online shopping. The availability of digital wallet services, and the security and convenience they offer, has made consumers gradually accept them.

Digital wallets accounted for 16.5% of the total e-commerce transaction value in 2016, up from 12.0% in 2012. ■

# THE EVOLUTION OF A NEW CUSTOMER-CENTRIC BANKING FUTURE

After 50 years the ATM continues to be an important touchpoint in the customer journey, but delivery of banking services is changing, writes Diebold Nixdorf's *Matt Phillips*

**I**t is the year 2027 and you need cash. You go to the closest ATM but you do not need to look around for your bank card. All you need is yourself, because this machine can look you in the eye.

It scans your irises for a match before a 3D, augmented reality-generated 'robo-banker' pops up on the screen, giving you access to a wide range of banking services. This gives a taste of what we can expect banking services to look like within the next decade.

The global ATM market is growing at a significant pace, along with the evolution of ATM technology itself. There are currently over 3.1 million ATMs in operation around the world, and this is set to surpass 4 million by 2020. This growth is underpinned by wide acceptance among financial institutions that ATMs continue to be vital as a secure, trusted self-service channel for consumers. As a result, more financial institutions are embarking on programmes to update their networks and associated legacy platforms.

With changing customer expectations driving new approaches to services, to what extent can we expect changes in the self-service channel to impact the delivery of banking journeys in the next few years?

As more consumers turn to digital or self-service channels to complete everyday tasks and transactions, financial institutions are transforming their branch networks to reshape the customer experience. Bank formats are becoming tailored to meet customer demands at individual locations. As part of this trend, some branches are becoming smaller and smarter, and ATMs are critically important to the branch-modernisation process within this connected banking environment.

Flexible technology can serve an increasingly diverse range of purposes. Everyday consumer

banking transactions are combined with new features, such as 24-hour access to remote tellers via a video connection, and enhanced security and authentication.

With sleek, modern designs and user interfaces, software-driven interactions can power the intuitive functionality that consumers expect from interactive systems.

## CUSTOMER EXPECTATIONS

This valuable functionality has not gone unnoticed among consumers, and our latest research into the expectations of banking customers across the UK shows that 57% value using self-service technology to complete multiple tasks in one go.

Accenture's 2016 *ATM Benchmarking Study* concludes that the "ATM will retain its importance for banks and consumers in the foreseeable future, but also that the untapped potential for cost optimisation and revenue generation will lead, in the medium term, to an evolution of ATM operating models."

With ATMs increasingly able to perform more transactions than ever before, there is a window of opportunity to turn customer interaction with ATMs from transactional to an engagement tool for new products and services. This then gives branch staff more freedom to focus on customer services, building relationships and strengthening brand loyalty.

Connected channel integration is the vision for future banking services, offering a seamless experience between channels and allowing consumers to start a transaction on one device and finish it on another.

As a million more ATMs are predicted to roll out across the globe, they will service populations that have adopted mobile devices as part of daily life. Therefore, it is no surprise

that we are seeing trends which combine mobile technology with new ATM services.

For example, smartphones and wearables such as smartwatches can be used to withdraw cash through NFC-based mobile payments services. Self-service machines enable access to user accounts through the device, effectively abolishing the need for a debit card.

Another area that has made great strides is biometrics, particularly in the UK. An *FT* study earlier this year found that UK consumers were the most open of 11 countries surveyed to replace traditional passwords with iris identification. Biometric authentication integrates technological advances such as facial recognition, iris scanning and fingerprint sensors with the self-service channel, leading to enhanced security and an improved consumer experience.

Advanced ATM technology enables banks to deliver quicker, more streamlined services in locations where customers demand them. Diebold research shows that consumers are embracing self-service technology because of its convenience and ease of use – 79% of people agree that technology will play an increasingly important role in bank branches in the future, and 57% think improved technology in banks means they will spend less time queuing.

As we look to the future, developments in technologies such as artificial intelligence will continue to influence the delivery of banking services, with enhanced customer experience the ultimate objective. The 2017 *Accenture Banking Technology Vision* report reveals that 80% of bankers believe that artificial intelligence will play a significant role in accelerating the adoption of digital technology at the branch, giving employees the tools and resources to better serve consumers.

AI-enabled tools will help banks identify consumer preferences, and we are already seeing many large brands, including financial institutions, integrating bots and AI into their digital and customer-care strategies, alongside their human agents. AI and machine learning are also used to develop the analytical ability of banks to spot non-standard behaviour patterns and fraudulent transactions.

The financial services industry is undergoing unprecedented change, and more innovations are on the way. New technologies are helping banks to identify consumer preferences, enabling them to respond with services that develop meaningful and personalised consumer relationships. The challenge will be how quickly financial services can create and implement new customer journeys, delivering the service that consumers have come to expect. ■



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# SHAPE THE FUTURE OF PRIVATE BANKING

**Private Banking Switzerland 2017**  
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## Key Issues

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- Identifying the needs and preferences of today's clients
- Next generation banking and how it is evolving
- How is digital shaking up the wealth management industry?
- Family Offices: How can they continue to succeed in today's market?
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