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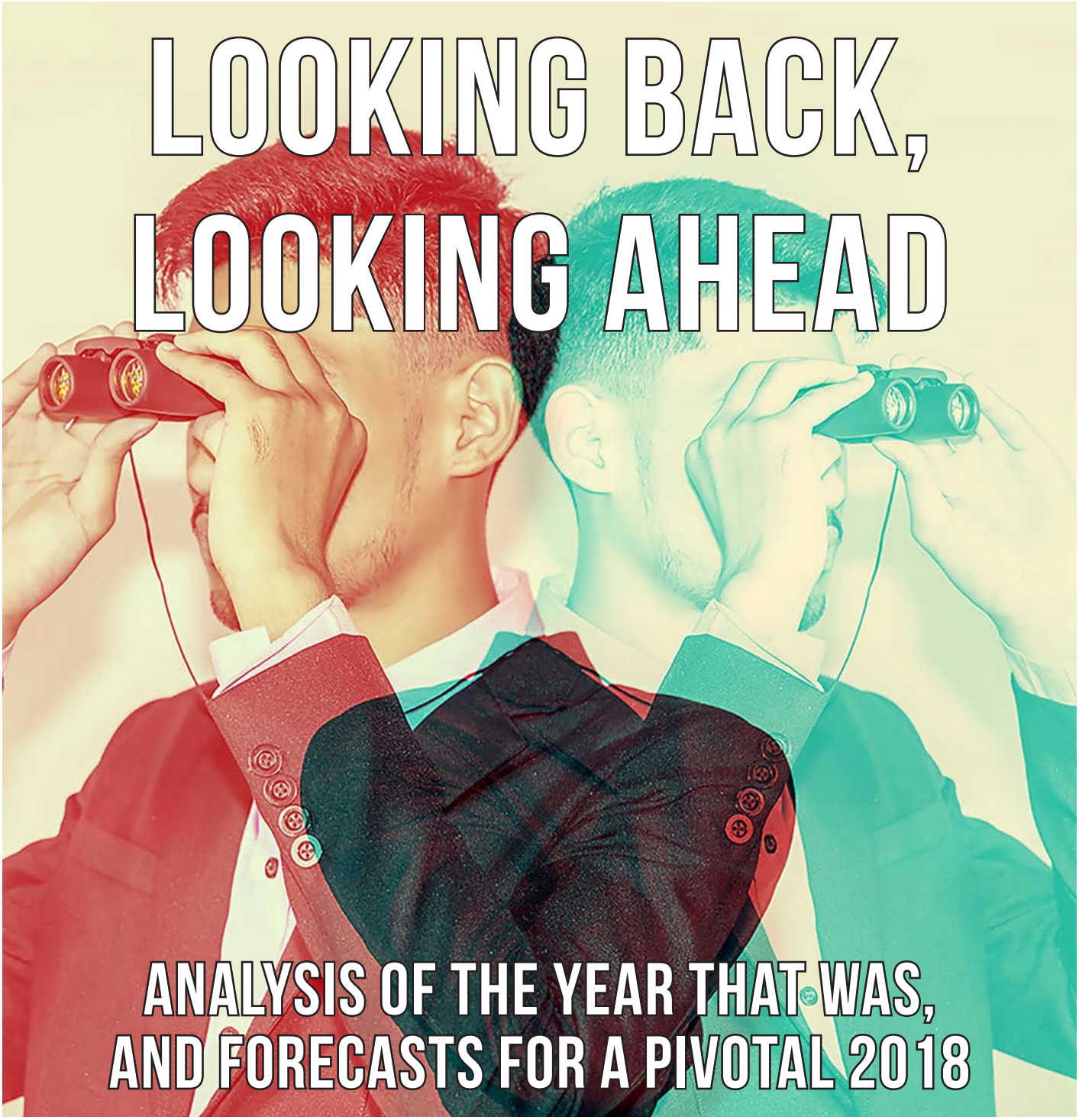
CARDS INTERNATIONAL



LOOKING BACK, LOOKING AHEAD

ANALYSIS OF THE YEAR THAT WAS, AND FORECASTS FOR A PIVOTAL 2018

COUNTRY SNAPSHOTS

Overviews of card payments in Hong Kong, Taiwan and Indonesia

INSIGHT

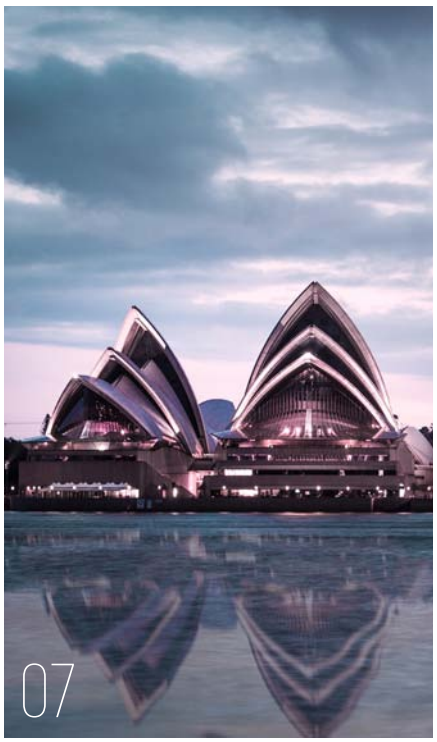
Visa's key initiatives during 2017, and its priorities for 2018 and beyond

FEATURE

Debenhams Personal Finance: the best-kept secret in the industry?

THIS MONTH

NEWS



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JANUARY 2018

YEAR-END INSIGHT

FEATURE

COUNTRY SNAPSHOTS

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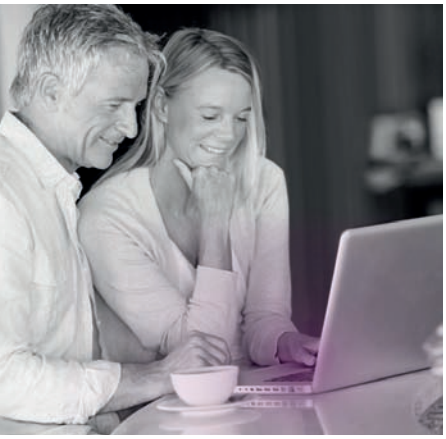

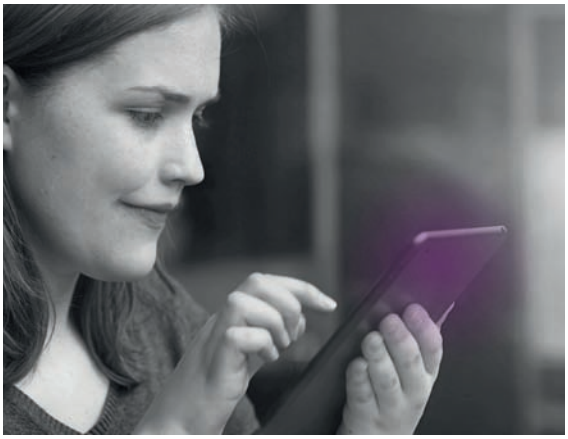

Intelligent Environments is an international provider of innovative financial services technology. Our mission is to enable our clients to deliver a simple, secure and effortless digital customer experience.

We do this through Interact®, our digital financial services platform, which enables secure customer acquisition, onboarding, engagement, transactions and servicing across any digital channel and device. Today these are predominantly focused on smartphones, PCs and tablets. However Interact® will support other devices, if and when

We provide a more viable option to internally developed technology, enabling our clients with a fast route to market whilst providing the expertise to manage the complexity of multiple channels, devices and operating systems. Interact® is a continuously evolving digital customer engagement platform that ensures our clients keep pace with the fast moving digital landscape.

We are immensely proud of our achievements, in relation to our innovation, our thought leadership, our industrywide recognition, our demonstrable product differentiation, the diversity of our client base, and the calibre of our partners.

For many years we have been the digital heart of a diverse range of financial services providers including Generali Worldwide, HRG, Ikano Retail Finance, Lloyds Banking Group, MotoNovo Finance, Think Money Group and Toyota Financial Services.

REASONS TO BE CHEERFUL

Douglas Blakey, Editor

It is that time of year again – Black Friday and Cyber Monday are behind us, and the cards, banking and payments sectors passed the test of record payments volumes with flying colours.

Now onto Christmas and the New Year. As is customary, the Christmas issue of *Cards International* contains a number of end-of-year reviews and 2018 forecasts, and it is gratifying to see that the comments are generally positive.

As the year drew to a close, the consumer press – always fans of gloomy news – have flagged up increasing cards loss rates. A fairer précis – certainly in North America – would be to highlight ongoing low unemployment rates and manageable debt-to-disposable-income ratios.

With potential for improved net-interest-margin expansion and healthy scope for loan and purchase volume growth, the credit cards sector can justifiably end the year in good heart.

It remains fashionable for many to attack the incumbents as being held back by antique legacy systems; risk-averse cultures, no urgency and a complacent lack of innovation is the usual summary of complaints levelled against the industry's established players.

There is certainly no sign of complacency at Amex, as witnessed by its new Platinum Card range of benefits.

Other noteworthy recent launches include Synchrony and PayPal's cashback Mastercard, and London Block Exchange's Visa-branded prepaid card linked to an app to enable customers to spend and hold cryptocurrencies.

The costs associated with the card – £20 ($26) to acquire plus 0.5% on all purchases or sales of cryptocurrencies plus ATM withdrawal fees – will put off many, but it will be interesting to track its success or otherwise.

Penny, an app that examines customers' credit card activity to flag up any data breaches is also worthy of note.

WILLINGNESS TO SWITCH

According to Accenture, cardholders have never before been more willing to switch issuer: 48% of consumers would switch their primary rewards card to get more value for purchases and 42% would switch for a large up-front sign-up bonus.

Cardholders not only want more rewards, they want greater convenience and personalisation; according to Accenture, 76% of consumers want to redeem deals tied to their card when swiping at the point of sale. First Annapolis has been arguing that current market conditions necessitate offering high rewards but that the level of growth in rewards value is unsustainable, so card execs need to consider other ways of investing in their loyalty programmes.

2018 FORECASTS

We are likely to see an acceleration of ATM-pooling. Some of the brightest digital innovations will come from the regularly maligned incumbents – expect to see more from the likes of HSBC, Nordea, BBVA, Caixa and Emirates, and a number of the more innovative banks in Poland.

Higher-profile new players such as Revolut and Monzo will continue to enjoy success in growing customer numbers; the former will find it much easier to monetise its business model.

PSD2 evangelists arguing that January and the coming of Open Banking will change everything will be disappointed – at least for some time. Consumer appetite to share data is questionable in the short term: a year from now, we will be talking about how 2019 will be the year that Open Banking may gather some momentum.

Meantime, a very hearty thank you to all subscribers, contributors, readers, events sponsors, press officers and PRs. Best wishes for a festive Christmas, and good health and prosperity for 2018. ■

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NEWS DIGEST

Commonwealth Bank of Australia caps daily ATM deposits

Commonwealth Bank of Australia has capped cash deposits at $20,000 per day at its ATMs, in a move to identify, mitigate and manage various risks associated with financial crime.

From 21 November 2017, Commonwealth Bank's retail customers can deposit a maximum of $20,000 per day using their personal cards at the bank's deposit ATMs.

The limit will apply irrespective of the number of deposit transactions made during the day.

The bank said the new move is part of its initiative to strengthen policies and processes relating to its obligations under the Anti-Money Laundering and Counter-Terrorism Financing Act 2006.

The bank issued a statement saying: "It strikes a balance between addressing our obligation and commitment to prevent financial crime and meeting our customers' legitimate banking needs."

"This initiative complements our other reporting obligations, including the reporting of any suspicious transactions conducted across our network and the reporting of each and every cash deposit of $10,000 or more," the statement added. ■

NETS INTRODUCES JCB EMV CONTACTLESS STANDARD IN DENMARK

Payments business Nets has signed a strategic partnership to launch JCB International's J/Speedy NFC mobile technology in Denmark.

The solution is compliant with NFC and EMV contactless communication protocol specifications, and will allow cardholders to pay using Android Phones at supermarkets and other retailers in Denmark.

The agreement will also enable Nets merchants equipped with J/Speedy contactless terminals to accept payments from JCB card members using J/Speedy cards and smartphones in Europe.

Nets group executive vice-president Thomas Jul said: "We are delighted to be the first in Europe using JCB's advanced EMV contactless technology, which will ensure a frictionless and enjoyable payments experience between Nets merchants and consumers initially in Denmark.

"In addition, we are pleased to expand J/Speedy acceptance across all of Nets core markets to support JCB's growing number of J/Speedy contactless transactions from JCB's card members visiting Europe."

JCB International president and COO Kimihisa Imada said: "We are planning to accelerate our contactless cards and mobile programmes with JCB issuers around the world in the future.

"Our state-of-the-art HCE mobile solution utilising JCB's trusted J/Speedy contactless standard with Nets will allow both companies to continue to provide high-value service to our card members and merchants." ■

BOFA MERRILL LYNCH LAUNCHES TOOL FOR COMMERCIAL CLIENTS

Bank of America Merrill Lynch has launched a new digital tool that centralises information and education delivered to global commercial card clients.

The Card Assistant tool will provide programme administrators access to industry and product updates, webcasts, fraud-prevention tips, case studies and reference information in one place. It follows the introduction of the CashPro Assistant tool for commercial card clients.

BofA Merrill global head of financing and channels for Global Transaction Services Hubert Jolly commented: "Our clients tell us that speed and efficiency are at the top of their list when it comes to managing card programmes.

"Card Assistant makes it as easy as possible for our clients to access the information and training they need, whenever and wherever they need it. We will continue to enhance our suite of commercial card capabilities to make it as easy as possible for clients to do business quickly and efficiently."

"Card Assistant is foundational to our strategy to be the focal point to assist and advise our clients as they navigate the increasingly complex global card programme landscape," Jolly concluded. ■

Mastercard to launch tech hub in Sydney

Mastercard has announced plans to establish its fifth global tech hub and innovation centre, in Sydney in 2018.

The payments company's Sydney-based employees and businesses will be relocated to the new space in St Leonards.

The team at the new hub will work to develop advanced payments platforms using artificial intelligence, blockchain, natural language processing and robotics.

Mastercard Australia division president Richard Wormald said: "As the internet continues to reshape the payments industry and create new opportunities, business must evolve their offerings to keep up with new demands.

"Mastercard is leading the way, acquiring assets that place innovation at the core of our offering and by bringing together all of our 560 Sydney-based people to unite in a practice of innovation."

Mastercard's other four global tech hubs and innovation centres are located in St Louis, New York City, India and Dublin. ■

LBX LAUNCHES DEBIT CARD FOR CRYPTOCURRENCIES

UK startup London Block Exchange (LBX) has launched a debit card, Dragoncard, which will enable UK consumers to spend and hold cryptocurrencies.

Dragoncard will allow private and institutional investors to buy and sell cryptocurrencies, starting with Bitcoin, Ethereum, Litecoin, Monero and Ripple, through an app and trading interface. Additional cryptocurrencies will be added in the future.

LBX founder and CEO, Benjamin Dives stated: "If a shop accepts Visa, it now accepts Bitcoin, Ethereum, Litecoin or Ripple."

By linking the debit card to the app, users will be able to convert cryptocurrencies to sterling, with LBX charging a 0.5% fee.

Despite scepticism from some banks and governments, cryptocurrencies have seen significant gains. Dives highlighted the growing demand for a platform that allows the secure exchange of cryptocurrencies. He said: "Despite being the financial capital of the world, London is a difficult place for investors to enter and trade in the cryptocurrency market. We'll bring it into the mainstream by removing the barriers to access, and by helping people understand and have confidence in what we believe, is the future of money."

Adam Bryant, ex-Credit Suisse and UBS banker and LBX's executive chair, joined Dives in the cryptocurrency venture. He said: "We're offering a grown-up and robust experience for those who wish to safely and easily understand, and invest in digital currencies.

"We're confident we'll transform this market in the UK and will become the leading cryptocurrency and blockchain consultancy for institutional investors and consumers alike."

The exchange is now live for the public to pre-register. ■

BLACKHAWK, EBAY EXPAND PARTNERSHIP FOR B2B GIFT CARDS

US-based fintech Blackhawk Network has expanded its partnership with e-commerce business eBay to provide business-to-business (B2B) gift card services for online markets.

The partnership enables businesses to order gift cards to reward or incentivise customers through loyalty, acquisition, retention or promotional programmes.

eBay's gift cards will be available in both plastic and e-gift options, and allow customers to add personal messages on each card.

In addition, the cards allow businesses to manage their own orders, and can be loaded with cash from $5 to $500. They also provide the visibility to track information and order history and provide easy checkout with payment and shipping information that is securely saved in the buyer's account for future orders.

Blackhawk Network senior vice-president David Tate said: "As part of our partnership with the e-commerce firm, we are delivering significant value by helping to grow and manage its B2B gift card programme, while enabling eBay to become more competitive in this space.

"We are leveraging the synergies and technology across both Blackhawk and CashStar to offer a complete, comprehensive gift card solution for distribution directly to business buyers."

eBay general manager of gift cards Wafa Dahel added: "Businesses looking to provide gift cards as rewards or incentives will find that eBay offers something for everyone.

"With more than a billion listings, eBay has an incredible selection of a variety of products at the right price. The majority of items on eBay today are new, fixed price and ship for free, making the e-commerce company a preferred site for shoppers across the globe." ■

COMMENT: END-OF-YEAR REVIEW AND 2018 FORECASTS

Experts from the cards sector and financial services industry reflect on the major talking points of 2017, and look ahead to the new year to discuss with *CI* which way the industry is heading in 2018

TECHNOLOGY AND REGULATION – THE DRIVING FORCE FOR CHANGE

Stefan Schnitzler, Corona Business Unit, SmartStream

Looking back on the past 40 years of retail and card-based payments, the list of real innovations is not impressive. Introducing chip and PIN is probably one of the more notable ones, and the full potential of contactless is just being unlocked thanks to ApplePay & Co.

The last year, though, has certainly brought about quite fundamental changes – as did some of the previous years ever since fintech started to rock the industry. Cheap money and pressure on incumbents to diversify their portfolios has accelerated M&A activity with further industry consolidation – Vantif buying Worldpay, Mastercard buying VocaLink, ACI buying PayOn – and private equity-driven transactions – Bain Capital buying Concardis, PE consortium buying NETS. There is more of that to come in 2018 for sure.

Technology has brought about fundamental changes. For example, IT shops with a banking licence – such as Solaris Bank, Fidor Bank – provide toolbox banking solutions, and distributed ledgers have become reality with banks lining up to join consortiums such as Ripple and R3. Cryptocurrencies arrived in the mainstream, with the major gap between real world and Blockchain – the payout problem – solved, for example by TenX.

Competition is heating up, with Chinese payment giants WeChat Pay (600 million users) and Alipay (450 million users) heading west, where early QR Code payment systems such as Yapital grounded – not least because of the clunky user experience.

Talking of user experience, the biggest threat on incumbents comes from tech giants like Amazon, Apple, Google and Facebook. They have unrivalled end-user reach, and cool user experience is deeply rooted in their DNA. Remember: it does not take a bank to do banking, and no matter what you do, you had better solve a customer problem.

And cost: The World Bank estimates some 7.7% fees on cross-border remittances. So there is plenty of work still for remittance processors like WorldRemit and TransferWise.

In the past, regulation had been considered a business inhibitor. Interestingly enough, though, it is the driver behind some of the most disruptive changes and innovations in the retail payment industry: Open banking offers both opportunities and threats to banks where the 'threat' camp seems to reign. Indeed, without a forward strategy banks will become pipe providers.

And instant payment poses a big threat for card schemes as it become a viable and inexpensive alternative to established card rails. So it is not a surprise that card schemes are heavily diversifying as their traditional core business comes under pressure, also by alternative payments.

And instant payment overlay services-layers will provide for greater user benefits and values. It will be interesting to see concrete value-adding service offerings materialise in 2018.

And 2018 is not going to be any less disruptive: For a previously cosy industry navigating comfortably in a 'live-and-let-live' four-party world there is more change ahead. Customer-focused regulation, technological progress and fintechs and tech giants focused on end-user benefits will continue to drive change.

One result is sure, though: The complexity of payment instruments and processes will grow further – as will the need for proper end-to-end process control. What a great and innovative environment to live and work in after decades of 'same old, same old'. It is a wish rather than a curse: May we continue to live in interesting times! ■

TOKENISATION TO UNLOCK IOT POTENTIAL

Scott Abrahams, senior vice-president, Mastercard UK, Ireland, Nordics and Baltics

If recent years have all proved transformational in the world of payments, then 2017 has been no different. Even cash itself has changed. New £1 coins and the arrival of plastic notes shows that old money is having to adapt and increase security. This has come at a great cost to UK PLC, which is even harder to accept when we are clearly moving further towards a less cash-dependent payments system. Contactless continues to grow at exponential rates and its popularity remains undiminished.

Society seems to have now dropped all mention of what we used to call the mobile internet – smartphones now are very much THE internet. Our ability to buy anything anywhere has never been stronger. And so too is the opportunity for mobile payments. In two years it is expected that across the world people will make 200 billion mobile and tablet transactions. But in four years, there will be nearly four times as many IoT-connected devices as mobile phones: There will be 28 billion of them – around 50 per household.

The potential for these devices to make payments will be unlocked by tokenisation. And as we have recently seen, Fitbit and Garmin are breathing new life into wearables with their first steps into payments for that reason.

And tokens have a role to play, with another theme that has carried into 2017. Data breaches may not go away, but by retailers switching from storing actual card numbers to 'tokens' that only Mastercard can decode, the sooner the industry can reduce its reliance on the strength of each and every retailers own cybersecurity.

And finally, for us at Mastercard, we have had a significant year with the acquisition of VocaLink, which will undoubtedly bring added innovation to real-time payments both here in the UK and beyond, and is a fantastic point of differentiation in our digital payment solutions. We believe together we can offer consumers far greater choice and control when deciding how they wish to pay. ■

PAYMENTS: 2018 THE YEAR OF THE CUSTOMER

Darryl Proctor, product director, transaction banking and payments, Temenos

The imminent arrival of PSD2 and open banking has seen a mind-shift within banking in 2017, and payments is no exception. At Sibos 2017, I noticed that banks now realise there is real benefit in working with fintechs. Banks are back to doing what they do best: focusing on their customers. Trusted third parties (TTPs) can offer the services; banks need to collaborate.

Temenos's 2017 *Transaction Banking Survey* further echoed this; 57%, of 100 banks interviewed already work with TTPs to improve existing bank payment services. I believe collaborating to bring value to customers will be a focus in 2018 and beyond, but how?

Prediction 1: Independent real-time payments collaboration

Without bank interoperability, real-time payments is impossible, and until recently it has been regulation-driven. However, in November BNY Mellon and US Bank initiated real-time payments, two years ahead of the Federal Reserve's real-time payments deadline.

Perhaps, we may start to see independent real-time payments collaboration emerge, even without regulation, in 2018. Why? Our survey showed that in countries with real-time payments, 80% of 100 corporates asked said it improved their risk management, 77% their liquidity, and 76% their cash visibility. The business case is clear, bank customers expect real-time payments (processing and information). With 35 countries already offering real-time payments, ambitious banks will begin the move in 2018.

Prediction 2: Servicing customers payments AI effectively

Artificial intelligence (AI) in payments offers opportunities in customer initiation, accelerating back-end processes and improvements in customer service. The UK's Co-operative Bank is already actively benefiting; cutting wire-payments processing from an average of 10 minutes with manual input to just 10 seconds using robotic process automation. Similarly, an audit trail for problem transactions was cut from seven hours to 10 minutes on average.

Prediction 3: Payments in the cloud

To service bank customers effectively, costs must reduce. A cloud payments hub offers this. It lowers the cost per transaction, and significantly lowers maintenance costs than on-premise. Faster implementation, instant control and ongoing upgrades are ensured, with little to no risk of downtime. Some payment service providers launched cloud solutions in 2017, ideally as part of a wide range of banking solutions and 2018 will see banks adopting this technology.

Prediction 4: Gen Xers adopt mobile payment apps

Around 70% of Millennials used mobile banking last year, however this is set to change with 67% of Gen Xers now using mobile banking apps, including payments. Banks need to ensure that they can offer a truly omni-channel mobile payments experience, perhaps through TTPs, or risk losing this loyal and valuable market.

2018 looks to be an exciting year for payments, with extensive real-time, AI, cloud, wide mobile adoption all fuelled by open banking. To truly benefit, banks need to adopt fully embedded solutions, making 2018 the year that their payments business really comes into its own. ■

WEARABLES GROWTH, M&A, CONSOLIDATION AND MORE REGULATORY COMPLIANCE

Ian Bradbury, CTO for financial services, UK and Ireland at Fujitsu

Trend 1: Wearable payments

As cash payments steadily reduce – look at the Nordics – we expect wearables to grow as a payment method, as they already offer a convenient mechanism for replacing cash in low value transactions.

We are seeing wearables increase in functionality and reduce in price, making them more of a widespread platform for consumers to use when making payments. When smartphones first emerged, most analysts thought that the penetration would stay low. What changed that was significant improvement in functionality, performance and price point, and the same will happen with wearables.

Moreover, we expect traditional phone functionality will appear in wearables – such as with Apples new iWatch, which incorporates both GPS and its own SIM card – and will allow for better authentication of users – for example with voice biometrics.

When it comes to security of mobile payment devices, smartphone cameras will be the next wave for Face and Finger biometric authentication. Smartphones are already beginning to incorporate secure chip functionality that can be as secure as any chip and pin card, and wearables are likely to quickly follow, as these can securely store account details and biometric templates for authentication.

Trend 2: Drive towards efficiency and agility

Given the drive towards efficiency and agility, next year we expect a lot of jobs to be created in the areas of automation. Gartner has predicted that by 2020, artificial intelligence – which will drive the next wave of automation – will be a net job creator. The impact we will see on the labour market as a result, is that more and more people will be employed to develop and implement AI based automation solutions, and this will overcome the number of people in jobs that will be replaced.

In fact, our latest research found that 71% of businesses are concerned about their ability to adapt to AI. AI will not only replace existing manual processes, it will create new ways of doing things, which subsequently will create new value for businesses and their customers.

This is closely coupled to Big Data and IoT technologies. If you are a specialist in RPA, AI, Data Science / Analytics or IoT, you can expect to be in high demand in the financial services industry for the next few years.

Trend 3: Cross-industry mergers and acquisitions

Economies are no longer dominated by a particular industry – as America once was by manufacturing for example – but instead we're seeing technology platforms – Google, Amazon, Facebook – having bigger stakes in Western economies, cultures and, at times, politics through the acquisition of trusted names in particular sectors. Thinking about digital disruption, this year's prime example has to be Amazon's acquisitions of the US high street grocery store Whole Foods Market, which rocked the retail establishment.

I think this is very likely to happen in the financial services space as well, given that we have already seen the likes of Apple and Samsung lay foundations in the industry with their mobile payment apps. It will give an organisation like Amazon instant credibility in this space, and a firm base to implement its philosophy, culture and technology.

Given the UK's significant standing in the financial sector, it is a prime location for investment. For any technology company looking to make strategic acquisitions, they stand to reap the benefits of a diversification in their global portfolio. Any acquisition is very much likely to be centred on the retail or consumer financial services space.

Trend 4: Further consolidation for established players

I think there will be more consolidation in the industry for the established players. As core areas are increasingly undermined by digital disruptors, organisations will increasingly look for economies of scale through consolidation, and higher margins through specialist offerings.

This trend is likely to be most greatly experienced in the insurance space. As a result of the rise of automation, it will help create jobs for those with skills in specialist areas of underwriting and those who have a good track record for quickly assimilating and automating acquired businesses.

Trend 5: GDPR compliance

GDPR could have a big impact on financial sector players next year, but I expect it will be no different to Y2K – lots of concern but very little initial impact. The first big data breach will, however, bring GDPR back into sharp focus.

Data breaches now happen every day – take the Equifax data breach for instance. Had the GDPR legislation been in place already, Equifax would have incurred a significant fine – up to 4% of its global turnover. From a jobs perspective anybody with good skills around privacy management, data management and cyber will be in high demand in this GDPR-fuelled world. ■

2018: THE YEAR BANKING AND PAYMENTS COLLIDE WITH THE INTERNET OF THINGS

Jack Jania, SVP of strategic alliances, Gemalto

By now, we've all heard the stats: The Internet of Things (IoT) is predicted to reach 34 billion connected devices by 2020 – or even more, depending on which research or analyst firm you ask.

From wearables to smart appliances to connected cars, we are entering a new playing field in terms of both technologies and consumer expectations for mobility and delivery of payments and banking services.

As 2018 rapidly approaches, we have reached a tipping point that cannot be ignored, and it is time for the payments industry to capitalise on that growth and utilise new solutions to meet customer demand.

Here are three quick ways that banking and payments players will need to think about their businesses in the IoT context:

RECOGNISE THE PATTERN

Financial institutions and payment providers cannot stand idly on the sidelines while the IoT plays out in front of them.

Payments are being woven into new integrated applications, including transportation, social media, smart cities and online shopping. As those use cases emerge, the form factors evolve too.

Most top-tier banks have mobile banking and payment apps at this point, but consumers are increasingly expecting more.

There is an incredible opportunity for experimenting with contactless technologies – whether cards, mobile devices or wearables – that make payments more convenient and accessible for customers.

Similarly, gone are the days when consumers felt the need to go into a physical branch to open a new bank account. They now want to be able to do so from home or the office via the devices they have come to rely on, without interrupting their daily routines.

It is incumbent upon banks to innovate and leverage biometrics like facial recognition, fingerprint and others to make that expectation a secure reality.

PREPARE FOR THE RISK

The security discourse over the past few years has been dominated by EMV, but EMV was not designed to address hurdles that the IoT world presents.

Advanced security practices like tokenisation will be used in the IoT to solve for limitations. The industry needs to understand requirements for token service providers, study tokenisation methods used in digital wallets like Apple Pay, Samsung Pay and Android Pay as well as in-app purchases, and address critical considerations on the path to tokenisation implementation.

Additionally, formidable time and resources need to be committed by all stakeholders toward securing card-not-present (CNP) environments – which make up a large slice of the IoT – and decreasing the CNP fraud that spiked by 40% in 2016.

Continued research around blockchain will also contribute to the end goal of protecting transactions and digital assets for both financial institutions and consumers.

DO NOT TRY TO SURVIVE IN A VACUUM

In the IoT ecosystem, openness and collaboration are necessities rather than options. It is a brave new world out there, and I expect we will see standards bodies, consortiums, working groups and alliances working together to usher payments and banking into the IoT.

If banks and payments providers are not already engaging with the Secure Technology Alliance, US Payments Forum or their international counterparts, now is the time. We are going to see IoT payment applications accelerate in 2018, and there is no sense in trying to tackle the challenge on your own when we can band together. ■

DEBENHAMS PERSONAL FINANCE: A HOUSEHOLD NAME'S BEST-KEPT SECRET

Customers are becoming savvier, comparison websites make it easier to find a good deal, and certain consumers' financial difficulties make it necessary, so now seems like the right time to develop the best proposition. Debenhams Personal Finance believes it has done that. *Patrick Brusnahan* finds out more

Andy Newman, head of personal finance at Debenhams Personal Finance, believes his firm is "one of the best-kept secrets in financial services" with a "wide suite of market-leading products".

Its credit card is a reward-based product. Customers earn three points for every pound spent internally, "basically 3% cashback", and one point for every two pounds externally.

In addition, credit card customers receive a discount of between 10% and 20% on their first purchase, and free delivery on all products. It is a decent selection of benefits, so what is holding Debenhams back?

Speaking to *CI,* Newman says: "Awareness is what we lack. Other than our own internal customers, not many people know what our products are. From an external point of view, probably only in the last six months have we started to promote in affiliates and digital spaces. It's to make people aware that we have these products. We do a lot of customer research and awareness is just generally low."

So who are the customers that Debenhams is looking for? Newman says: "Our target market is anyone. We've not been that strong in the external market. If you look at reward product offerings in the market today, this is without a doubt right up there.

"What's happened in the last 12-18 months is you've seen a real reduction in the amount of reward cards offered in the market. With reduction in interchange, a lot of issuers have cut back on the reward in the proposition they offer to customers. If they haven't reduced the proposition, they've put a fee on the product."

Akhil Shah, head of product at Debenhams Personal Finance, adds: "If you think about what Debenhams sells and its broad product offering, our customers are a whole range of people. I think it's great that it could be for many people. That's the nature of a department store and that's why we have this proposition."

"We've made a point to not reduce the propositions for our best customers," Newman continues.

"We've seen a shrinking of the reward card market, not just in terms of propositions. If you go back three years, there were over 70 reward cards in the market. Now, it has shrunk right down. What we're trying to do is make people outside Debenhams more aware of the strength of the product we do offer."

CHALLENGERS

Challengers are very much in vogue at the moment, with new banks and fintechs garnering headlines and customers. Is this the right time to make a push for market share?

Newman says: "We look at the size of the market and the people that use Debenhams; it's close to a quarter of the UK. We have all that breadth, so why not have really strong competitive financial offers? People are now savvier and more willing to move around."

"As a retailer, we can provide that extra value for customers that traditional providers can't," Shah purports.

"If you look at the offers we've got, we can differentiate against other traditional providers, but even amongst retail competitors, we should have a richer offer."

He concludes: "What infuriates me, and it's an issue that we need to resolve, is that we have really good products, the commentary on providing value and reward for customers in the media is higher than ever before, and yet we're not featured or mentioned as we don't educate customers as well.

"I would like in 12 months for us to be more of an authority in this space, because we deserve to be." ■

TRAVEL MONEY

Debenhams Finance also offers travel money – in-store and online – for its customers, which include a number of benefits.

For buyers paying with a Debenhams credit card, the cash advance fee is waived. In addition, a £5 voucher is received for every £20 spent, and with buyback customers receive 20% more if amounts are put on a gift card.

Newman says: "The Post Office is the top of this market, and God knows why. It's not a great rate and you have to go out of your way to collect it. In Debenhams, you can do all of your holiday shopping here, take your travel money, earn rewards. Can we take market share from the banks? Absolutely, because we do all of this in one go."

Shah adds: "We're faring quite well. Our rates have been genuinely competitive and we still have value-added benefits. People are still going away, but when they are now looking for even more value, they become more price-savvy. As they shop around, Debenhams becomes more compelling." ■

VISA CANADA: 2017 REVIEW AND 2018 FORECASTS

Visa Canada senior executives Stacey Madge, Gord Jamieson and Chris Ferron discuss the company's key initiatives during 2017 with *Robin Arnfield*, and provide an overview of the business's main priorities for 2018 and beyond

Formerly SVP, international banking at Scotiabank, where she was responsible for retail and small business banking across 30 Latin American and Caribbean countries, Visa Canada's country manager and president, Stacey Madge, joined the business in April 2017.

She tells *CI:* "2017 was a great year for growth for Visa Canada. We saw strong single-digit growth driven by expansion in access to card acceptance, plus strong Canadian economic growth, and the increasing customer move to digital in Canada.

"Digital accounts for an increasing share of our growth, due to consumers' move to digital services and the advent of digital players which, in some industries, account for a significant amount of growth for those industries. Digital players are having a big impact in lodging, travel and transportation, and retail goods."

Visa Canada has a few major priorities for 2018, says Madge.

VISA DEVELOPER PLATFORM

"Visa's number one priority is being highly focused on consumers and making their everyday journey better. To help with this objective, Visa created the Visa Developer Platform, which makes 90 APIs available through developer.visa.com. Issuers, acquirers, merchants and technology providers can leverage Visa's API capabilities to create new digital solutions for their customers.

"One example of an API offered by Visa Canada is push provisioning, where customers can enable the use of their digital credentials across multiple digital wallets and apps. Once they have provisioned their card, they can push their digital Visa card to their favourite apps, such as their Uber or Starbucks apps.

"We have travel notification services that allow cardholders to inform their issuer of an upcoming trip, plus mobile location confirmation, enabling issuers to confirm that their cardholders are where they say they are.

"Also, we have transaction controls, where cardholders can set control parameters as to how they want their card to be used. For example, parents could limit how their child uses one of the cards on their account when they go to university."

VISA DIRECT

"Push payments is the second major priority for us – the ability for individuals, businesses, or government agencies to push money over our network to another person's card using our Visa Direct platform," Madge explains.

"B2C disbursements such as insurance payouts, merchant settlements to small businesses, or driver payouts are an emerging area in Canada. This could be any use case where an existing customer experience can be improved by allowing faster access to funds or removing the friction. For example, in the US, Uber and Lyft push payments to drivers by having their drivers link their debit card to their push payment app."

> "CONTACTLESS CARDS ARE A BIG GROWTH AREA FOR VISA IN CANADA

ACCESS TO ACCEPTANCE

"Our third priority is expanding access in three big areas," Madge notes.

Firstly transit, enabling Canadians travelling on buses, subway trains or commuters train to tap their smartphone or their contactless Visa card instead of buying tickets with cash. This sounds simple, but moving to open payments is a big undertaking. Tapping and authentication have to be done in milliseconds so customers don't break their stride when walking through a terminal.

"Visa Canada has projects underway to make contactless transit payments a reality. We're using the same open-loop technology as the London, UK transit system, which involves automatically debiting the cost of tickets from contactless Visa cards or phones in real time.

"In other markets, transit has really been linked to contactless growth. Contactless cards are a big growth area for Visa in Canada."

Madge continues: "Property management, for example rent management, is a big opportunity in Canada. We found in the US that properties managed using online payment technology can decrease rent delinquency by 50% and that owners spend 60% less time on rent processing.

"The other area I am excited about is micro-market expansion. We want to increase the number of micro-merchant clients who are Visa card accepters. With Square card readers now available online for C$59 and the associated Square merchant app available for download, the cost of card acceptance has really fallen in Canada.

"It used to be costly to get the traditional big POS devices which then took weeks to install."

DIGITAL PAYMENTS

"Canada is one of the more digital payments markets in the world. Cash and cheques account for 10.6% of total payments, which is lower than in most countries," says Madge.

"Similar to other countries, card-not-present growth is much faster than card-present growth by a multiple of over three

times in Canada – and this is in line with e-commerce growth in Canada. Visa places Canada as fourth in the world in terms of CNP volume.

"In Canada, about 45% of POS transactions are contactless, and that is growing at 100bps a month here. We include NFC-based phone payments as well as contactless cards in our contactless data.

"Tokenised mobile payments from digital wallets on phones account for just over 1% of Visa Canada transactions but they are growing rapidly."


Stacey Madge, Visa Canada

FINTECH PARTNERS

"The payments landscape is rapidly changing with increasing demand for faster payments," says Madge.

"A number of Canadian [faster payment] programmes are already under development, and we're seeing many global merchants such as Square, Stripe and PayPal, which have already integrated Visa Direct in the US, looking at expanding to other markets."

Madge declines to give specific details of any Visa Canada partnerships or discussions with these global merchants.

"In prepaid cards, we have a partnership with Mogo, a Canadian fintech whose PFM [personal financial management] software helps customers with their financial health. Mogo offers a spending account that comprises a platinum Visa prepaid card and PFMs, a mobile app and customer rewards.

"Another Visa Canada partner is Canadian MPoS developer Mobeewave which offers a contactless MPoS app without needing an add-on card reader or dongle.

"We did a one-day pilot in 2015 with Mobeewave at a Princess Margaret Charity Foundation Canada event in Toronto," Madge says. "That was the first time Canada had a fully integrated MPoS solution that could accept C$25 ($19) contactless donations. The pilot involved an NFC-enabled smartphone running Mobeewave software with no additional hardware.

"Canadian startup Flybits is also a Visa Canada partner, which uses real-time data for transaction controls via the Visa Developer Platform. Flybits lets you change your purchase parameters in real time."

NEW AREAS IN PREPAID

"The Canadian Minister of Finance introduced prepaid card regulations five years ago that were really positive for consumer protection and really fostered the prepaid card market," says Chris Ferron, senior account executive, emerging payment solutions at Visa Canada.

Ferron says there are four prepaid card segments where Visa Canada is seeing activity and growth.

"Firstly, the travel category including multicurrency prepaid cards or prepaid cards containing a single non-Canadian currency. Travellers' cheque replacement is really attractive to consumers and to banks, and we see lots of growth in that category, which is a net new category for us.

"Secondly, we're seeing large issuers offering companion GPR prepaid programs in addition to their existing credit and debit cards. For example, the Desjardins Visa prepaid card and the Scotiabank Scene Prepaid Reloadable Visa Card.

"The third vertical is commercial prepaid – using prepaid cards in a company for purchasing goods and services - which is distinct from corporate prepaid cards. We're seeing lots of traction there and a lot of unique and emerging applications. Travel expenses is part of this too, for example, commercial prepaid cards offering expense management targeted at SMEs," Ferron explains.

Madge says Visa is seeing new commercial prepaid card applications with remittance payment services partners such as Hyperwallet and Marqeta.

"They use a prepaid card platform to pay merchants for orders made by their customers and are focused on the gig economy," she says.

Ferron adds: "The gig economy is an emerging segment that is using prepaid in several ways – as a payroll vehicle to pay non-employees such as contractors, and as a way for contractors to pay for goods and service on behalf of their employer. For example, an Uber Eats driver picks up a delivery for an Uber Eats customer and pays for the delivery using funds provided by Uber on an Uber prepaid card just used for this purpose. The restaurant is technically paid by Uber as Uber funds the prepaid card.

"The use case for exposing drivers to prepaid cards is attractive as the cards can be configured to have no money loaded and be very low risk to the issuing organisation and still enable payment of goods and services. There are several ways to allow funds to be loaded in real time when the driver arrives at the restaurant, to limit the potential fraud exposure," Ferron says.

"Marketplaces for goods and services sellers and contractors are use cases where we see a lot of growth in prepaid in Canada. Visa has been very successful with prepaid cards in the US for the gig economy, and we expect

VISA CANADA INTERCHANGE RATES

- **November 2014:** Visa Canada committed to reducing consumer credit interchange rates to an effective average of 1.50%
- **April 2015:** Visa Canada implemented rate reductions designed to benefit every merchant
- **October 2016:** Visa Canada implemented reduced rates for grocery and an expanded category of food retailers.
- **April 2017:** Visa Canada implemented new rate changes aimed at lowering costs for over 175,000 small business in Canada including restaurants, convenience stores, pharmacies, and taxis.

Visa Canada's voluntary undertaking and rate reductions are for domestic Visa transactions conducted at a merchant in Canada. A Visa transaction is domestic if it is conducted on a card issued by a Visa Canada licensed issuer and acquired by a Visa Canada licensed acquirer.

this in Canada. The issuing organisation can provision a virtual prepaid card into a mobile wallet or send a physical plastic card to the recipient that is branded Uber, Lyft and so on.

"Fourthly, there are alternative debit cards issued by fintech players like Mogo and Koho, which issue a GPR prepaid card with a series of tech enhancements to make the user experience more aligned with their millennial audience."

Ferron says that in the commercial prepaid space, Visa Canada is already seeing a move away from plastic into a digital-only prepaid product. "We will continue to see this migrate into the consumer segment as mobile adoption becomes the norm," he says.

"Open-loop gift cards is a business that continues to grow for us, not just in the retail sector but also in the banking sector. The banks are issuing one-time prepaid gift cards that are non-reloadable, in addition to their reloadable prepaid card business."

CARD SECURITY

"Following Canada's migration to EMV in 2010-2011, as the cards market became more mature with EMV, we started to see fraud migrate to the CNP channel," says Gord Jamieson, head of risk at Visa Canada.

"This isn't just because of the move to chip. We also saw tremendous growth in Visa Canada's CNP channel from a sales perspective in the last few years, although we're just now seeing a downward trend in CNP transactions.

"The challenge is that growth in CNP fraud is outpacing the growth of CNP transactions. Six years after Canada's liability shift, CNP represents 78% of the fraud that Canadian Visa issuers report to Visa Canada, Jamieson notes.

"Across all the credit card schemes for the year to 31 December 2016, CNP represented 74% of total Canadian fraud – 60% of our fraudulent CNP transactions are acquired outside Canada and, of those transactions, half are acquired in the US and the remainder are outside of North America.

"Fraud rates differ considerably from Canada to the US and to the rest of the world – they are significantly higher outside the US and Canada. We've seen some non-North American markets where merchants have very little fraud-management processes – in some cases, they just request the card number and expiry date without requiring CVV2 values or cardholders' addresses, or don't have proprietary fraud management tools.

"In the last quarter, we saw a tremendous reduction in Visa Canada's card-present fraud in the US, as 58% of US merchant payment volume now is at chip-enabled terminals [as of October 2017]. The US move to EMV is only two years in, so give us two more years and we'll see very little cross-border card-present fraud in the US."

SECURITY ROADMAP

As part of Visa Canada's security roadmap, from October 2017, new Canadian Visa merchants coming on stream have to supply CVV2 values in their authorization requests. From October 2018, all CNP- and telephone-based merchants will have to supply CVV2.

Jamieson says: "It wasn't mandatory for Canadian merchants to require CVV2 for online transactions. We had low CVV2 penetration in Canada, as just over 30% of our online transaction volume was CVV2-value-requested.

"CVV2 doesn't offer liability protection, but helps merchants make informed decisions about transactions. Also, when hackers steal card data from merchants' database, they can't obtain the CVV2 values, just the mag-stripe or EMV data.

"We take a layered approach using cardholders' mailing addresses, internal proprietary tools, a blacklist based on previous transactions plus CVV2, to help merchants make transaction decisions.

"We're in the process of moving to risk-based authentication - looking at the data elements in a transaction to authenticate a cardholder instead of user name and password, as traditionally required in Verified by Visa. Requiring these additional static credentials creates friction at the point of sale and high cart abandonment," Jamieson adds.

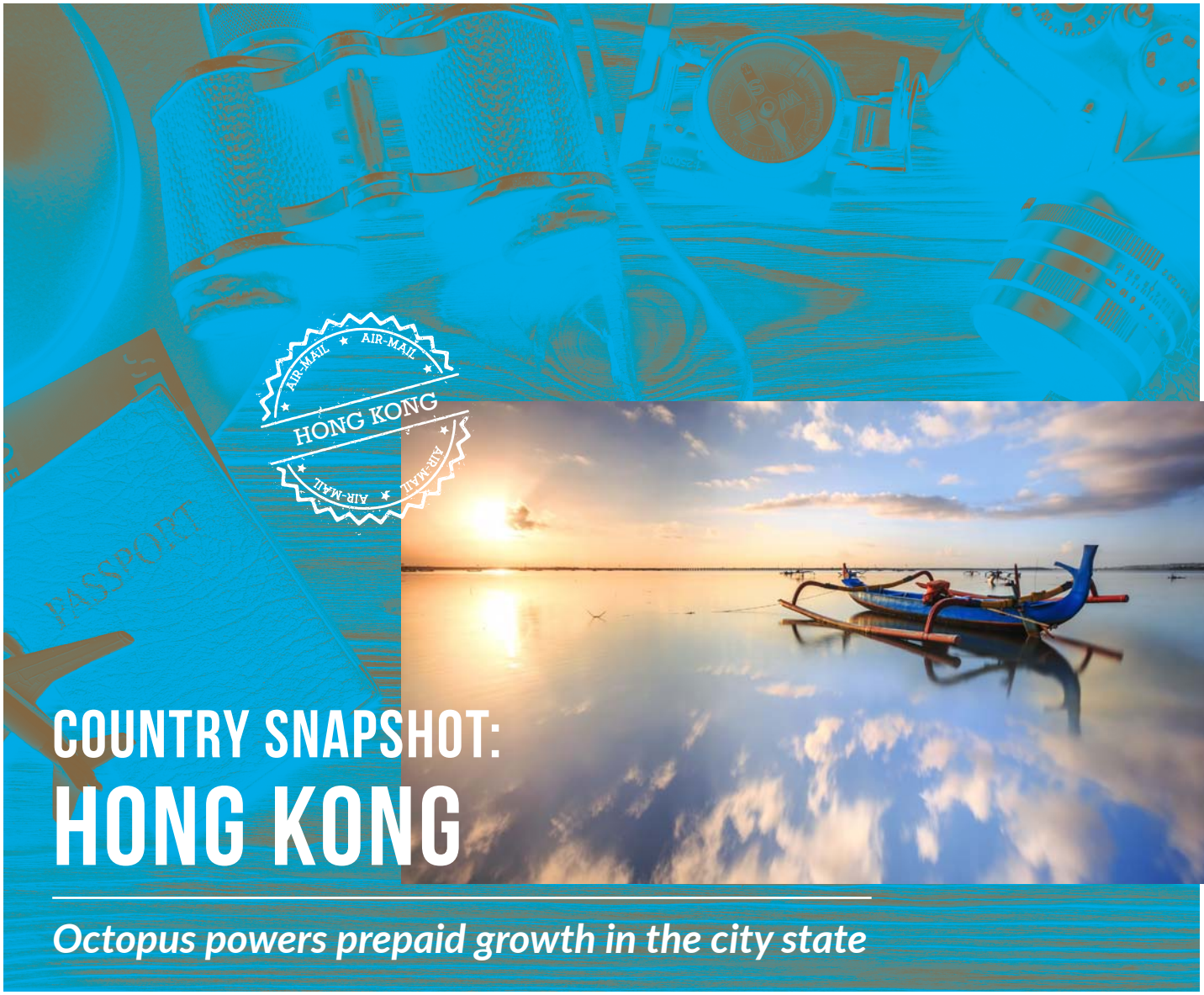
"Over 60% of Canadian Visa issuing volume uses risk-based CNP authentication. This means there's no need to challenge transactions like a cardholder in Markham, Ontario always shopping at Markham retailers and always using the same PC for online purchases.

"But if a new device or new country is involved, this will make the issuer question the transaction – either fail it or step it up and require additional authentication, for example sending an SMS or one-time password to the cardholder's registered cellphone or their online banking app.

"Presently, no Canadian issuers are doing stepped-up authentication, and just pass or fail transactions. But a few of our issuers who've done pass or fail for a few years are thinking about doing step up for a small portion of card transactions.

"Smart controls are part of our security roadmap. From October 2018, every issuer must offer an alert service to their cardholders, although consumers aren't obliged to accept them. We have a product currently called Visa Transaction Controls that allows consumers to control their spend, block cross-border transactions or block a card from use at certain merchant categories, such as online gambling," Jamieson explains.

"Our biggest focus is on the CNP channel via 3D Secure 2.0 and moving to risk-based authentication requiring merchants to use CVV2. These are all steps that in isolation may not have a big impact, but collectively have a major impact on fraud." ■

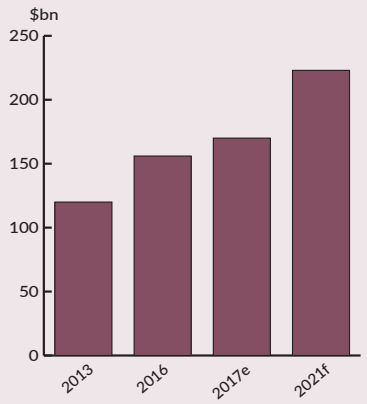


COUNTRY SNAPSHOT: HONG KONG

Octopus powers prepaid growth in the city state

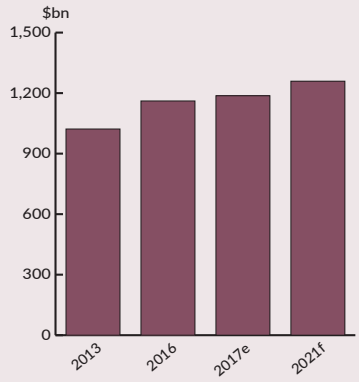
Hong Kong is a global financial hub, with few regulatory barriers for foreign banks and card payment participants, which encourages banks from Mainland China and other overseas markets to expand into the Special Administrative Region. Hong Kong represents a mature payment card market in Asia, with 25 million payment cards in issue and a population of just over 7 million. Payment cards are the second-most popular payment instrument in Hong

VALUE OF CREDIT TRANSFERS



Source: World Bank, Bank for International Settlements, GlobalData

VALUE OF CHEQUE PAYMENTS



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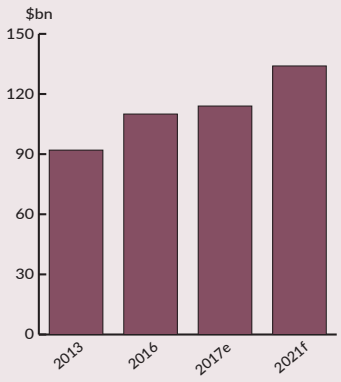
VALUE OF PAYMENT CARDS



Source: World Bank, Bank for International Settlements, GlobalData

Kong, accounting for 22.4% of the payment transaction volume in 2017.

Growth in the Hong Kong payment card market is driven by pay later cards, which accounted for 76.4% of the total payment cards market in terms of transaction volume in 2017.

MULTI-CURRENCY CARDS

Banks are offering multi-currency payment cards to capitalise on the increasing cross-border trade between Hong Kong and Mainland China, and the fast-growing Chinese population working and studying in Hong Kong.

The cards can be used to conduct transactions in local and Chinese currencies. Expenses in Hong Kong and overseas are settled in local currency, while those made in Mainland China are settled in yuan.

GROWING E-COMMERCE

Hong Kong represents a HK$112.2bn ($14.4bn) e-commerce market. High internet and smartphone penetration have positioned the country to see strong growth in e-commerce.

Credit cards are the number one payment tool for e-commerce, with 43% of consumers highlighting its convenience. Cash and cheques still form a sizable part of this market (11%), however.

OCTOPUS

Octopus – among the world's first contactless cards – is one of the most-used smart cards in Hong Kong. As of December 2016, 32.8 million Octopus cards were in circulation in Hong Kong – around four times its population.

The Octopus Card, which was initially launched for public transport, is now widely accepted at convenience stores, restaurants, and supermarkets in Hong Kong. But with the advent of new technologies and services by electronic payment providers, Octopus Card is experiencing tough competition.

ALTERNATIVES GAIN

In June 2017, UnionPay launched its HCE and tokenisation-based mobile payment service QuickPass, enabling users to pay using a UnionPay QuickPass chip card, or mobile QuickPass-enabled smartphones and wearable devices at contactless POS terminals.

Similarly, in May 2017 Samsung Pay was introduced in Hong Kong, allowing users to make purchases at participating stores with Samsung devices at all forms of terminal, including magnetic stripe, EMV, and NFC.

Likewise, to offer convenient wallet top-up options, in June 2017 HKT Payments announced that Bank of China customers who use the Tap & Go wallet can instantly add funds through the Instant Bank Transfer option in the top-up menu. In addition, Tap & Go consumers can recharge the wallet by using local coins at Heycoins kiosks.

PREPAID PENETRATION

The prepaid card market grew at a strong pace during the four-year period to 2017 – a trend that is anticipated to continue over the period to 2021.

Rising demand for Octopus cards has supported the overall growth of prepaid cards in Hong Kong.

Hong Kong's Mass Transit Railway (MTR) started operating a fully automatic fare collection system in 1979. MTR launched the Octopus fare collection system and the Octopus Card in 1997, eliminating the need for travellers to find the exact change to pay fares.

Octopus was one of the world's first contactless cards. Its use has been extended, and it is now widely accepted at convenience stores, restaurants and supermarkets in Hong Kong.

Travellers' prepaid cards are also popular in Hong Kong. CUP introduced UnionPay prepaid cards during the Hong Kong Summer Fun campaign held by the Hong Kong Tourism Board in 2015. The cards were offered through a prize draw held at Hong Kong International Airport, in a move to promote the benefits of prepaid cards among travellers. ■

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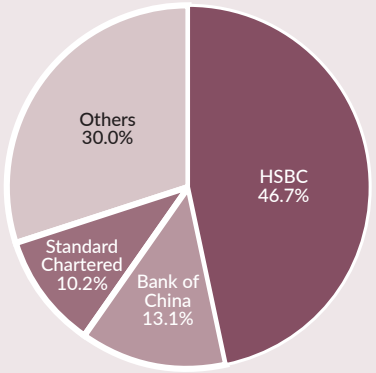

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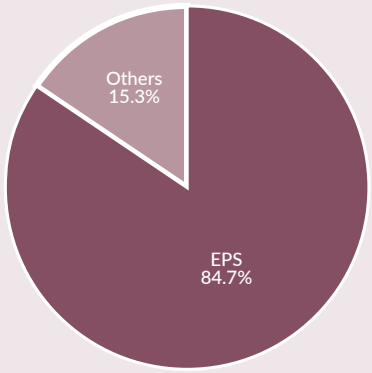

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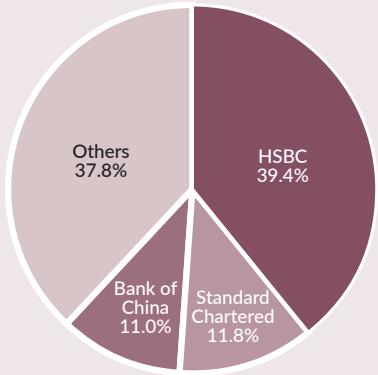

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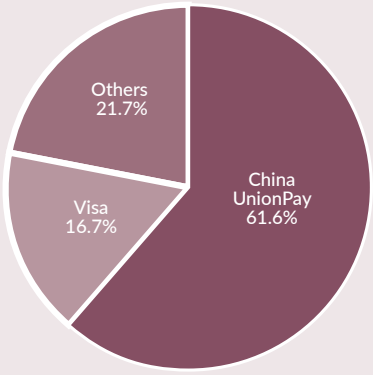


Source: GlobalData

COUNTRY SNAPSHOT: TAIWAN

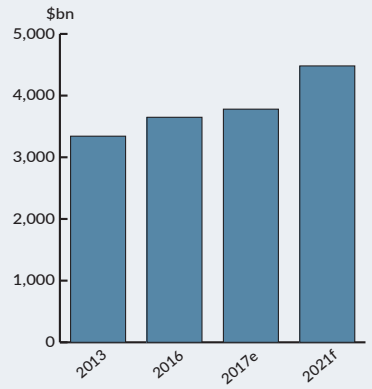
E-commerce growth accelerates but cash use remains resilient

Cash remains the preferred method of consumer payment in Taiwan, accounting for more than three-quarters of the island's total payment transaction volume.

Consumers in Taiwan have a strong inclination towards cash for day-to-day transactions, despite the gradual rise in electronic payments. The government of Taiwan has been promoting electronic payments through various initiatives, and the necessary payment infrastructure is in place.

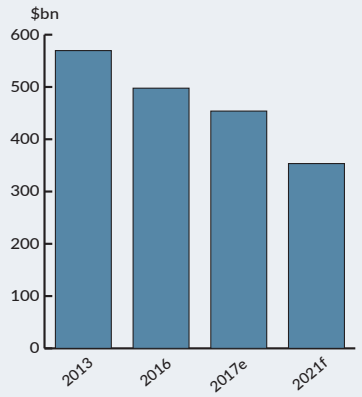
However, ATMs are ubiquitous, the retail environment is highly competitive, and the

VALUE OF CREDIT TRANSFERS



Source: Central Bank of the Republic of China (Taiwan), GlobalData

VALUE OF CHEQUE PAYMENTS



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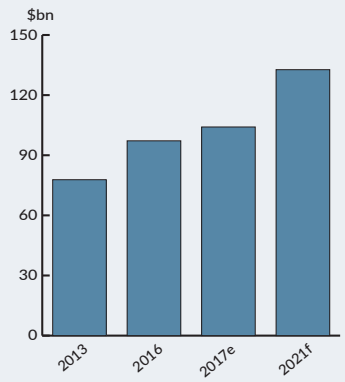
VALUE OF PAYMENT CARDS



Source: Central Bank of the Republic of China (Taiwan), GlobalData

dense urban environment lends itself to the use of cash. Meanwhile small informal merchants with low margins are typically unwilling to absorb the direct cost of card payments, even though cash often attracts higher indirect costs.

DEBIT CARDS DOMINATE

Debit card penetration in Taiwan stood at 413.8 cards per 100 individuals in 2017, the highest rate among its regional peers.

However, debit card usage is mostly restricted to ATM cash withdrawals, for which the frequency of use – the number of transactions per card per year – is typically 10 times higher than for POS transactions. This is because consumers prefer cash for low-value transactions at retail outlets, and this is one of the primary challenges that is hindering debit cards usage.

Credit card usage at POS terminals exceeds that of debit cards, with debit cards only tending to be used in instances where other payment methods are not accepted.

E-COMMERCE GROWTH

Taiwan's e-commerce market is one of the fastest growing in Southeast Asia, and is driven by rises in internet and smartphone penetration.

The e-commerce market is acting as a driver for electronic payments market growth, owing to the availability of multiple payment options such as debit and credit cards, card on delivery, bank transfers, and digital and mobile wallets.

In the future, e-commerce is expected to expand in the low-value transaction space as Taiwanese consumers become more inclined to purchase and pay for products using mobile phones.

CONTACTLESS PAYMENTS

Taiwanese consumers have been familiar with contactless payments since the introduction of the EasyCard subway transit cards in 2002, and awareness is very high as a result.

In addition to contactless cards, mobile contactless payments are also gaining prominence in Taiwan, supported by the launch of high-profile mobile payment solutions such as Apple Pay, Android Pay and Samsung Pay.

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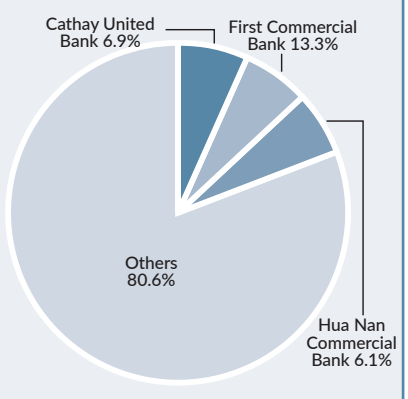

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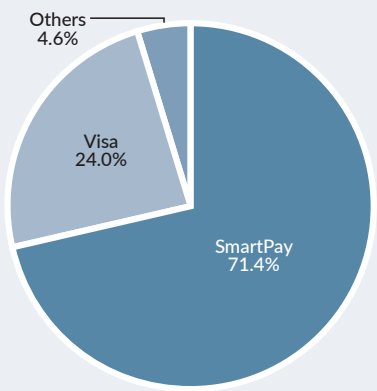

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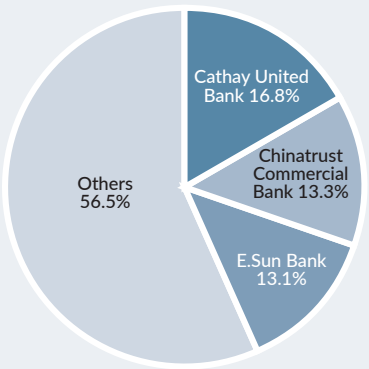

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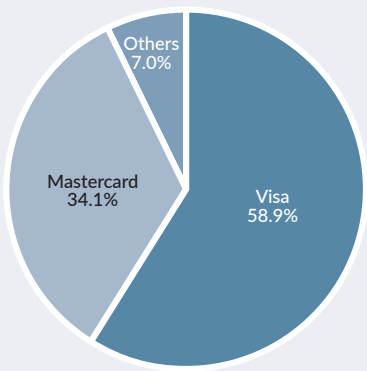


Source: GlobalData

PUBLIC TRANSPORT

Prepaid cards are increasingly gaining acceptance among Taiwanese consumers, as they do not require a bank account and are accessible to consumers who do not qualify for a debit or credit card.

EasyCard is the most popular multi-purpose stored-value card offered by EasyCard Corporation for public transport. It can also be used to pay for bus and taxi fares, as well as fees at designated car parks, stores, government facilities, hospitals and tourist destinations.

The EasyCard can be purchased for $3.10 and recharged at Taipei and Kaohsiung metro stations, as well as at popular retail stores such as 7-Eleven, FamilyMart, Hi-Life and OK Mart. It can also be used to make online or retail purchases.

Due to its multi-use functionality, the card is highly popular in Taiwan for purchases of daily necessities.

LOW-COST POS TERMINALS

Penetration of POS infrastructure in Taiwan is low. This is largely a result of the dense urban environment, with many small-scale merchants competing for very low profit margins.

Many retailers do not accept card payments because they want to avoid the associated fees. In a bid to overcome this, banks are offering mPOS terminals, which are available at lower costs than traditional POS terminals. This has led to a rise in merchant adoption of mPOS terminals, in particular among street vendors and smaller traders.

In January 2015, UnionPay International partnered with CTBC Bank to enable an mPOS acquiring service to help SMEs accept UnionPay cards in Taiwan.

Many tourists to Taiwan come from China, Hong Kong and South Korea, and this partnership has aided the swift expansion in mPOS coverage. ■

COUNTRY SNAPSHOT: INDONESIA

Prospects remain strong for significant growth in e-commerce

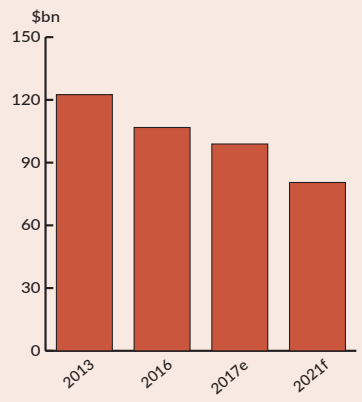
Cash remains the predominant payment instrument in Indonesia, especially among the rural population, accounting for 98.4% of the total volume of payments in 2017. This was primarily a result of low overall consumer awareness of electronic payments, a relatively large unbanked population, and limited access to banking and payments infrastructure.

The modernisation of the country's payments infrastructure – with the introduction of the National Payments Plan, the transformation of cards to incorporate EMV technology, and the National Non-Cash Movement – will support the transition to non-cash payments.

The Indonesian government and central bank are aiming to further develop the electronic payment system in the country, with initiatives such as support for the development of a national shared ATM network, and allowing foreign investments in the e-commerce sector.

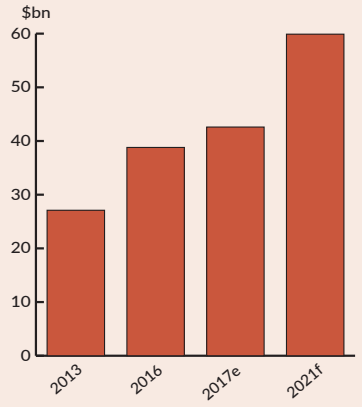
As the government and banks have taken various such initiatives, adoption of payment cards will grow steadily between now and 2021 and they will gradually gain acceptance by both consumers and merchants.

VALUE OF CHEQUE PAYMENTS



Source: Bank Indonesia, GlobalData

VALUE OF PAYMENT CARDS



Source: Bank Indonesia, GlobalData

DEBIT CARDS HOLD FIRM

Debit cards remain the preferred payment cards among Indonesian consumers. However, usage is mostly restricted to ATM cash withdrawals, with frequency of use at nine times that for POS transactions.

This is primarily because both consumers and merchants still prefer to use cash. However, with ongoing efforts by the government to enhance the POS infrastructure and card acceptance in the country, the number of POS transactions has gradually increased.

While the frequency of use of debit cards is expected to increase consistently over the next five years, the average transaction value at the POS will record a CAGR of -0.7% up to 2021. This is indicative of the gradual migration of use of debit cards for low-value transactions at the POS.

However, there is still a long way to go for cards to reach truly regular usage levels, with the average card expected to be used only once every three months by 2021.

STRICTER REGULATION

Strict government regulation on eligibility for credit cards remains one of the main reasons for their low penetration.

Mounting card debt among consumers forced the central bank to introduce a regulation, that took effect from January 2015, according to which individuals with an annual income of less than IDR3m ($222) are prohibited from possessing credit cards.

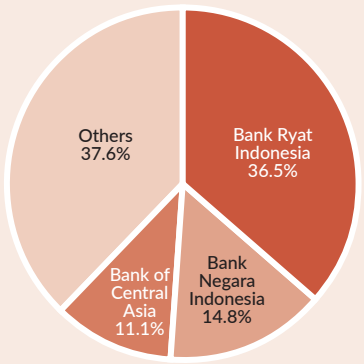
GROWING E-COMMERCE

Until February 2016, e-commerce was on the government's Negative Investment list, which prevented foreign investors from investing in local companies or setting up new businesses.

In an effort to boost investment in the domestic e-commerce market, the government introduced a new foreign direct investment policy in February 2016 allowing 100% foreign ownership of e-commerce companies for investments over $7.4m.

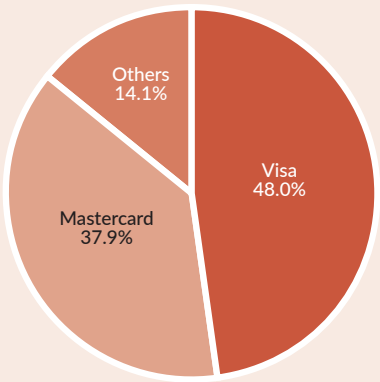
For investments between $740,000 and $7.4m, foreign ownership was capped at 49%. However, the regulation was later revised in May 2016 to limit foreign ownership to 49% in e-commerce companies.

DEBIT CARD SHARES BY ISSUER



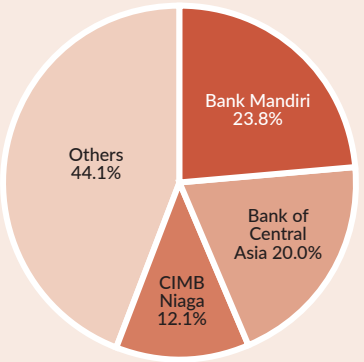
Source: GlobalData

DEBIT CARD SHARES BY SCHEME



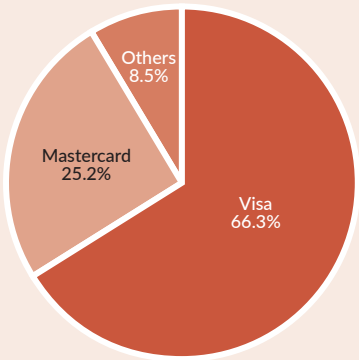
Source: GlobalData

PAY LATER SHARES BY ISSUER



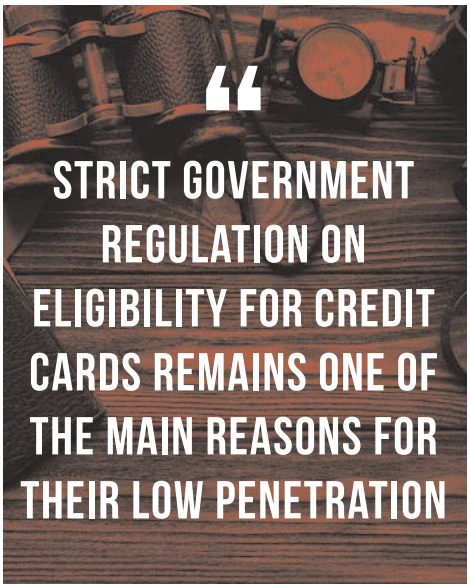
Source: GlobalData

PAY LATER SHARES BY SCHEME



Source: GlobalData

The Indonesian e-commerce market grew from $1.9bn in 2013 to $10.7bn in 2017, supported by a growing young population, and the increasing presence of online retailers.



The market is expected to register a CAGR of 23% between 2017 and 2021, which is the third-highest compared to peers Pakistan (33%) and India (24%), and higher than Vietnam (22%), the Philippines (21%), Thailand (17%), Malaysia (15%) and China (11%). This suggests there is significant growth potential in the Indonesian e-commerce market.

CONTACTLESS PREFERENCE

Consumers in Indonesia are gradually adopting contactless payments.

Consequently, Visa launched its contactless service, Visa payWave, in Indonesia in September 2016. This service enables Visa card holders to make contactless transactions without a PIN for transactions below $74.

Following this, Bank CIMB Niaga, Bank Tabungan Pensiunan Negara, UOB Indonesia and Bank Mandiri adopted this technology. ■

2018 WILL BE SHAPED BY OPEN BANKING

Spearheaded by the European Commission's revised Payments Directive (PSD2), banks in the EU will, from 13 January 2018, need to provide open access to payments and account information to regulated third parties, writes Collinson Group's *Mark Jackson*

In 2018, we will see banks go further than PSD2 dictates to foster more co-operation, collaboration, and innovation with agile fintech firms – helping them to conserve and grow their customer base next year and beyond.

Open banking and the ideals that surround it infiltrate the three biggest trends that I foresee in 2018 for the industry. The legislation positively contributes to banking for both customers and businesses.

Customers expect immediate and excellent customer experience. Fintechs and challenger banks such as Monzo, Curve, TransferWise and Starling are thriving in a space where incumbent banks have traditionally dominated – all by focusing on a very clearly defined value proposition and flawless 'digital-first' customer experience which gives them just this.

This trend has also pushed many technology firms into financial services. In a recent retail banking report by Capgemini, tech firms were noted for being more likely to provide customers with positive banking experiences.

Of course, you can use mobile applications fluidly everyday now with technology brands like Apple and Samsung all providing their own mobile wallets. In a single day, you can pay for items and services with a connected credit card and use it anywhere, transferring fees or payment via/using your phone.

Engaging and rewarding customers for their loyalty becomes increasingly important to meet sky-high expectations in the digital economy. It is here where the dawn of open banking may help the incumbent banks.

It is true that many banks are already using APIs to help improve their internal programmes, but most have yet to properly take advantage of the opportunities these present for collaboration with third-party companies.

We examined the banking motivations of the affluent middle class in the UK, US, China, India, Singapore, the UAE and Brazil – nearly two-thirds (65%) expect greater recognition and reward from banks in return for their loyalty. The research showed those who feel loyal to a brand are 72% more likely to purchase a product from them in the future, and 70% would be prepared to recommend a banking brand to their friends and family.

PERSONALISED REWARDS

Personalisation and breadth of rewards and benefits is key for banks to remain relevant and achieve brand differentiation in 2018.

The global mass affluent study found that over half (56%) feel more loyal to brands that know who they are and treat them differently. When asked why they do not feel loyal to their bank, 41% stated that this was because they are not rewarded for their custom and 33% that they are treated the same as everyone else.

It all comes down to recognising and engaging customers at a personal level and providing an experience matched to each individual. Organisations that are able to collect and analyse customer data are best placed to thrive.

Open banking gives financial services access to more information on customers to make more compelling experiences possible. Artificial intelligence (AI) can make it easier for organisations to analyse and understand customer preferences.

Those organisations that use this knowledge to personalise the offers and services they provide, will increase brand loyalty, encourage repeat business and generate incremental revenue.

There are many opportunities for AI and digital tools to recognise customers and understand their behaviour in order to offer highly personalised experiences, services, and build loyalty. For example, if a customer uses their card to book a flight, AI could help to suggest relevant, personalised and contextual offers to the customer, linked to their card. This could be anything from an offer for an Uber to the airport or an Airbnb at their destination, to travel insurance or retail offers at the customer's departure airport. It is this hyper-personal, relevant and timely experience that is key to meeting modern customers' evolving expectations.

Incumbent banks are now reacting to the challenges they face from fintechs and other digital-first players – by investing huge amounts in improved digital capabilities such as apps, chatbots, AI and APIs to help provide a highly personalised, engaging customer experience.

The traditional banks are also realising the potential benefits from partnering and collaborating with fintechs, rather than trying to stop them in their tracks. This will be further encouraged and facilitated by open banking. The development of open APIs and other tools and technologies will help deliver more customised and cross-device payments experiences to achieve the personal touches that millennial customers crave.

Increasing open API capabilities will enable financial institutions to both provide and access new sources of data which in turn will facilitate targeted and personalised services to help customers better manage their lives as well as their finances. ■

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At this critical point, **Retail Banking: Nordics 2018** will bring together more than 200 industry leaders from traditional and new banks, providers and other key industry stakeholders and influencers. This comprehensive and inclusive event will explore, through a series of keynotes, panel sessions and round tables the opportunities and challenges financial institutions face as they enter an era of truly digital banking.

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